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REPORT BY THE U.S.

General Accounting Office

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Efforts To Improve Management Of U.S. Foreign Aid--Changes Made And Changes Needed

Over the past 5 years, GAO and others have made a number of recommendations to improve those U.S. programs aimed at bettering the way of life in less developed countries. This followup report shows that AID has taken steps to improve program management but needs to do more in several areas.

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ID-79-14
MARCH 29, 1979

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

INTERNATIONAL DIVISION

The Honorable John J. Gilligan
Administrator, Agency for
International Development
Department of State

Dear Mr. Gilligan:

This report is the result of our recent followup review of actions by the Agency for International Development to improve management of its overall operations. The report recognizes actions you have undertaken in the past 16 months and recommends additional measures for your consideration.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Our review evaluated those efforts being taken to improve the management of U.S. resources for helping better the way of life for people in friendly, less-developed countries.

We are sending copies of the report to the Director, Office of Management and Budget, the Chairmen of the House and Senate Committees on Appropriations, and other committees having authorization and oversight responsibilities.

Sincerely ~~yours~~,

J. K. Fasick

J. K. Fasick
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR,
AGENCY FOR INTERNATIONAL
DEVELOPMENT

EFFORTS TO IMPROVE MANAGEMENT OF U.S. FOREIGN AID--CHANGES MADE & CHANGES NEEDED

D I G E S T

The Agency for International Development (AID) has improved the management of its worldwide programs. Its efforts should be intensified, however, particularly in the areas of

--budgeting and managing operating expenses,

--contracting procedures and practices, and

--controlling travel advances in Washington.

BUDGET FORMULATION

AID has improved its process for drawing up and evaluating its annual operating expense budget prior to submission to the Congress.

AID appointed a deputy controller to review that budget, including staffing. In Washington, controllers responsible for reviewing overseas missions' budgets were appointed in each geographic Bureau. Overseas missions generally followed new guidelines for preparing fiscal year 1980 budget submissions.

However, the question of proper grade levels for Bureau controllers and the size and makeup of their staffs needs to be resolved.

PROPERTY MANAGEMENT

Although AID has taken several steps to improve property management, frequent staff turnovers and vacancies hamper the ability of the missions to comply with new regulations.

--Missions are prohibited from leasing residences with swimming pools or other recreational facilities, unless no other adequate quarters are available or there are no adequate public recreational facilities.

ID-79-14

--Written justification, approved by a top mission official, is required to charter aircraft.

--Missions must obtain approval from Washington for purchases of nonexpendable property valued over $500.

--Internal audits overseas have been intensified, with special attention to use of operating expense funds.

The most serious problem is lack of control by management over nonexpendable property. Physical inventories and subsequent reconciliation of inventory counts with property records were not always completed.

At one mission, for example, postings of new items to property records were up to 6 months behind. Studies had not been made to determine types and quantities of nonexpendable property needed.

TRAVEL COSTS

In response to reviews by the AID Auditor General and GAO, AID is improving internal controls over outstanding travel advances. Travel advance records in Washington in July 1978, however, showed 239 persons not permanently employed by AID to be holding outstanding travel advances valued at $118,876--some for well over 2 years. (See p. 22.)

AID CONTRACTING

AID actions to improve its contracting procedures are most noticeable in Washington. AID is striving to follow established guidelines in this area. AID is also placing greater emphasis on awarding grants and contracts on a competitive basis and giving more consideration to firms owned by minorities and women.

At some overseas locations, however, progress is slower. At several locations procurement personnel had not received recent orientation and training in contract and grant procedures. The mission in Kenya, for example, did not always seek competitive bids for packing and moving services for AID employees being transferred.

From another review of AID contracting of studies, research, and evaluations, GAO recently issued a report (ID-79-13, Feb. 12, 1979,) to the Chairman, Senate Appropriations Subcommittee on Foreign Operations. In that report, weaknesses were noted in AID management controls over purchasing of information through contractual arrangements. (See ch. 4.)

AID supplements the staffing ceiling established by the Office of Management and Budget by arranging personal service contracts with U.S. citizens and foreign nationals. Reports on worldwide employment of contract personnel may be understated due to incomplete data provided by missions. (See p. 36.)

RENEGOTIATION OF LOANS

AID has renegotiated two concessional loans to Venezuela for accelerated repayment. One was fully paid in 1977, and the other loan is scheduled for repayment in October 1980. These accelerated repayments will relieve the United States of about $18 million in subsidy costs.

GAO identified six other loans, representing $329 million, extended under concessional terms to countries which now appear to be in highly favorable economic conditions. If the United States renegotiated accelerated repayments for these loans, now scheduled to mature after the year 2000, it could be relieved of part of an estimated $227.8 million of the subsidized cost for servicing the loans.

The AID policy to review annually the economic status of countries with significant outstanding loans balances with potential renegotiation for accelerated loan repayment in mind has not been carried out aggressively. Neither has AID developed adequate criteria for identifying countries economically capable of accelerating repayment of outstanding concessional loans. (See ch. 5.)

PROGRAM ACTIVITIES IN PAKISTAN

GAO reports in 1976 and 1977 discussed problems impeding the economic development of Pakistan and efforts to remedy the problems. AID, in conjunction with the Pakistan Government, has taken steps to improve ~~the conditions~~. problems impeding the econ. devel of Pak. Unfavorable conditions continue to exist, however, in the areas of

--development assistance because of Pakistan's external debts, defense expenditures, agricultural production and economic policies and

--population control because of a general lack of acceptance of the program by the people and lack of commitment by the Pakistan Government.

These problems were further aggravated by the moratorium placed over the start of new U.S.-sponsored projects in Pakistan during fiscal year 1978. The moratorium was imposed while Pakistan negotiated with France on nuclear reprocessing equipment. (See ch. 6.)

BELLMON AMENDMENT TO PUBLIC LAW 480

Under the Bellmon Amendment, AID missions provide data from which determinations are made that

--adequate storage facilities are available when Public Law 480 commodities are shipped from the U.S. to a recipient country and

--commodities will not result in substantial disincentives to domestic production in that country.

The joint AID/State/USDA mission instructions for submitting such information stipulate that supporting analyses will be made. (See ch. 7.)

RECOMMENDATIONS

GAO recommendations for improving AID management of operating expenses, travel costs, and contracting procedures and practices are on pp. 21, 31, and 39. Recommendations relative to renegotiation for accelerated repayment of certain concessional loans and the strengthening of determinations made pursuant to the Bellmon Amendment are pp. 46 and 65.

Although GAO does not make specific recommendations concerning economic development efforts in Pakistan, it does suggest that AID continuously and strongly encourage the Pakistan Government to strive toward improving its socioeconomic condition.

C o n t e n t s

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CHAPTER

APPENDIX

ABBREVIATIONS

AAG	Area Auditor General
AID	Agency for International Development
GAO	General Accounting Office
GSO	General Services Office
LDC	less-developed country
PSC	personal services contract

CHAPTER 1

INTRODUCTION

Over the past few years, we have issued several reports on the management and operation of Agency for International Development (AID) programs. (See app. I.) These reports usually included specific recommendations for improving the management of AID operations and the impact of U.S. assistance abroad. Many of these reports were specifically for congressional committee use in carrying out their oversight responsibilities over AID.

This report reviews some AID actions on recent report recommendations and addresses Agency actions with respect to two broad areas, including

--administrative and related activities associated with AID operations (ch. 2, 3 and 4) and

--status of selected segments of the AID development assistance program (ch. 5, 6 and 7).

AID has made substantial progress toward implementing the recommendations contained in our 1978 reports. Additional improvements are needed, however, to assure that the U.S. economic development assistance objectives are effectively achieved.

BACKGROUND

U.S. economic assistance activities have passed through many stages since World War II. Since AID was created in 1961, however, greater emphasis has been given to using foreign assistance essentially for economic development in less-developed countries (LDCs). Before 1973, development planners had assumed that massive economical transfusions--large-scale capital transfers, such as dams and airports--would be economically successful and that the rewards of economic growth would automatically trickle down to the poor. However, skepticism developed concerning the ability of such a program to achieve development objectives.

Some countries achieved such a high rate of success that concessional assistance is no longer provided from external donors. In most instances, the elite have been the principal beneficiaries of economic growth while the rapidly increasing urban and rural poor have generally been left behind.

Under these circumstances, in 1973 the Congress directed that U.S. assistance concentrate on (1) increasing the agricultural productivity of small farms in LDCs and (2) establishing basic programs in nutrition, education, health care, and family planning for the poor. This new direction deviated from the capital-intensive, high-technology, and industrial development projects of prior years.

AID's current program is intended to implement the new directions mandate and put into action a strategy of meeting basic human needs and supporting equitable economic growth. The primary objective of AID strategy 1/ is to enable the poor, including women, in developing countries, to meet their basic human needs on a sustainable basis.

Steming from these evolutionary activities and other reasons, AID has recently undergone a wide range of organizational, program, and other changes. AID has undergone periods of expansion and reduction in staff levels. The focal point of the AID decisionmaking process has shifted between the field missions and Washington headquarters. Varying emphasis has been placed on the use of private sector contract technicians to design and implement programs. Further, the new directions mandate called for a new mix of expertise among the AID professional staff.

These changes have presented a continuous challenge to AID to effectively and efficiently manage the organization and the development programs. One 1977 AID task force reported that AID had become cautious, lacked sufficient technical talent, and was highly overcentralized regarding both decisionmaking and personnel location. We recognize the challenge is compounded by the complex, diverse, and international nature of AID activities and the circumstances surrounding these undertakings in LDCs.

Major recent AID initiatives

Through many initiatives, the new Administration has addressed many problems within the Agency since January 1977. The Administrator set out to improve the Agency and its programs through better management and coordination. We addressed several specific Agency problems in prior reports.

1/"A Strategy for a More Effective Bilateral Development Assistance Program," (AID policy paper, March 1978.)

Those problems and additional ones identified by the Agency included

--scarcity of specialists needed for the new directions programs;

--increased paperwork due to concentration of personnel and decisionmaking in Washington;

--complex and cumbersome project-preparation procedures;

--excessive use of contract personnel;

--inadequate contract evaluation and competitive procedures;

--inadequate financial management;

--reduction of the Washington staff to less than 2,100 during fiscal year 1978;

--decentralize decisionmaking where possible;

--reorganize the Washington bureaus, including the formation of new bureaus;

--integrate population programs more closely with health and other development activities;

--improve personnel policies and financial management and economize on operating expenses; and

--reduce excessive paperwork.

Agency reorganization was a primary initiative. The Technical Assistance Bureau and the Population and Humanitarian Assistance Bureau were replaced with the Development Support Bureau. AID also created a Private and Development Cooperation Bureau and an Intragovernmental and International Affairs Bureau.

Another significant action was the revitalization of the near-dormant Development Coordination Committee--originally intended to be a strong influence in Government.

SCOPE OF REVIEW

We reviewed legislation and congressional committee reports pertinent to AID administration of the U.S. foreign assistance program. We also accumulated and reviewed data relative to selected segments of AID's overall operations and held discussions with cognizant Agency officials in Washington.

From August through November 1978, we visited AID missions in Kenya, Tanzania, Bolivia, Honduras, Pakistan, and Indonesia. At those locations, we reviewed pertinent data and talked with appropriate U.S. officials.

Our work was directed primarily toward (1) examining AID implementation of recommendations contained in prior audit reports and (2) identifying problems and constraints facing the success of AID administrative operations and development programs.

CHAPTER 2

AID EFFORTS TO IMPROVE THE MANAGEMENT OF OPERATING EXPENSES

In our report, "Improved Management Needed Over the Agency for International Development's Operating Costs," (ID-78-15, Feb. 14, 1978,) we stated:

> "AID's operating expense budgets are formulated and presented to the Congress without an adequate evaluation of budget requests submitted by its missions overseas. As a result, AID has no assurance that a mission's request for operating expense funds is reasonable and for purposes authorized.
>
> "Operating expense funds have been used for questionable and, in some cases, unauthorized purposes. AID needs to improve also its management and control of nonexpendable property, in Washington and overseas, to prevent unnecessary procurement and misuse or loss of Government property."

To correct these problems, we recommended that AID

--insure that a thorough review of its operating expense budget is completed before submitting it to the Congress;

--insure that regulations and procedures governing the expenditure of funds are strictly enforced and curtail the leasing of residences that include such luxury items as swimming pools;

--intensify internal audits of overseas missions;

--make regular physical inventories of Washington property and make reconciliations with property records; and

--write guidelines, similar to those for overseas operations, for managing and controlling Washington property, and to establish standards for issuing office furniture and equipment.

AID officials agreed with our report recommendations. In testimony before congressional committees, the AID Administrator described current and planned actions for compliance with our recommendations and for general AID management improvement.

The Agency has initiated those actions. For example, AID

--issued new regulations on leasing of property with swimming pools and using charter aircraft services,

--made collections from mission directors for unauthorized expenditures on their residences, and

--intensified audits of overseas missions.

Not all actions have been completed, however, and other problems surfaced during our followup review.

The continuing problems disclosed during our visits to selected missions were not generally totally caused by failure to comply with new regulations. Problems dealing with control of nonexpendable property at the mission level, for instance, were more directly related to personnel practices rather than to full implementation of new regulations.

In Washington, except for typewriters, the reconciliation of actual inventory of nonexpendable property with property records had not been completed as of October 1978. AID did reconcile its actual typewriter inventory with its property records, however, and informed the General Services Administration that 477 typewriters were surplus. In addition, AID was unable to locate 123 typewriters. We were informed that information on these missing or stolen typewriters would be given to a Board of Survey to determine if custodians of such property are financially liable.

Details of these and other improvements of AID management follow.

OPERATING EXPENSE BUDGETS

AID appointed a new Deputy Controller in its Office of Financial Management to thoroughly review its operating expense budget. He is responsible for the operating expense budget, including the workforce. AID also appointed controllers with operational responsibility for mission budget submissions for each geographic Bureau. These actions were supplemented by an increase in the staff responsible for reviewing budgets and expenditures in the Office of Management Operations, Bureau for Program and Management Services. That Office reviews mission budgets. It develops policies, standards, and guidelines for managing AID overseas resources and operating expense funds.

Of four controllers AID assigned to Bureaus, two were appointed in May 1978. In October 1978 the Administrator instructed the Bureaus and the Office of Financial Management to draft instructions for the controllers to follow in reviewing mission budgets. In early January 1979, however, that task was not completed. Written guidance for applicable techniques in reviewing the operating expense segments of mission budget submissions has not been finalized. But the AID Controller, Office of Financial Management, said that his representatives have frequent meetings with Bureau controllers and management personnel to address operational matters.

One unresolved problem concerns geographic Bureau controllers grade levels and supporting staff. AID Office of Personnel and Training officials reviewed descriptions of the controller positions and stated that the positions were overgraded and that projected duties were unclear. The Office deferred a final decision until after the position had been operational for several months. The initial Office view was that the positions should be filled by personnel receiving salaries equivalent to GS-13 ($27,453-35,688), however, such positions were actually filled by FSR-2s ($44,430-47,500) and FSR-3s ($34,642-41,572). The staff of one geographic Bureau, which reviews budgets submitted by 21 missions, consists of one Bureau controller and a secretary. The Controller believes that four professionals and one secretary are needed to adequately complete the work. The staff of another geographic Bureau, which reviews budgets submitted by eight missions, consists of a Bureau controller, two full-time professionals, one part-time professional, and one part-time secretary. This controller requested a full-time secretary to replace the present part-time secretary.

Mission budget submissions

We examined budgets at several missions and budget preparation practices. We found that the mission fiscal year 1980 budget submissions were adequately supported. In a few cases some improvements could have been made, but the problems were relatively insignificant. The following is a synopsis of what we found.

Kenya

AID/Washington has exercised more control over the mission budget submissions and has attempted to better inform overseas missions on how to prepare operating expense budgets. Washington efforts to keep mission officials informed on budget preparation and submission included two workshops--one in Lisbon and another in Nairobi in April 1978. We found that the amounts requested in the Kenya mission fiscal year 1980 budget submission were adequately supported. The depth of supporting information indicated that mission officials thoroughly reviewed the submission.

Tanzania

The mission did not view the new budget procedures and format as enhancing the mission capability to manage its activities. The mission did believe, however, that the new format would help AID/Washington in managing AID activities. Our limited analysis of the mission operating expense segment of the fiscal year 1980 budget indicated that the information submitted was adequately supported at the mission.

Bolivia

The operating expense section of the mission fiscal year 1980 budget submission was prepared according to AID/Washington guidelines. We observed, however, that in several object classes, requested funds are not justified by narrative information. The lack of such information does not permit a thorough review by AID/Washington budget analysts. (See p. 7.) One Washington official agreed with that observation.

Pakistan

The AID Auditor General noted in June 1978 that the mission followed AID instructions in preparing the budget submission for fiscal year 1980 and that budget projections were well supported by working papers. On the negative side, however, the Auditor General noted that documents supporting the budget were poorly organized but a person at the mission knew how the figures were determined. In September 1978 we examined the documents supporting the fiscal year 1980 budget submission and found that this criticism was valid. Errors in transferring amounts between worksheets accounted for other discrepancies.

MANAGING OPERATING EXPENSES OVERSEAS

Responding to GAO recommendations on operating costs, AID attempted to prevent the use of operating expense funds for questionable or unauthorized purposes. AID (1) issued new regulations, including those which should curtail the leasing of residences that include such luxury items as swimming pools; (2) made collections from mission directors for unauthorized expenditures on their residences; and (3) intensified internal audits of overseas missions. At selected missions we found that some problems continued. Details on these matters follow.

New AID regulations

AID issued new regulations in March 1978 controlling the leasing of properties having swimming pools and other recreation facilities. The regulations prohibited leasing residential quarters which include swimming pools, tennis courts, sauna, or other significant recreation facilities. This prohibition will only be lifted if no other adequate quarters are available or if adequate public recreation facilities do not exist. Even in the latter cases, recreation facilities, which are a part of the residences leased for AID principal officers, will be made available to the entire U.S. community.

Current leases which do not conform to these restrictions are to be terminated (1) as they expire or (2) at the earliest date--whichever is in the best interest of AID. A mid-October 1978 inventory listing showed that AID held leases to 47 properties having swimming pools and that two such leases had been terminated since the new regulations were issued.

AID regulations now require that missions strengthen controls over the use of charter services. Written justification with supporting documentation is required for charter aircraft use. During our visits to AID missions we inquired into the implementation of these regulations.

In Kenya the mission use of charter aircraft during 1978 was infrequent. Mission records indicate only four instances in which aircraft were chartered between January and August 1978. Two of the four charters preceded the date on which AID/Washington issued regulations to tighten controls. In these cases mission files lacked documentation to justify each charter trip. For the two charter trips that occurred after the effective date of the new regulations, however, each had been properly approved and mission files contained adequate justification and supporting documentation.

In Tanzania the mission had chartered aircraft on eight occasions since April 12, 1978. For five of the eight flights, no justifications were prepared. One flight had been justified after the charter was completed, and the other two flight justifications had been inaccurately prepared.

One charter not justified in advance involved chartering an aircraft for several flights by a visiting Tsetse fly research evaluation team. According to mission officials, the team required an aircraft to complete its evaluation. In two telegrams the mission requested AID/Washington approval to charter an aircraft for the team. When the team arrived in Tanzania, Washington had not approved the charter.

The mission considered the high cost of the team visit and chartered the aircraft. Written justification for this action was prepared later. That justification, however, was incomplete. The cost of the charter was not compared to other alternatives. When we were at the mission, the final bill for the charter services had not been received. But one mission official estimated the cost to be about $6,000. According to mission records, Washington approval to charter an aircraft was received on July 28, 1978--one month after the mission had requested charter authority and several days after the flights were completed.

Before our departure a mission order was prepared in response to our comments, outlining the procedures for preparing justifications to charter aircraft. The order stipulated that mission directors would be responsible for authorizing charter aircraft.

We previously reported that the Honduras mission used operating expense funds for operation and maintenance of an airplane but that it intended to sell the U.S. interest in the airplane. U.S. interest in the plane was sold and future use is contingent on a financial analysis comparing the cost of using the airplane with the cost of the most likely alternate transportation.

Effective March 1978, AID missions were required to obtain AID/Washington approval before operating expense funds in excess of $500 could be used to purchase nonexpendable property. This requirement was initiated in November 1977. The purpose of the limitation is to (1) improve procurement practices, including maximum use of worldwide inventories and (2) be responsive to the Congress through increased AID/Washington oversight of mission procurement. In January 1979 the limitation was still in effect. But AID headquarters expects that reviews of mission operating budget submissions will permit an easing of the procedure in fiscal year 1979.

Collections from mission directors

AID followed up on our report on operating costs and collected about $3,600 from six mission directors and one deputy director who had purchased unauthorized personal convenience items. The purchased items included a television, grills, a pool vacuum, and other miscellaneous expendable and nonexpendable property.

Internal audits intensified

We previously recommended that the AID Administrator intensify internal audits of overseas missions and to give particular attention to reviewing mission use of operating expense funds. The Administrator acted promptly on the recommendation. From March to November 1978, the AID Auditor General issued 18 audit reports covering operating expense activities of 16 missions and 2 regional offices overseas.

Problems of administrative control over property continue at the mission level

Following are summaries of conditions we observed concerning property control at selected overseas missions.

Kenya

We noted some improvements in leased housing operations resulting from the personal initiative of the mission's acting General Services Officer (GSO). He had negotiated several new leases that appear more favorable to U.S. interests than many of the mission's existing leases. As each of the current leases expire, the mission plans to seek more favorable terms for new leases.

The mission was also successful in keeping renovation costs of new leased residences within the $1,500 ceiling limits as prescribed by AID/Washington.

The records on leased housing, however, do not disclose the effectiveness of the operation. Files on leased housing are incomplete and disorganized. For instance, some files:

--Contained no copy of the lease. (In most cases the leases were never executed and in other cases the leases were awaiting registration at a local law firm.)

--Contained only letters of agreement while others contained memorandums to the file stating the terms agreed to at meetings or during telephone conversations.

--Had letters of offer to lease but no letters of acceptance. The condition of the files makes it difficult to know just what has occurred.

The mission had not established needed guidelines for managing and controlling nonexpendable property. In early 1978, a GSO from Washington was detailed to assist the mission in developing written operating procedures for the control and management of property. He departed the mission, however, before completing the task.

One key indication of the weakness in mission control and management of nonexpendable property is found in the property records. Property management personnel were 6 months behind in posting all mission property receipts and issues. Thus, the property records are inaccurate and cannot be used for property control and accountability. Further, the records are unreliable sources of information for (1) identifying excess property and (2) planning additional procurement needs.

AID regulations require the establishment and maintenance of a property utilization program designed to obtain optimum use of property at overseas missions. The program is to include periodic joint inspections by mission representatives to locate and redistribute, or dispose of, idle property. We learned that the mission had not conducted a utilization review and is therefore not aware of excess property. Neither had the mission determined how many typewriters its offices needed. Mission inventory data as of March 1978 showed a total of 108 typewriters--59 electric and 49 manual. Mission staffing information showed about 50 secretarial, clerical, or administrative positions that require typewriters full-time. The mission is authorized 139 direct-hire personnel; 115 were on board as of June 30, 1978.

The mission Director in Kenya advised us that postings to property records were being updated, and he promised to include a property utilization review for actions to be taken by the new GSO. Mission officials also cited insufficient staff resources as the major cause of the problems in managing leased housing operations and maintaining control over nonexpendable property.

The Ambassador and the mission Director said that an adequate administrative support staff is being sought. The mission Director also agreed to organize the lease files, including placing a copy of the official lease in mission files. The Director will contract with a team of experts to (1) clean up the property inventory control system, (2) establish new procedures, and (3) train local employees in the administration of the system.

Tanzania

The mission established procedures in March 1978 for recording maintenance and utility costs of mission houses. As of September 1978, however, these procedures had not been enforced. Few entries have been made on the records. Such records, if maintained, could be a useful tool for evaluating housing costs and identifying excessive charges for maintenance and utility services. For example, a review of files in the mission Controller's office showed the yearly utility costs of one residence was about $5,000. Except for the mission Director's house, which was $4,000 per year, this amount exceeds the utility costs for all the other mission properties by about $2,000. Mission officials said that the employee responsible for these records has been counseled about maintaining better records and that the discrepancies in utility costs would be resolved, pending the arrival of the new GSO.

During audits in September 1977 and March 1978 the AID Area Auditor General (AAG) explored expendable and nonexpendable property management activities at the Tanzania mission. We found indications that corrective action had been initiated on review team recommendations. However, additional management attention is needed in two areas--property disposal activities and excess property. In three of six sales of excess property since September 1977, the GSO advertised and arranged for bid sales before obtaining the necessary approvals from the mission Property Management Officer.

In these cases the appropriate review and approval process for disposing nonexpendable property was disregarded. Mission officials attributed the errors to a former local employee who was fired for cause in early 1978. The officials said that corrective action will be taken to prevent recurrence of such cases.

One recent Auditor General report recommended that the mission dispose of excess and unservicable furniture items and appliances, and action was taken to dispose of many of these items. However, more followup on disposition of nonexpendable property is needed in this area. Of the 78 items we inspected in the mission warehouse, 45 were broken. Mission personnel said many of the items were transferred to the mission from Arusha to Dar es Salaam in Tanzania, as well as from Ethiopia, and were currently being brought under inventory control. Mission officials said they would survey the items to determine the extent of needed repairs. They seemed reluctant to dispose of the appliances without approval to purchase replacements.

Bolivia

Property records at the mission were found in good order and were properly maintained. Mission management of housing operations also appeared economical and effective. The average cost of each leased residence was $187 per month less than the comparable cost if living-quarters allowances were in effect. The mission has also improved the management of nonexpendable property and in February 1978 implemented a replacement and utilization program for its nonexpendable property.

Pakistan

The mission has released two of the three leases to relatively inexpensive and small duplex units. According to AID officials, these duplexes were ideal as smaller residential units but employees refused them because they preferred separate homes. AID mission officials in Islamabad said in January 1979 that maintenance problems, such as leaking roofs--especially in the monsoon season--were the primary reason for not continuing the two leases.

We noted that the September 15, 1978, Senate Committee on Appropriations report expressed concern that three- and four-bedroom houses in Pakistan had been leased for single AID employees or for couples with no children. An AID survey of the 1978 housing market in the four principal

Pakistan cities indicates that no two-bedroom houses or multiple-unit buildings were available which could be considered acceptable.

Insofar as nonexpendable property is concerned at the Pakistan mission, a review by the AAG in May 1978 confirmed our August 1977 findings. Both reviews disclosed that the mission property records were excellent.

Honduras

A joint administrative office manages general services for the AID mission and U.S. Embassy. That Office manages the properties but property accountability is the responsibility of the respective Agencies. Because joint property services have been somewhat restricted by the lack of funds for necessary personnel, the mission has provided funding and personnel to compliment the joint services activity.

In a test of the Honduras mission property control records we found that

--records for household furniture did not reflect the dates furniture was purchased, thus the age of the property could not be readily determined;

--property records were not updated with changes in stock levels;

--not all property control record cards reflected the date property was purchased;

--property records did not reflect the condition of items in stock; and

--no periodic utilization reviews of mission property are conducted as called for in AID regulations.

The mission commented on actions being taken to correct these inconsistencies where possible. The mission established a replacement program having a definite planned stock level by the end of fiscal year 1979. Moreover, the mission said it will do annual utilization property reviews in conjunction with its annual budget submission.

Personnel practices contribute to mission problems

The lack of continuity of services and accountability of individuals who manage general services operations has had a negative impact on mission operations. Turnover, personnel absences, and staff shortages have affected both program and administrative operations. We believe that AID should focus on these personnel problems particularly since direct-hire personnel costs constitute more than one-half of total operating expenses.

At Kenya and Tanzania missions, personnel turnover and unavailability of staff (or staff shortages) constituted a major problem. At the mission in Kenya, key officials were either leaving, arriving, or away from the post, on home leave, or on temporary duty. For example:

--The previous mission Director departed in April 1978 and was replaced 3 months later by the new mission Director.

--The former mission Assistant Director departed in August 1978, 3 days after his replacement arrived.

--The present Controller arrived in November 1977 to fill a vacancy that had existed for 8 months. Since May 1976 the Controller position was vacant for a total of 10 months.

--The present Deputy Controller arrived in August 1978 to fill that position which had been vacant for 2 months.

--The former GSO arrived in July 1977 and assumed the duties being carried out at that time by a local employee. He departed in April 1978 for an assignment to another AID post. His replacement, the current GSO, arrived in June 1978 and left in August 1978 for home leave. The Assistant GSO arrived in April 1978 and plans to be on home leave from the end of November until the end of December 1978.

--The former Program Officer departed post in June 1978 and a replacement was not scheduled to arrive until September 1978.

--A residence in Mombasa, Kenya--vacant since August 1977--is for a U.S. Department of Agriculture employee being recruited under a participating agency service agreement. Mission officials consider the housing market in Mombasa to be tight so the $9,000 yearly rental was paid so as to retain it for future use.

--The Personnel Officer left the mission in early August 1978 for 2 months' temporary duty in Washington. Washington headquarters provided the mission with a temporary duty Personnel Officer for August 1978, but he knew little about mission personnel matters.

The above examples amply demonstrate the personnel situation we observed at the mission. The absence of certain key officials and the unfamiliarity of newly arrived officials with mission personnel matters had a noticeably negative impact on mission in-house administrative support functions. The major deficiencies we noted stem from personnel-related problems. Personnel problems have adversely affected mission-leased housing and nonexpendable property operations and mission efforts to move forward on consolidation of common services with the U.S. Embassy.

Mission personnel problems exist for many reasons. For example, some are as fundamental as having an authorized position and no one to fill the vacancy. Other problems result from not having trained back-up personnel.

As we see it, a real problem confronting the mission is the extent it controls a multimillion-dollar bilateral assistance program and in-house administrative matters with over one-half its top management staff continuously in transit. This situation also relates to whether personal accountability exists at the mission.

The personnel problem in Tanzania was similar to the one in Kenya. An almost complete turnover of mission personnel occurred during the year before our visit. The problem was compounded by the length of time positions have been vacant.

Although the mission U.S. direct-hire authorization increased by two positions during the preceding year, only 15 of the 22 authorized positions were filled as of June 30, 1978. A shortage of over 30 percent of the staff creates a strain on the mission as well as on the persons performing work associated with the vacant positions. For example, the mission Office of Agriculture Development is authorized 10 U.S. direct-hire personnel and had only 5 of the positions filled. Both the Chief and Deputy positions for that office were vacant, and as of August 1978, no persons had been identified to fill them. The agriculture program represents the largest of the AID programs in Tanzania in terms of dollars.

To add to the shortage problem, many mission vacancies have existed for a considerable time. The recently filled mission Director position was vacant for 7 months and the Controller position was vacant for 9 months. One agriculture project manager position was vacant for 5 months in October 1978. Other vacancies vary from 1 to 2 months.

Premature staff turnover is responsible for some mission vacancies. As of June 30, 1978, of seven vacancies, three were due to premature turnovers. Of these vacancies one was for medical reasons and two were for personal considerations, such as allowing personnel to coordinate departures with home-leave plans, training, and schooling requirements for children.

Position vacancies preclude the desirable personnel overlap in a position. However, a loss of institutional knowledge, inadequate orientation for new personnel, and a strain on the mission personnel trying to perform the duties of vacant positions result. We were also told that the people filling the vacancies in Tanzania will require more time to get "up to speed" as a result. This problem is amplified for those new personnel with little or no AID experience. Further, we were told mission records are incomplete, making it very difficult to determine project status.

AID officials in Washington commented that the situations at the missions in Kenya and Tanzania are not considered to be representative of most missions. They also stated, however, that "similar problems affect, to some degree, all of the Agency's overseas operations."

Also, recent Auditor General reports indicated that weaknesses in administrative operations were related to staffing problems. The reports stated the following.

--In Liberia, there were weaknesses in the operation of the Executive Office, and improvements in management of unexpendable property were needed. The arrivals of a recently assigned executive officer and a GSO, however, should help improve operations.

--In Nepal, the mission attributed deficiencies in controls over spare parts for autos to severe staffing problems in its property management section.

--In Afghanistan, a comprehensive written property management system is required to assure the safeguarding of large property inventories which are to be managed by a significantly reduced American and foreign national staff. A GSO with extensive experience was being recruited to help minimize any void created by reduction of housing, transportation, procurement, and contracting staff specialists.

We did not examine the turnover in key AID/Washington headquarters positions although we did note that AID had had three personnel directors within about a year.

MANAGING PROPERTY IN WASHINGTON

AID has conducted inventories of nonexpendable property in Washington. Except for typewriters, however, reconciliation of actual inventories with property records were not complete as of October 1978. Other actions taken pursuant to GAO recommendations included the drafting of guidelines for managing and controlling property and establishing procedures for issuing office furniture and equipment.

Typewriter inventory reduced

We previously reported that as of October 1977, AID records reflected that 2,480 typewriters were in Washington and that because there were only 2,329 full-time and 377 part-time employees at AID headquarters, that number seemed extremely high. Subsequently, the AID Office of Management and Operations has made significant progress in reducing the typewriter inventory.

AID property records as of December 1977 showed 2,484 typewriters. That number has been adjusted to represent 1,922 typewriters on hand at August 31, 1978. Among the actions taken to reach this level, AID (1) conducted a typewriter inventory, (2) informed the General Services Administration that 477 typewriters were surplus, and (3) transferred 36 typewriters to overseas missions. In addition, AID was unable to locate 123 typewriters. An Agency official said that information on missing or stolen typewriters will be given to a Board of Survey. The Board reviews and evaluates all available information concerning property reported lost or stolen to determine if the custodian should be held financially liable. The official also told us that he was preparing a strong followup memorandum to AID Bureaus and Offices requesting the return of additional typewriters so that the Washington inventory can be reduced to 1,800 typewriters.

Reconciliation of nonexpendable property inventory with property records

For nonexpendable property other than typewriters, AID has had less success in implementing the recommendation that physical inventories be made and reconciled with property records. Although AID completed a nonexpendable property inventory in December 1977, the inventory had not been reconciled with property records as of December 1978. One Agency official informed us that progress on the reconciliation has been slow because only a few people were available for the task. He said the last physical inventory was taken in 1974 by Foreign Service officers because the warehouse staff responsible for the work was inadequate. He also said that two attempts were made in 1975 to take an inventory, but the information obtained was never reconciled with property records.

Guidelines prepared for managing and controlling Washington property

In September 1978 AID completed a draft of new guidelines for managing and controlling property in Washington. The guidelines govern replacement standards for office machines and furniture. An Agency official informed us in September that final review of the guidelines was in process and that they would be issued as part of an AID handbook.

CONCLUSIONS AND RECOMMENDATIONS

We believe that AID has generally supported Washington efforts to review mission operating expense budgets. Determining the geographic Bureau Controllers' proper grade levels and the size and type staffs needed must be resolved.

To manage operating expense funds overseas, AID has issued new regulations, including those pertaining to leases of residences and related luxury items. AID has also made collections from certain mission Directors for unauthorized expenditures on their residences and has intensified its audits of operating expense funds for overseas missions. Our visits to several misisons revealed that problems still exist. However, the problems were not generally directly related to the new AID regulations.

We believe that the problems at some missions were more directly related to personnel practices. For example, the lack of continuity of services and accountability of individuals who manage general services operations had a negative effect on mission operations. Staff turnover, personnel absences, and staff shortages are evident in both program and administrative operations.

Insofar as management of property in Washington is concerned, we believe that AID has made significant progress in controlling its inventory of typewriters. AID has been slow, however, in its efforts to reconcile other nonexpendable property inventory with its property records.

We recommend that the AID Administrator:

--Define the role and authority of geographic Bureau Controllers, justify their grade levels, and ascertain their staffing requirements.

--Institute a policy which would apply Washington oversight controls over missions unable to control administration of their missions because of staff turnover, personnel absences, or staff shortages. Such controls could include, for example, continuation of AID/Washington approval for purchase of operating expense-funded, nonexpendable property exceeding $500, more frequent internal audits, and management team visits which could correct problems and recommend that controls be continued or relaxed, depending on mission performance.

--Develop policies and procedures to minimize the negative effect of staff turnover, staff absences, and failure to have knowledgable personnel at missions at all times. We believe that such policies and procedures should cover program areas as well as administrative operations.

CHAPTER 3

AID CONTROL OF TRAVEL COSTS

The Congress and AID officials are concerned about travel costs incurred in planning, designing, implementing, and managing activities authorized by the Foreign Assistance Act, as amended. This caused us to examine AID practices in handling travel advances and subsequent claims for worldwide travel-cost reimbursements. Our examination included (1) a followup on AID actions taken in response to an AAG report entitled "Review of AID/Washington Accountability of Travel Advances," (Report No. 77-34, Dec. 27, 1976) and (2) review of the accounting for travel costs at five AID overseas missions.

HANDLING OF TRAVEL ADVANCES

Washington

We found that of 1,270 outstanding travel advances--valued at $728,090--accounted for at the AID headquarters in July 1978, 420 of them--valued at $218,844--had been outstanding for more than 2 years. We also found that according to AID records, 239 of the outstanding travel advances--valued at $118,876--were held by individuals not permanently employed by AID. They had either terminated AID employment or were under contractual arrangements with the Agency. We believe such situations resulted because AID accounting personnel did not enforce regulations requiring that (1) outstanding travel advances must be refunded immediately when travel plans are canceled or postponed and (2) individuals should effect settlement within a reasonable period--usually not in excess of 30 days--when travel is complete.

In a December 1976 report, the AID Auditor General said that on May 31, 1976, of the 1,568 outstanding travel advances, 201 advances had been outstanding for over 2 years, and that 46 advances were held by terminated AID employees. For these reasons, the Auditor General recommended that the AID Controller's Office (1) review all outstanding travel advances and make collections as deemed necessary, including the recovery of amounts due from terminated employees and (2) develop a system whereby the general ledger control account for outstanding travel advances and individual subsidiary accounts will be reconciled at least monthly.

In our followup review, AID officials said attention has been given to settling overdue travel advances and a statement of reconciliation of general ledger and subsidiary travel advance accounts is prepared monthly. Also, as of mid-July 1978, of the 46 cases previously reported concerning travel advances held by terminated employees, 21 cases had been resolved. The other 25 cases were still open.

The Office of Financial Management, Central Accounting Division, provided GAO a July 27, 1978, listing of individuals charged with outstanding travel advances. Of the 1,270 names on the list, 239 names did not appear on the AID direct-hire employment roll. We saw no files identifying their relationship to AID; however, officials said the names probably represented contractors as well as consultants and terminated direct-hire employees. Of the 1,270 cases, we selected 40 cases at random for detailed examination of active travel files. Examination of the 40 cases disclosed instances whereby:

--Copies of vouchers liquidating outstanding travel advances were in individual traveler files, but transactions had not been posted to the general ledger account or to the automated system which replaced the previously maintained card files.

--Some individual travel files could not be located within the Office of Financial Management, and others had been retired to storage even though the AID automated system showed outstanding travel advances.

--Lengthy time periods lapsed between completion of actual travel and AID notification to travelers that outstanding travel advances should be liquidated.

--Prompt followup was not always made after AID's first notification letter was sent to those individuals having outstanding travel advances.

We also noted that AID is trying to improve the controls over outstanding travel advances. In August 1978 many followup letters went to those AID employees holding outstanding travel advances. These letters stressed prompt compliance with travel regulations. The Controller's Office has also

--attempted to collect outstanding travel advances through a payroll-deduction procedure;

--developed an accounting system procedure whereby the Agency's automated system will eventually provide monthly printouts to those individuals holding outstanding balances, informing them that travel advances are to be settled "within 30 days following travelers' return," and that "balances outstanding over 90 days" will be deducted from their salaries unless other arrangements are made.

Testing the new accounting system procedure began in November 1978 and will be fully automated shortly.

We commend the AID Controller's Office for taking the recent positive actions. The new biweekly printout, if used effectively, should eventually prevent outstanding travel advances to AID direct-hires for periods as long as over 24 months. Additional controls are needed, however, over travel advances to (1) persons not permanently employed by AID and (2) AID direct-hires who terminated employment while travel advances were outstanding. These additional controls concern the need for a record of persons, including direct-hires, who are eligible to receive travel-advance funds from AID. We further believe that the Office of Financial Management should be certain that travel-advance data placed in the automated accounting system is completely correct.

Overseas

In Kenya, Indonesia, Bolivia, Honduras, and Pakistan, we reviewed AID mission policies and procedures governing accounting for and controlling travel advances. The accounting systems at those locations appeared adequate with one exception. At most missions, the individual travel-advance cards were regularly reconciled with mission travel-advance control ledger accounts, and most advances were liquidated within 30 days after completion of applicable travel.

In Indonesia, we observed instances indicating the need for improving the mission's control over travel advance funds. For instance, upon questioning the actual status of advance of $1,000 which had been outstanding for 5-months, we learned that the applicable planned travel had been canceled and the individual traveler had never received the advance. After our inquiry, the check was found in the Embassy cashier's office. Another 5 of the 20 advances we examined had been outstanding more than 30-days after completion of the travel without being subjected to proper followup action.

At the mission in Jakarta, a monthly travel reconcilation report was regularly prepared identifying the amount, age, and recipient of each travel advance. However, a key data point of when the travel completion was contemplated was not provided and adequate followup action to clear aged advances was not generally taken.

In a letter dated December 15, 1978, the mission Director advised us that procedures to adequately followup on advances outstanding more than 30 days after the estimated travel completion date have been implemented at the mission following our recent visit.

ACCOUNTING FOR, AND CONTROLLING, PER DIEM

We generally found the established travel policies and procedures at selected AID missions in East Africa, Latin America, and East Asia were being followed. At some locations, however, we noted certain questionable matters, including the following.

--In Nairobi, Kenya, the established per diem rate did not appear to represent reasonable costs.

--AID personnel permanently assigned to the AID mission in Islamabad, Pakistan, claim full per diem at that location for the quarter of the day they depart for temporary duty elsewhere in Pakistan.

--Persons departing Islamabad and remaining in travel status (between authorized points of origin and destination) in excess of 6 hours were paid at a rate in excess of $6 per day.

During our review, we also became aware of instances in which persons on temporary duty were claiming full per diem even though quarters at mission staff houses or private homes had been secured at prices substantially below market rates.

Nairobi per diem rate was inflated

In August 1978 we questioned whether the local per diem rate in Nairobi, Kenya was somewhat inflated. We noted an apparent error in the hotel rate data submitted in February 1978 to the Department of State. That data was used to increase the Nairobi per diem rate from $50 to $62 per day, effective April 1, 1978.

During our stay in Nairobi, we noted that the discounts offered U.S. Government employees at the major hotels (37 to 56 percent) were substantially greater than those reported to the Department of State (25 percent) in February. Further, we learned that the Embassy rate includes local taxes, whereas data submitted to the Department implied that a 22-percent tax is in addition to the quoted Embassy rate.

This matter was brought to the attention of officials at the AID mission and the U.S. Embassy in Nairobi, and they initiated corrective action. Effective September 15, 1978, the per diem rate at Nairobi was reduced from $62 to $50.

Charging departure per diem vs destination per diem

AID mission employees residing in Islamabad, Pakistan, were being paid the full per diem rate established at Islamabad for the quarter of the day when they departed for another destination. We believe that in many cases, this practice results in overpayment of travel costs.

The Uniform State/AID/USICA Travel Regulations state, in part, that

> "While traveling * * * to, from or between localities outside the continental United States (excluding travel entirely within one location) * * * the maximum rate of per diem is * * * that of the destination point when travel is for less than 6 hours * * *." (Underscoring added for emphasis.)

Instructions issued by the U.S. Embassy in Pakistan stipulate that travelers are entitled to 50 percent of the per diem rate in Pakistan when "Government quarters" are used. When Government quarters are not used travelers may claim full cost-of-lodging plus 50 percent of the per diem rate.

As shown below, the various regular per diem rates for travelers living in Pakistan ranged from $25 to $50 per day.

Karachi	$50 per day
Islamabad/Rawalpindi	40 per day
Lahore	40 per day
Peshawar	30 per day
Other areas	25 per day

We reviewed selected travel vouchers submitted to, and paid by, the AID mission in Pakistan. We found that, consistently, AID employees residing in Islamabad claimed one-quarter a day full per diem at the Islamabad rate when they departed Islamabad for another location in the country. On many of the vouchers we reviewed, the travelers indicated that Government-provided quarters were used at the Pakistan destination points.

We believe that--per AID travel regulations--in each case travelers were entitled to 50 percent of one quarter a day per diem in effect at the destination point, not the per diem rate at the point of departure. Following are some examples of claims for per diem covering the first 6 hours of trips made by employees residing in Islamabad:

Points of travel and applicable per diem						
Departure (a)	Per diem (b)	Destination (c)	Per diem (d)	Amount paid [1.00(1/4 x b)]	Correct claim [0.50(1/4 x d)]	Over-payment
Islamabad	$40	Pershawar	$30	$10	$3.75	$6.25
Islamabad	40	Quetta	25	10	3.12	6.88
Islamabad	40	Karachi	50	10	6.25	3.75
Islamabad	40	Lahore	40	10	5.00	5.00

Officials at the AID mission in Islamabad contended that they consider Pakistan to be one locality (see above excerpt from the Uniform State/AID/USICA Travel Regulation) and, therefore, the above regulation does not apply.

We do not agree with the mission's position. We believe a foreign country, particularly one in which numerous areas have different established per diem rates, consists of more than one locality. We therefore believe AID officials in Washington should act to assure that the Pakistan AID mission, as well as other missions, properly interpret travel regulations.

When does 6 hours between two locations begin?

AID mission officials in Islamabad contend that the rate established by the $6-per-day rule does not apply to Pakistan AID employees until they depart Karachi to another country. This position was cited regarding one traveler who was enroute between Islamabad and Bangkok in excess of 6 hours but was paid per diem at a rate above $6 per day.

This particular AID traveler had a stopover in Karachi for 4 hours and 25 minutes. Actual flight time consisted of 1 hour and 40 minutes between Islamabad and Karachi and about 5 hours between Karachi and Bangkok. So departing Islamabad, Pakistan, at 2210 hours on April 24, 1978, the traveler--after less than a 6 hour break in Karachi--arrived in Bangkok, Thailand, at 1120 hours on April 25, 1978. Yet the 6-hour, $6-per-day per diem rule was not used.

According to the Federal Travel Regulations, AID travelers are to be paid a maximum rate of $6 per day if travel by air between two locations outside the continental United States exceeds 6 hours and is not broken by a stop of 6 or more hours. This rule is further elaborated as follows:

> "* * * if * * * the stopover is less than 6 hours, travel before and after the stopover period is considered a 'continuous' trip and considered as a single travel period."

We recognize that of 35 travel vouchers we reviewed in Islamabad, only two instances were cited in which per diem had been paid at a rate exceeding $6 even though the applicable travel met the established criteria for applying the 6-hour, $6-per-day rule. However, the mission's apparent practice seems to conflict with the Uniform State/AID/USICA Foreign Service Travel Regulation. Therefore, we believe AID should enforce the established and generally accepted travel regulations.

Per diem for travelers overseas

During the last 4 years, the Congress, Federal Agency officials, and individual U.S. travelers have been concerned about the per diem allowed and paid official Government overseas travelers. On October 20, 1978, AID changed its per diem policy for travel outside the conterminous United States. Currently, AID's reimbursement for each per diem locality will be the average cost of lodging rounded to the next whole dollar plus 50 percent of the maximum locality rate. Total AID reimbursement shall not exceed the maximum for each locality, unless specific approval is given in advance for actual expenses.

AID also requires that when a staff house or other free or low-cost facilities are used, a reduced per diem rate will be used.

We understand the General Services Administration is also modifying overall travel regulations applicable to all overseas travel to include the lodging-plus rule.

This action is a culmination of efforts by the Senate Committee on Appropriations, Subcommittee on Foreign Operations; AID; the Inter-Agency Committee on Overseas Allowances and Benefits for U.S. Employees; and GAO to establish a system through which traveler per diem will represent an actual recoupment of necessary costs incurred by travelers.

In April 1978, the Chairman, Senate Appropriations Subcommittee on Foreign Operations questioned AID on alleged excessive per diem payments in Afghanistan. Just previously, the AID Auditor General had issued a report showing that most U.S. Government-sponsored travelers to Kabul, Afghanistan, stay at the staff house operated by the American Community Association at an average daily rate of $25 to cover lodging, meals, and laundry. Contrasted to the $66 per diem rate, effective February 1, 1978, securing lodging at the staff house provided a built-in profit of about $40 per day for travelers outside Afghanistan. The Auditor General commented that the Inter-Agency Committee had recommended a lodging-plus method of computing per diem to be applied worldwide to all U.S. Government agencies. He also recommended that AID pursue the implementation of a lodging-plus or other equitable system which will restrict reimbursement of travel costs to amounts incurred by AID-sponsored travelers.

In June 1978, GAO responded to a question by the AID Office of Financial Management concerning the validity of a claim for full per diem for overseas travelers who lodge in staff houses or private quarters at no cost, or at reduced costs. The Comptroller General stated that

> "Employees on temporary duty in foreign countries obtain lodging and meals in employee association staff houses or in private quarters of fellow employees at reduced costs or at no cost. Although Government supplies furnishings to associations at no cost and fellow employees receive living quarters allowances and loans of household goods, the quarters are not Government-owned for purpose of reducing per diem. However, agencies should consider the lodgings-plus system for per diem and meanwhile should reduce per diem to only approximate traveler's expenses." (B-191706, June 13, 1978.)

Therefore, acting on the combined efforts of Federal Agencies, and the Congress, AID took the previously cited steps to implement a lodging-plus system in October 1978.

CONCLUSIONS AND RECOMMENDATIONS

AID has improved travel cost accounting and controls. We commend AID for the lodging-plus system response to the Federal concern about possible abuse of standardized overseas per diem rates.

The AID Office of Financial Management reports automation is impressive. This monthly report notifies persons having outstanding travel advances that unless properly settled, payroll deductions will be instituted. In Washington, however, additional controls are needed to prevent persons (1) not permanently employed by AID from holding outstanding travel advances for long periods and (2) terminating employment with AID to do so without liquidating outstanding debts to the Agency, such as outstanding travel advances. We also believe the Office of Financial Management should make certain that travel advance data maintained in Washington accounts and placed in the automated accounting system was correct.

At selected overseas missions, the policies and procedures established for controlling travel advances and travel costs were adequately carried out. Yet, we believe a closer monitoring at the AID mission level is needed for those per diem rates covering necessary overseas travel costs. We recognize proper action was taken at the mission in Nairobi to bring the per diem rate in line with normal and necessary travel costs. However, that case should alert officials at other missions.

We also believe appropriate officials in AID/Washington should be assured that established travel regulations are interpreted and carried out uniformily worldwide. The Uniform State/AID/USICA Foreign Service Travel Regulation reference to

> "* * *traveling * * * between localities outside the continental United States * * * the maximum rate of per diem is * * * that of the destination point * * *"

refers to travel between two cities in Pakistan. That various per diem rates are used in Pakistan seems to eliminate a position that the country of Pakistan is "one locality." Further, the reference to "traveling * * * between localities outside the continental United States" in excess of 6 hours, establishes a $6-per-day per diem rate, we interpret to mean that the time consumed in the Islamabad/Karachi leg of a trip from Islamabad, Pakistan, to Bangkok, Thailand, should be included in the determination of whether the $6-per-day rule is applicable.

On January 5, 1979, the Office of Financial Management concurred with our recommendations contained in a draft of this report. These recommendations required additional controls over travel advances to (1) persons not permanently employed by AID and (2) AID direct-hires who terminated employment while travel advances are outstanding. Travel advance data placed in the automated travel-advance accounting system must be verified.

Specifically, the AID Controller said the Office of Financial Management has taken the following actions in response to those recommendations.

1. Travel advances to persons not permanently employed by AID are being closely monitored to insure timely recovery of the advances.

2. The final salary check of AID direct-hire employees terminating employment with the Agency is withheld, pending settlement of outstanding travel advances.

3. Travel advance data placed in the automated accounting system is monitored and reconciled monthly with the general ledger control accounts.

Therefore, we will not repeat these recommendations at this time. We do recommend that the AID Administrator require that established travel regulations are implemented uniformily worldwide.

CHAPTER 4

AID IMPROVEMENTS OF PROJECT MANAGEMENT AND CONTRACTING PROCEDURES

In our report to the AID Administrator, "Need to Improve AID's Project Management and Contracting Practices and Procedures," 1/ we identified poor or questionable practices and procedures in (1) planning contracts for procurement (2) negotiating and awarding contracts, and (3) monitoring contract implementation. We stated that

--requirements were not fully identified and developed for proposed procurements, and that AID had short-cut the prescribed planning process in their haste to award contracts;

--inappropriate or questionable contracting practices in negotiating and awarding contracts and grants resulted in many contracts being awarded without the benefit of competition; and

--poor monitoring of contracts and grants during implementation resulted in problems not quickly identified or corrected.

In that report, we recommended that the AID Administrator

--closely monitor the implementation of his October 1977 directive to insure corrective action;

--establish criteria defining the conditions when the impairment of foreign assistance objectives exception can be used, and

--take actions to eliminate the weaknesses discussed in our report, particularly those relating to AID contract and grant monitoring.

In 1977, while our prior fieldwork was in progress, AID reviewed contracts and grants and found deficiencies similar to those we had identified. As a result, on October 5, 1977, the Administrator issued instructions to Assistant Administrators and heads of offices entitled "Actions to Improve

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1/ID-78-22, March 14, 1978.

Contracting and Grant Processes Directly Executed by AID." These instructions specified actions needed in the following six contract management areas to insure

--compliance with project management guidelines requiring well thought out procurement plans and schedules as part of the project design and approval process;

--the maximum feasible competitive selection procedures;

--that small firms and firms owned by minorities or women get a larger share of AID business;

--a review of present Agency policy which encourages special collaborative relationships among host countries, U.S. universities, PVOs, international institutions, and AID and to reconcile it with AID policy to seek maximum competitive procurement;

--proper use of personal services contracts (PSCs) and indefinite quantity contracts; and

--that qualified contracting specialists are available to advise with procurement planning and to carry out the procurement process and execute contracts and grants.

On July 7, 1978, AID officials stated that they were attempting to eliminate the weaknesses cited in our report, and that the actions required by the October 5, 1977, memorandum were being implemented.

We have recently noted improvements in the management of contracts and grants AID awarded. For example, we observed that AID is attempting to follow established guidelines for procurement planning, scheduling, monitoring, and evaluating, contractor performance. In addition, AID places greater emphasis on competitively awarding grants and contracts, and more consideration is given to firms owned by minorities or women.

Other positive AID action to strengthen the management of contracts and grants include establishing a task force to (1) reexamine justification procedures when procuring services from universities and other nonprofit organizations and (2) make sure that personal services and indefinite quantity contracts are awarded properly.

Although AID offices in Washington have made improvements in managing contracts and grants, some of the overseas missions we visited have lagged behind. For example, we found that

--no recent orientation and training in contract and grant procedures has been provided to project officers in Kenya, Tanzania, Bolivia, and Pakistan as directed by the AID Administrator's October 5, 1977, memorandum and

--competitive bids were not always sought by the mission in Kenya to provide packing and moving services for AID employees transferred to other posts.

In Honduras three project officers have been trained. The other six officers onboard in October 1978, had not been trained on contract and grant procedures.

AID AUDITOR GENERAL RECOMMENDATIONS

The AID Auditor General issued two reports in 1977, which identified contract management deficiencies. These reports revealed, for example, that funds AID/Washington offices advanced to contractors were not properly accounted for--substantial differences existed between balances recorded in the general ledger accounts. The Auditor General questioned whether contracts had expired or had been terminated without proper settlement of outstanding balances. He recommended that general ledger accounts be reconciled monthly with subsidiary records.

AID auditors also reported that the Agency did not properly account for contract or grant costs they disallowed. AID auditors often question certain costs which are subject to negotiation between Agency contracting officers and contractors or grantees.

A limited review by AID auditors of disallowed costs in fiscal year 1976 disclosed that $71,649 would not be collected unless the contractors or grantees voluntarily returned these funds. This problem was attributed to the lack of adequate procedures and to the concentration of all actions within the Office of Contract Management, without notification to the Office of Financial Management. The Auditor General recommended that the Office of Contract Management and the Office of Financial Management

--coordinate their efforts and establish procedures to properly account for disallowed costs,

--attempt to collect the disallowed amount of $71,649, and

--review records for the past 4 years to identify disallowed costs and initiate collection.

We found that the corrective action the Auditor General recommended has been taken to improve the management of contracts and grants.

USE OF PSCs

AID contracts and personnel practices at overseas missions include the employment of Americans and local nationals under PSCs. At missions in Bolivia, Pakistan, and Tanzania, PSC positions filled by local nationals were similar to those of direct-hire employees. Information on PSC employee work and on their length of service was not fully disclosed in these mission fiscal year 1980 operating expense budget submissions or in periodic reports to AID/Washington on contract personnel employed overseas. Before September 1978 the mission in Pakistan had not reported on local nationals employed under PSCs since 1974.

PSCs permit overseas missions to secure an individual's temporary or intermittent services or for certain work of a continuing nature. AID guidance for overseas missions specified (1) the types of services allowed under PSCs, (2) length of each contract, and (3) rate of compensation for PSC employees. PSC employees at missions in Bolivia, Pakistan, and Tanzania held positions as clerk typists, boiler mechanics, electricians, drivers, automotive mechanics, program advisors, air conditioner repairmen, and administrative assistants. We found that PSC employees and direct-hires generally receive the same compensation and supervision. PSCs were not distinguished from local national direct-hires except for certain differences in the U.S. Government liability on employment and of service termination. Mission officials in Bolivia, Pakistan, and Tanzania verified our conclusion that many PSC employees work in capacities similar to those performed by local national direct-hires.

Many PSC employees provided services considered necessary for the mission operations over periods of several years. At the Bolivia mission, a procurement advisor and an agricultural advisor served under PSCs since August 1975 and January 1976, respectively. In Pakistan, a September

1978 mission report indicated that of 112 PSC employees, 53 were onboard for 5 years or more. In Tanzania we noted that the number of local nationals under PSCs had increased from 14 to 23 during the 3-month period ended June 30, 1978. As indicated, some positions filled through PSCs appeared to be needed on a permanent basis.

The overseas missions have not fully disclosed to AID/ Washington the number and use, of PSC employees. AID guidelines to the missions for preparing the 1980 mission operating expense budget submissions specified that justification for personnel requirements at different program levels and information explaining alternative mixes of U.S. direct-hires, foreign national direct-hires, and contract personnel should be included in a narrative section. The Bolivia and Pakistan missions however, did not provide such details on the inclusion of PSC employees in personnel requirements. The exclusion of PSC employees from the Tanzania submission understated the personnel resources apparently needed to conduct mission activities.

AID reports on worldwide employment of contract personnel appear to be understated because missions provided incomplete data on PSC employees. The September 30, 1978, AID report on direct-hire and other overseas personnel indicated that the Pakistan mission had no local national PSC employees onboard. Information obtained at the Islamabad missions, however, revealed that 112 PSC employees were on the rolls as of September 1, 1978. The mission had not reported PSCs since 1974. AID guidelines on reporting overseas workforce requirements direct that missions report all overseas personnel, including PSC employees, to AID four times a year. This information is available to help the Agency monitor overseas workforce requirements, and is intended to comply with workforce data requests from the Congress and the Office of Management and Budget.

Office of Management and Budget ceilings for U.S. overseas direct-hire and foreign national employees appear ineffective. Overseas missions appear to use PSC arrangements to fill needed positions not included in ceiling limitations. The overseas missions use PSCs to supplement the local national direct-hire employee ceiling allotted to each mission. Technically, foreign nationals at the missions in Bolivia, Pakistan, and Tanzania do not exceed the established ceiling. However, our analysis of personnel staffing patterns at the missions showed that the combined total of PSC employees--upon which no limitation was imposed before fiscal year 1979--and direct-hires exceeds the fiscal year 1978 authorized personnel ceilings as shown in the following table.

Workforce	AID Missions Bolivia	Pakistan	Tanzania
Foreign national direct-hires	89	155	22
PSC employees	30	133	23
Total	119 a/	288 b/	44 b/
FY 1978 ceiling, foreign national direct-hires	86	137	22
Difference	33	151	22

a/Personnel onboard as of July 1978

b/Personnel onboard through June 1978

In March and June of 1978, the AID Auditor General also reported on these personnel matters as related to mission activities in Panama and Guatemala. He reported that in Guatemala, PSCs supplement the local national direct-hire personnel complement. He said that as long as missions have unlimited access to PSCs, direct-hire personnel ceilings will remain largely ineffective. The Auditor General further reported that the Panama mission excluded 18 personal services contractors from the annual budget submission.

Currently, each mission determines the number of PSCs to be awarded independent of established ceiling restrictions on Agency direct-hire personnel. PSC employees are generally paid from mission operating expense budgets or development program funds. In addition, some PSC employee compensation is provided through trust fund monies (in local currency denominations) contributed to AID by certain host countries, such as Pakistan.

Officials of the AID Office of Financial Management stated that funds committed for PSC employees during fiscal year 1978 and projected requirements for fiscal year 1979 are as follows.

	Personal Service Contracts Operating expenses	Trust funds	Program/project funds
FY 1978	$2,840,800	$637,500	$ 6,234,300
FY 1979 (estimated) a/	3,339,300	464,200	13,088,000

a/FY 1979 actual PSC usage is limited by legislative ceilings.

The Congress has established a limitation on appropriated funds available to the Agency for fiscal year 1979 for use in obtaining PSCs. The Foreign Assistance and Related Programs Appropriations Act of 1979 provides that:

> "* * * not to exceed $10,000,000 of the funds made available by this Act shall be made available for personnel service contracts and that of this amount not to exceed $2,000,000 shall be made available from Operating Expenses '[of AID]' and not to exceed $8,000,000 shall be made available from other funds made available by this Act."

The AID General Counsel has determined that trust funds are exempt from the $10 million limitation. Therefore, PSC employees paid from trust funds, such as those in Pakistan, will probably continue to supplement the OMB direct-hire ceiling and will augment the dollar limitation placed in the 1978 legislation.

Responding to our concerns in January 1979 about how AID uses PSCs, Agency officials emphasized that such contracts have long been an efficient and cost-effective means for assembling and utilizing optimal personnel overseas. These officials also said that AID's management need for more information regarding PSC use has been addressed. Such information is to include definitive data on nonpersonal and other support contracts as well as on PSCs. This PSC information will also be a key factor in future budget decisions allocating funding and personnel to overseas missions. Budget allocations are to include PSC allotments to each mission.

CONCLUSIONS AND RECOMMENDATIONS

We agree with AID officials that when used judiciously, PSCs are valuable resources both in Washington and overseas. We also recognize that many officials attribute inadequate personnel as a problem. However, we believe prudent management of all the resources available to AID requires that AID managers receive full information about various resources and their alternative uses. Such a requirement has not yet been fully met.

The AID/Washington contract and grant management improved after the GAO and AID Auditor General audit recommendations. However, orientation and training in contract and grant procedures for mission project officers is not reaching nonprocurement personnel at all overseas missions. We recognize, as AID/Washington officials stated, that in response to the AID Administrator's 1977 instructions, courses for nonprocurement personnel on contract and grant orientation were held in Washington and at several overseas missions. We also know that for many years, AID has had an ongoing training program in contracting designed for nonprocurement personnel. Project officers at four missions we visited late in fiscal year 1978, however, had not recently had such training. Even if AID determines these cases to be isolated, we believe steps are needed to assure the availability of such training to nonprocurement personnel responsible for participating in the planning, designing, implementing, and evaluating of U.S.-sponsored assistance overseas. In addition, some missions do not always seek competitive bids for some services.

We recommend that the AID Administrator intensify training for project officers in the overseas missions to assure that contract and grant procedures can be properly applied. Based on the January 1979 guidelines the AID Controller outlined as measures to improve PSCs in the Agency information system, we are making no recommendations at this time about how AID uses such contracts. However, a close monitoring of commitments and use of PSC and personnel resources worldwide will be needed to assure that AID uses all available resources efficiently and effectively.

Concurrent with our review of AID efforts to improve overall management of contracts as described in this report, another GAO team examined selected cases of contracts and grants awarded for studies, research, and evaluations. The results of that work were reported to the Chairman, Senate Appropriations Subcommittee on Foreign Operations (ID-79-13, Feb. 12, 1979). We pointed out that when purchasing information through contractual arrangements, AID should improve its management controls in

--determining the need for the information being purchased,

--assuring quality of final products obtained, and

--making effective use of studies, research, and evaluations purchased,

and recommended that the AID Administrator improve management controls in those areas. We, therefore, are not repeating those recommendations in this report.

CHAPTER 5

NEED TO CONSIDER RENEGOTIATION

OF CERTAIN CONCESSIONAL AID LOANS

Since 1962 AID loan agreements have generally contained a clause providing that the borrower

> "* * * negotiate with AID, at such time or times as AID may request, an acceleration of the repayment of the loan in the event that there is any significant improvement in the internal and external economic and financial position and prospect of the country of the Borrower * * *."

Before 1974, the accelerated repayment provision was not used. However, Japan and six European countries had made advance repayments on earlier loans for postwar reconstruction. Between 1950 and September 1974 advance payments totaled $2.4 billion. We recently identified eight AID loans--representing $369.1 million--which were extended under concessional terms to four countries now having favorable economic conditions. If these loans are successfully renegotiated, the U.S. Government could be relieved of subsidized costs approximating $245.7 million for servicing these loans until they mature, some in the next century. Two of these loans have been renegotiated, saving the U.S. Government an estimated $18 million.

AID has been extending economic assistance loans to less-developed countries since 1961 and administering those loans as well as predecessor agency loans made as early as the post-war relief period (1946-48.) Such loans amounted to $41.3 billion through September 1977. AID loans are generally repayable over 40 years, including a 10-year grace period before principal repayments start. They have variable, but low, interest rates--some less than one percent per annum.

In our prior report, "The Brazilian Economic Boom: How Should the United States Relate to It," 1/ we recognized the country's strong economic growth and recommended that AID initiate discussions with the Government of Brazil to renegotiate better loan terms when possible. AID was moving toward ending concessional assistance to Brazil, yet the U.S. Government cost of servicing loans to Brazil was significant.

1/B-133283, August 26, 1974.

Treasury officials projected that the subsidized cost totaled $561 million for servicing the outstanding loans to Brazil through maturity in the year 2013. (In this report, subsidized cost represents costs incurred by the United States because the U.S. Treasury borrowing rate is higher than the rate at which the money was loaned to borrowers.)

Department of State and AID officials did not believe that the United States should renegotiate past concessional loans to Brazil. Several interesting events have transpired since the report was issued.

AID POLICY

Soon after our report was issued, AID established a policy toward requesting accelerated payments of AID loans. The September 16, 1974, policy statement pointed out that with the likelihood of current or former AID loan recipients receiving substantial windfalls from rapidly accelerated petroleum earnings, congressional interest in possible request accelerated repayments may increase.

The policy statement concluded that when a former concessional loan recipient appeared to be experiencing growth in its foreign exchange reserves in considerable excess of its import and debt servicing requirements, the appropriate AID offices should determine the extent to which the country meets certain general criteria and should then propose the appropriate action to the AID Administrator.

The policy statement criteria for imposing the accelerated repayment clause was very broad. For instance, AID was not to consider requesting accelerated payment unless a former recipient (1) had an extremely strong foreign exchange position, (2) had a high per capita income level, and (3) owed AID a significant loan principal.

The policy statement also rationalizes that if circumstances drastically change for the worse in LDCs is the basic reason for their seeking debt rescheduling, there is intuitive logic in the argument that improvement in their circumstances over and above that which could have been predicted when the loan was signed also requires renegotiation of the loan terms. This statement qualified that even though pursuing accelerated repayments appears in the best interest of the United States, political implications for other international lenders would require AID coordination with the Departments of State and Treasury.

The AID accelerated repayment policy was supplemented in April 1976 by a requirement that from mid-January to mid-March each year AID is to (1) thoroughly evaluate countries appearing to have reached a high stage of development and (2) have adequate resources to cover accelerated repayments. The criteria for determining which borrowers are examined

"--a per capita gross national product equal to or greater than $750 in 1973 prices,

--an average ratio of current account surplus to imports of goods and services of at least 0.2 over at least a 3-year period, and

--a ratio of reserves to imports of goods and services greater than 0.5 over at least a 3-year period."

AID defines current account surplus as the total of goods and services, private transfers, and Government transfers. These accounts are basic line items in the International Financial Statistics Booklet, an International Monetary Fund publication.

In determining whether or not to request accelerated repayments, overall U.S. interests in the debtor country are considered politically, economically, and commercially as well as the ability to repay AID loans at a faster rate.

POLICY APPLICATION

AID has not annually identified candidates for accelerated loan repayment negotiations annually, as prescribed in the April 1976 policy statement. Although a study was done in 1976, we were not shown that the study was done in 1977 and 1978. AID has advised us that in one 1979 study, another country was identified as a potential candidate for accelerated loan repayment negotiations.

In 1978, AID officials said they would automatically know when a country is economically able to handle accelerated loan repayments. Another official explained that the Agency is required to prorate the annually appropriated loan funds for the various eligible countries. Through this process the Agency would then become aware of countries with which the United States may seek accelerated loan repayments. The official said that an annual study to specifically identify candidates for accelerated repayments is therefore not always necessary.

By AID's definition, only countries that have graduated from concessional loans are eligible candidates for accelerated loan repayment renegotiations. The proration of appropriated loan funds, however, focuses on those countries currently eligible for concessional loans. Therefore, we see difficulty with AID automatically gaining specific knowledge on graduated countries without using a different grouping of countries from which concessional loans are apportioned.

Following up on AID's accelerated repayment policy, we used AID criteria for determining whether renegotiations were feasible. Few developing countries meet the criteria, although OPEC members do, however, including Venezuela--whose loans have been successfully renegotiated--Iran, Iraq, and Libya.

We also applied the AID criteria to developed countries such as Spain, the United Kingdom, France, Germany, and Japan. Surprisingly, these countries and the United States do not meet the accelerated repayment criteria. It is interesting, however, that some of the developed countries that do not meet the criteria have previously accelerated payments and repaid U.S. loans made soon after World War II.

EFFORTS TO ACCELERATE LOAN REPAYMENTS

Loans after 1961

AID officials considered initiating negotiations with Venezuela and Iran for accelerated loan repayments. Renegotiations were initiated and favorably concluded with Venezuela. The Venezuela Government agreed to fully repay the outstanding $5 million balance of one loan--original disbursement was $10 million--by October 1977, and the $24 million balance of the other loan--orginally $30 million--by October 1980. Those loans were originally scheduled to mature in 1983 and 1988, respectively. According to the AID December 31, 1977, status report on loans, the $5 million is paid in full. Based on Treasury and GAO computations, we estimate that the accelerated repayment of both Venezuela loans will save about $18 million in subsidy costs to the United States. (See app. II.)

The renegotiations with Iran have not materialized. We understand that Department of State officials decided that no request for accelerated loan repayments should be made, pending resolution of other U.S./Iran issues, such as U.S. collection of arrears on lend-lease and surplus property agreements.

The other six AID loans--including two extended to Iran--which we believe should be considered for renegotiation, represent $329 million loaned under concessional terms, and potential additional subsidy costs of $227.8 million to the United States.

Summary (see app. II)

Country	Principal loaned	Potential subsidy costs
	----------(millions)----------	
Iran	$ 19.0	$ 4.0
Argentina	10.6	10.2
Brazil	299.4	213.6
Total	$329.0	$227.8

Using established AID indicators, the economies of OPEC countries--gross domestic products, per capita incomes and net exports--have improved so that AID policy requires that the accelerated loan repayment clause in each loan agreement be pursued. We believe loans to Argentina and Brazil, however, should also be considered for accelerated repayment negotiations. Both countries have been economically successful in recent years. Further, even though the established AID criteria is unrealistic, Argentina nearly meets them.

Loans before 1961

AID's predecessor agencies also made concessional loans soon after World War II, including some loans to European countries. Some borrowers have fully repaid the concessional U.S. loans; other have not. As of December 31, 1977, for instance, Belgium, Denmark, Iceland, Ireland, Norway, Portugal, Spain, the United Kingdom, and Yugoslavia owed outstanding balances totaling $251.2 million.

The binding loan agreements between the United States and those countries do not contain provisions for repayment renegotiations. As previously mentioned, however, some European countries and Japan have made advance loan repayments. Thus, we believe AID should consider seeking renegotiations to encourage early loan repayment.

CONCLUSIONS AND RECOMMENDATION

Although AID officials did not fully agree with our 1974 recommendations regarding the renegotiation of Brazil's loans, AID did establish a policy for requesting accelerated repayment of U.S. concessional loans. The policy requires that annually, between January 15 and March 15, AID will thoroughly evaluate those countries having significant outstanding concessional loan balances which appear to have reached a high level of development and have the financial resources necessary to cover accelerated loan repayments. Further, AID established criteria which, when applied to recipients of U.S. concessional loans, were to help the United States determine the feasibility of seeking accelerated repayments.

The AID policy of annually reviewing those countries with significant outstanding loan balances was not carried out in 1977 and 1978. Even if the annual reviews had been done, however, the adequacy of the criteria established for determining the feasibility of requesting renegotiations is highly questionable. In fact, some of the world's strongest economies like Japan, Germany, France, and even the United States cannot meet the accelerated repayment criteria. At the same time, some of those countries have already renegotiated and fully repaid, in advance, post-World War II loans owed the United States.

AID successfully renegotiated accelerated repayment of two Venezuelan loans. Thus, AID now has experience using the renegotiation clause of nearly all loan agreements signed since 1962. Interest savings to the U.S. Government have been realized as a result of the accelerated repayment of those two loans.

We believe that AID should systematically apply reasonable criteria to those previous borrowers no longer eligible for U.S. concessional loans to identify countries economically capable of accelerating concessional loan repayment. Prudent use of valid criteria regularly applied, as set forth by AID policy, could eventually lead to additional, accelerated loan repayments--particularly, from OPEC and some Latin American countries. U.S. Treasury savings could result.

AID predecessor agencies' loan agreements do not contain option clauses for accelerated repayment renegotiations. We believe, however, that as the current manager of those loans, AID should seek voluntary early repayment or more favorable interest rates on the loans. made by its predecessor agencies

We recognize that exercising the U.S. option to seek accelerated loan repayments could have many political implications and could affect other international lenders. But we also see AID concessional loans as extensions to help bring about economic and social development in LDCs. We recognize that the lenient repayment terms were based on each recipient country's projected ability to repay the loans. Therefore, if development was achieved in less time than was predicted, we believe the AID option to seek accelerated repayment ~~should be pursued~~. pursue the of concessional loans.

In mid-January 1979, the AID Bureau for Program and Policy Coordination officials advised us that they agreed the Agency should annually review each developing country having significant outstanding loan balances to identify those from which the United States might request accelerated loan repayments. Accordingly, we recommend the AID Administrator require close monitoring of the accelerated loan repayment policy, ~~which~~ provides for a thorough annual evaluation ~~of those~~ countries holding significant outstanding loan balances accumulated after 1961.

We also suggest that the AID Administrator encourage a dialogue relative to seeking early repayment of concessional loans made to European countries by predecessor agencies.

CHAPTER 6

PROGRAM ACTIVITIES IN PAKISTAN

In our report, "U.S. Assistance to Pakistan Should be Reassessed," 1/ we discussed problems impeding the economic development of Pakistan and U.S. and Pakistan efforts to remedy those problems. We stated that, although various actions had been taken, problems still existed in the areas of external debt, defense spending, food production, use of emergency funds, fixed-cost reimbursement, and malaria control.

Our report contained several recommendations for improving the administration over assistance to Pakistan, including the need to reexamine U.S. bilateral assistance programs, and we considered other ways to help Pakistan. We suggested that multilateral assistance be expanded and coordinated commitment of developed nations be achieved to insure Pakistan a reasonable market for products resulting from assistance.

Responding to the report, AID officials agreed with some of our conclusions. The Agency felt, however, that our conclusions that Pakistan had not taken sufficient action to improve its economic condition was unwarranted. AID officials contended that in many important respects, the Agency and the Pakistan Government had independently undertaken new policies and programs which deal effectively with problems cited in our report.

In another report, "Impact of Population Assistance to An Asian Country," 2/ we concluded that the high annual population growth rate of about 3 percent was one of Pakistan's most serious problems. We pointed out that population growth rate reduction objectives were not being achieved even though about $164 million had been channeled toward alleviating the problem since 1960. This amount included about $59 million in U.S. assistance.

Program difficulties were attributed to being the social, economic, and cultural norms of a largely subsistence-level society and the need for greater Government support. We suggested that the AID experience in Pakistan could serve as a guide in considering population-assistance support in other countries.

1/ID-76-36, February 6, 1976.
2/ID-77-10, July 12, 1977.

In responding to this report, AID officials agreed with all five of the specific recommendations. The Agency acknowledged that the program, as an experimental project, had failed to meet its basic objectives.

We recently examined the current situation in Pakistan relative to matters addressed in those reports. We found that unfavorable conditions still exist regarding U.S. contributions to Pakistan in the areas of

--development assistance (because of Pakistan's external debt, defense expenditures, agricultural production, and economic policies) and

--population control (because the people generally do not accept the program and because of a lack of Government commitment.)

Further, Pakistan's discussions with France on nuclear reprocessing equipment required that a moratorium 1/ on U.S. development assistance to Pakistan be imposed in August 1977. Therefore, U.S. assistance to Pakistan in fiscal year 1978 was restricted to continuing active fiscal year 1977 programs and designing projects to accomplish future development. The moratorium was lifted in October 1978 after France canceled discussions with Pakistan officials on the future construction of a nuclear reprocessing plant, and new projects are now scheduled for fiscal year 1979.

DEVELOPMENT CONSTRAINTS--PAKISTAN

Progress has been made toward solving some of the development problems cited in our prior report, but further action is still needed. The Pakistan Government has (1) liberalized import policies, (2) denationalized many food processing mills, (3) increased farmers' wheat prices by nearly 20 percent, and (4) slowed construction of the Pakistan-India Highway. Yet subsidies still constitute a large share of the Pakistan budget and are a major cause of budgetary deficits. In addition, construction of the Soviet-aided steel mill has not been terminated and the needed agricultural extension service has not been improved. Further, an April 1978 World Bank report, stated that the Pakistan Goverment must deal with varying issues if long-term economic stability and growth is to occur. These issues include

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1/The moratorium was imposed pursuant to the 1977 Glenn Amendment to the U.S. Foreign Assistance Act which specifies that "new assistance will not be provided to countries that receive nuclear reprocessing equipment."

--reducing population growth, the large trade deficit, and the continuing need for large capital inflows from abroad; and

--increasing agricultural production, tax revenues, and public sector participation.

Directly related to the moratorium, U.S. project disbursements during fiscal year 1978 were estimated at $14.4 million as compared with the $40.2 million in 1977. For 1978, AID had planned new obligations of over $51 million in Pakistan. About $38 million was for new projects. Due to the imposed moratorium, however, only $0.6 million was obligated. In the AID 1979 program, another $40 million is projected for Pakistan development assistance in Pakistan now that the moratorium is lifted.

In April 1971, Pakistan officials announced that the Government could no longer service its external debts of about $4.6 billion to members of the AID-to-Pakistan Consortium. 1/ The 1971 situation was complicated by the emergence of an independent Bangladesh and the problem of determining debt responsibility, for debts incurred on behalf of the former East Pakistan. Lack of progress between Pakistan and Bangladesh on the division of debts necessitated interim rescheduling agreements in 1972 and 1973. Thus, part of the debt payments due through June 30, 1974 was rescheduled. A 1974 agreement, dealing with the overall resolution of Pakistan-Bangladesh accounting problems arising from the 1971 events, rescheduled part of the Pakistan debt-servicing obligation in the 4-year period beginning July 1, 1974. Pakistan external debts continued to rise, however, and during 1978, reached an estimated $7 billion, requiring annual payments of between $500 and $600 million on debt principal and interest.

About 80 percent of the debt is owed to the Consortium, including the 30 percent owed to the United States. Even though Pakistan has a large external debt, U.S. officials said the country experienced a balance of payments surplus and increased its foreign exchange reserve in 1978. That surplus was not the result of economic development in Pakistan, but remittances from Pakistanis employed in other countries--particularly, OPEC countries--which reached about $1.2 billion and

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1/Consortium members include Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, the United States, World Bank Group, Asian Development Bank, International Monetary Fund, and United Nations Development Program.

equaled about three-fourths of total commodity export earnings in 1978. Pakistan also revalued its gold reserves upward to reflect the current market price of gold.

We understand that the World Bank is currently studying the impact of worker remittances. Bank officials predict these remittances will level off and eventually decline, due to the inability of OPEC countries to continue to absorb unlimited numbers of Pakistan workers.

Again at the June 1978 meeting of the Consortium, Pakistan proposed annual rescheduling of $300 million in external debts for the next 5 years. Although some individual donors converted some loans to grants, no debt rescheduling was approved by the Consortium.

Defense spending

In the April 1978 report, World Bank officials pointed out that the growth in nondevelopment expenditures nearly absorbed the entire increase in current revenues and little surplus remained available for development spending. Much of the increased spending has been on defense and internal security. For instance, the Pakistan defense and internal security expenditures in 1977 (9.72 billion rupees) nearly tripled the same expenditures in 1971 (3.32 billion rupees) when the country was engaged in an east-west civil war in addition to war with India.

Agricultural production

The Bank also reported that agricultural growth in the 1970s has fallen behind the population growth in Pakistan. Although population is presently at an annual growth rate of 3 percent, the agricultural production rate has increased more slowly--between 1.5 and 2 percent a year--since 1970. Such matters as ill-fated economic policies, natural calamities, deficit financing, and a continuing adverse trade balance are significant contributors to Pakistan economy and food production. Pakistan's poor wheat harvest in 1977 has been attributed to

--a decrease in wheat acreage,

--excessive heat at a critical time before harvest,

--fertilizer shortages,

--effects of disease on wheat sown late, and

--nonavailability of credit in the rural sector.

Estimates are that the Pakistan Government will import about 1.8 million tons of wheat during 1979. Up to .5 million tons may be imported through U.S. Public Law 480 provisions.

Pakistan remains unable to domestically meet the increasing fertilizer demand. Presently, about 48 percent of the fertilizer requirements are imported and the overall demand increases about 12 percent each year. Reportedly if the fertilizer plants under construction are completed on schedule, nitrogenous fertilizer imports would reduce domestic needs to about 10 percent. However, two-thirds of the required phosphate fertilizer would still be imported. World Bank officials point out that promoting the use of fertilizer more aggresively would increase domestic agricultural production.

U.S. officials in Pakistan are interested not only in promoting fertilizer for overall increased food production, but that fertilizer be made available to the small farms in remote areas.

In spite of Pakistan's raising of wheat prices paid to the farmer, the Government's marketing and price control policies still inhibit agricultural and economic development.

Tax policies

Adequate tax structures provide resources for development projects. According to the World Bank, however, in recent years total Government spending has far exceeded revenues in Pakistan. Relative to the gross national production, tax revenues have remained around 11 to 12 percent--total revenues ranged about 14 to 15 percent--while expenditures rose from 19 to 27 percent. In 1977, direct taxes only accounted for 16 percent of the total tax revenue.

We reported in 1976 that only about 7 percent of the Pakistan households had taxable income, and World Bank officials reported in 1978 that less than 3 percent of all Pakistan households were paying taxes. Bank officials, also reported that the scope for excise tax evasion and corruption has been considerable. The Bank report indicated that the problems continue even after an intensive antitax evasion drive had recently lead to the discovery of 71,000 new taxpayers. Some other improvements in the Pakistan tax administration include improved collection procedures and allocations of more staff and finances for tax matters. In addition, tax rates on both corporate and personal incomes have been reduced to discourage tax evasion. The Government continues to rely heavily on import-export duties.

Industry nationalization

AID reported that no further nationalizations are contemplated and that the present Government has reversed some of the previous regime's nationalizations. However, we understand that the temporary nature of the present Government has weakened the effect of these actions on private investments. One denationalization goal was to generate more external and internal investment in Pakistan, particularly in such industries as textile and farm machinery.

POPULATION PLANNING

Population planning is underway at the mission in Pakistan along the lines of our prior recommendations. A project now in the design stage requires that a management information system be established. The final design is now pending, upon clarification of its population control objectives.

Rapid population growth has long been recognized as one of the most serious problems in Pakistan. The population in mid-1977 was approaching 80 million at a 3-percent growth rate. Assuming some gains in socioeconomic development and a moderately effective family planning program, some experts project the population to double by the year 2000 A.D.--to a level of 160 million. That projection may be conservative. Historically, efforts have been unsuccessful in improving social, cultural, and economic conditions of Pakistan or the Government support of family planning. The AID mission in Pakistan also recently reported that no significant demographic changes can be attributed to prior U.S. efforts.

AID officials recently said that the major U.S.-sponsored population program in Pakistan is essentially dead. No funds have been obligated for this program since September 1976. Further, AID has referred to Pakistan's population organization as disorganized and chaotic, and field activities of the Government population planning group were officially suspended from July 1977 to September 1978.

In support of the 5-year Pakistan population program announced in 1973, AID funded a larger supply of contraceptives and additional technical assistance, budgetary support, and overseas personnel training. Programming "contraceptive inundation" as the keystone of the AID efforts, the funding level reached $46.6 million. Contraceptives were to be available to Pakistanis in the country's 43,000 villages.

We were told that many officials recognized contraceptive inundation as a high-risk effort at the inception of the project. Further, the effects of inundating Pakistan with contraceptives, before committing U.S. funds, were not evaluated, and AID contended the acuteness of the population problem overrode waiting for such a study. We also questioned AID selection and training of Pakistan personnel and the absence of an information feedback system.

Project evaluations showed that 1977 goals were not met. For instance, of the 74 percent of targeted respondents, only 29 percent had ever been visited by program workers. In addition, contraceptives were used at one-half the rate of the projected goals.

Drawing from many project evaluations, AID categorized specific causes for the expanded population program failure.

--Poor field-team supervision, training, and recruitment led to poor results in the household motivation efforts,

--Outlets did not receive contraceptives at the planned supply levels, so distribution was poor.

--The planned mass communication was insufficient and often inappropriate.

AID officials stated that the Pakistanis were not inclined to limit family sizes to less than seven children. Agency officials concluded that Pakistan was neither culturally nor administratively ready for the program. In addition, conceptual errors at the program planning stage and implementation failures led to the overall program disappointment.

Basically, we reported in 1977 1/ that the unimpressive results of the expanded population program came about because AID encouraged and entered into the program (1) without adequate assurance of Government willingness and capability to carry out the program and (2) with little attention to the incentives necessary to cause couples to desire smaller families and thus use family planning services.

AID is currently considering initiating two new population projects in Pakistan. The Population Research and Development Project, requires $800,000 life-of-project funding and involves demographic research as well as testing various delivery methods and creating a demand for, contraceptives. A

1/ID-77-10, July 12, 1977.

draft agreement proposing such a project has been presented to Pakistan and formal signing is pending final Washington authorization.

The other proposed population planning project requires $19.2 million life-of-project funding. The project will be directed at implementing those innovations which experience in Pakistan indicates offer the most potential. Under this new population planning project, a management information system will be established and as the contraceptives are distributed, additional supplies will be furnished. In addition, voluntary sterilization centers are to be established and equipped at existing health facilities. Final project design, however, is officially pending Pakistan clarification of views on (1) future population control objectives, (2) organization to accomplish objectives, and (3) definition of external assistance required.

Two primary problems confront the planners and implementers of the proposed population planning project. First, AID officials do not know the extent of demand in Pakistan for sterilization services. The best evidence to date appears to be the current Pakistan funding of limited sterilizations and indications from Pakistan doctors that more sterilizations could be done if additional facilities, equipment, and personnel were available. No feasibility study or evalution has been made of Pakistan's large-scale acceptance of sterilization. Also, AID does not know whether Pakistanis prefer sterilization over more conventional methods of birth control. AID officials recognize that a large-scale sterilization effort in Pakistan may encounter the same cultural and socioeconomic problems as previous unsuccessful population programs there.

MALARIA CONTROL

As recommended in our 1976 report, AID is now actively monitoring the malaria program in Pakistan. The host government is now making sincere commitments to the success of the program. AID, the World Health Organization, UNICEF, and Japan, are the external donors to the current malaria control program in Pakistan.

Malaria continues to be prevalent in Pakistan. AID is contributing to the third malaria control program in Pakistan. The objectives of the two previous programs were not attained because the Pakistan Government did not provide sufficient financial support. AID officials are not certain if malaria cases will be reduced to 500 cases per one million Pakistanis by the end of the current project, as hoped. AID officials believe, however, that the ongoing project has made progress toward reducing malaria.

Under the current project, which began in 1975, AID expended $19.3 million through August 28, 1978. Under the two previous programs, beginning in 1952, AID spent more than $27 million.

AID mission officials recently advised us that Pakistan is highly cooperative and receptive to U.S. views as they relate to program funding and implementation. They said that Pakistan front loads the program and is anxious to plan and fund for each upcoming year. In May 1978, both the Secretary and Director General of the Pakistan Health Ministry reaffirmed the Government's pledge to strongly support the malaria control program. The malaria program is also a part of the Pakistan fifth 5-year development plan (1980-1985) which indicated further Government long-term commitment to the program.

These indications of Pakistan program support are impressive and for the ultimate success of the malaria control efforts the Pakistan Government must be the strongest supporter.

CONCLUSIONS

AID and the Pakistan Government appear to have jointly, and favorably, moved to improve the overall malaria control efforts in Pakistan. However, even though Pakistan is reorganizing its resources for future population related activities, currently there is no assurance that that Government will adequately support U.S. contributions to population control. Further, some of the development problems previously reported in Pakistan continue to impede economic development there. Subsidies continue to be a large and growing share of the Pakistan budget and major cause of budgetary deficits. Neither have the much needed agricultural extension services been improved.

Due to the moratorium imposed over the startup of new U.S.-sponsored projects in Pakistan, assistance provided in 1978 was reduced. We understand that the moratorium was lifted in October 1978 and new project starts are now scheduled for fiscal year 1979. However, we believe that before full-scale AID activities are reinstituted, AID should be sure that the Pakistan Government is willing and ready to contribute to, and provide support for, long-term development efforts.

Although are not making specifically new recommendations relative to economic development efforts in Pakistan, we do suggest that AID continuously and strongly encourage the Pakistan Government to strive toward improving its own socio-economic condition.

CHAPTER 7

PUBLIC LAW 480 - BELLMON AMENDMENT

Congressional concern about disincentives to agricultural production and storage problems resulted in the August 1977 Bellmon Amendment to Public Law 480 which states that:

> "No agricultural commodity may be financed or otherwise made available under the authority of this Act except upon a determination by the Secretary of Agriculture that (1) adequate storage facilities are available in the recipient country at the time of exportation of the commodity to prevent the spoilage or waste of the commodity, and (2) the distribution of the commodity in the recipient country will not result in a substantial disincentive to domestic production in that country."

In earlier reports 1/ we concluded that certain governmental policies and institutional factors, which either act as disincentives or provide insufficient economic incentives, have been major reasons developing countries have not had greater agricultural production. During March 1977 hearings, the Chairman, Subcommittee on Foreign Operations and Related Agencies, House Committee on Appropriations, asked AID to describe the U.S. actions taken to have countries remove disincentives to increased agricultural production. AID stated that missions overseas, international donor groups, and host-government officials hold various meetings, during which the host governments are encouraged to follow sound economic policies. Removing disincentives to agricultural production is typically the most important.

In our November 1976 report, "Hungry Nations Need to Reduce Food Losses Caused by Storage, Spillage, and Spoilage," we stated that the large increases in production required to feed the spiraling populations will cause food losses to multiply unless developing countries and other external donors concentrate on establishing and maintaining adequate storage facilities and handling practices. Concern was expressed in the House Committee on International Relations March 1977

1/"Disincentives to Agricultural Production in Developing Countries," (ID-76-2, Nov. 26, 1975) and "Restrictions on Using More Fertilizer for Food Crops in Developing Countries," (ID-77-6, July 5, 1977).

hearings about food storage conditions in Bangladesh. Substantial amounts of food had spoiled because Bangladesh had inadequate storage facilities.

Based on data submitted by U.S. teams overseas, the Secretary of Agriculture makes the determinations required by the Bellmon Amendment concerning Public Law 480, Title I transactions in foreign countries. We were informed that he delegated the responsibility for making the Amendment's required determinations concerning title II to a working group of the Development Coordination Committee (DCC) Food Aid Subcommittee--the working group replaced the previous Interagency Staff Committee on Public Law 480. The working group of the DCC Food Aid Subcommittee also has a title II subcommittee, chaired by AID (the Office of Food for Peace) and includes representatives of the Department of Agriculture and the Office of Management and Budget, which reviews title II programs and recommends final approval by the working group. We understand that within the title II subcommittee review and recommended approval process, the determination is made as to the adequacy of storage capabilities and assurance against substantial disincentives to increasing domestic agricultural production in countries where title II commodities are requested. A title II subcommittee member said that data from overseas sources determine the Bellmon Amendment requirements.

In October 1977 and March 1978, AID and the Department of Agriculture requested overseas missions to submit information, with supporting analyses, on disincentives to agricultural production and storage facilities. The missions were also to include such information in their annual budget submissions. The missions were to utilize voluntary agencies and host governments as partial sources for the required information. No specific guidance and criteria were established, however, to help the missions determine what constituted adequate storage facilities as a result of distribution of commodities and disincentives to increased agricultural production related to sound economic policies.

At selected overseas missions we inquired concerning attempts to provide required information. Details of our inquiries are summarized below.

Tanzania

We were provided a telegram which the Food for Peace Officer believed satisfied the Bellmon Amendment requirements. The telegram, in part, stated that the Government of Tanzania could properly store and manage the Public Law 480 commodities being requested. That message further stated that through the use of local currency, the title I program in Tanzania is not a disincentive to domestic production. These conclusions were based on past experience, including that gained during the drought years when there were major food grain imports.

The Food for Peace Officer in Dar es Salaam said that that telegram and the information in the mission annual budget submission for fiscal year 1980, comprised the extent of documentary evidence used to satisfy the Bellmon Amendment. The assurance that adequate storage facilities were available in Tanzania was also based on past experience. He commented that the Tanzania Government was very cooperative in allowing him to regularly visit port facilities and to observe operations.

Relative to agricultural production, a program economist in the mission Office of Agriculture Development, to whom we were referred, was unable to provide us specific written information on disincentives. Further, he did not provide us with evidence that the mission held meetings with host government and other external donor officials to encourage removal of disincentives to Tanzania agricultural production.

We learned in Washington, however, that U.S. officials in Dar es Salaam had questioned the Tanzania Government ability to properly receive, store, and distribute Public Law 480, Title I commodities. A title I agreement has been signed but to date no commodities have been shipped. We understand the Government responded by agreeing to give first priority to berthing and stevedoring ships carrying Public Law 480 grain to help remove the frequent port congestion in Dar es Salaam.

The annual budget submission for fiscal year 1980 prepared at the AID mission in Dar es Salaam contained considerable information on Public Law 480 programs in Tanzania. Also, an American voluntary agency's proposed title II program in Tanzania during fiscal year 1979 contained information on the amount and location of storage space in that country. Further, the voluntary agency's information stated that no storage problems were expected. At the mission in Tanzania, however, we were provided no data on the physical and security conditions surrounding these facilities.

In Washington, we found that the Office of Food for Peace was aware of storage and port congestion problems in Tanzania. An official said that many new actions are beginning with respect to improving Public Law 480 related problems in Tanzania. For instance, to help alleviate port congestion at Dar es Salaam, tests are being made as to the possibility of diverting shipments of title II food destined to such inland countries as Burundi and Malawi from Dar es Salaam to Mombasa, Kenya or other Tanzanian ports.

Kenya

The mission annual budget submission for fiscal year 1980 contains a section on the title II program in Kenya. The American voluntary agency, which administers the program, also prepared the material for the mission budget submission. Although the material describes warehouse locations, the supporting analyses requested by AID headquarters were not provided.

Because of the scarcity of information in the budget submission to support the conclusion that adequate storage facilities are available, we inquired as to efforts by the mission and/or the voluntary agency to routinely inspect storage facilities with respect to their adequacy to prevent spoilage or waste of food. A mission official said that he knew of only minor losses of title II commodities. He also stated that the regional Food for Peace Officer and one individual on temporary duty from Washington have both visited the port of Mombasa but have not visited regional distribution centers. (He provided us a copy of one trip report which included brief comments on the inspection of two warehouses.) The official further stated that the mission relies heavily on the voluntary agency to determine the adequacy of storage facilities and to satisfy the Bellmon Amendment.

With no data on routine inspections and no voluntary agency reports available to us at the mission, we requested that the mission obtain voluntary agency comments on inspections of storage facilities. The mission subsequently informed us that the voluntary agency provided the following information.

--Agency representatives visit regional warehouses twice a year and prepare reports, which are placed in the applicable warehouse files, and the warehouse managers submit monthly reports for their respective warehouses.

--Agency representatives attempt to visit each of the 300 individual clinic storage center at least once a year. In the past year about 10 percent of these centers were not visited, but a system was being devised to assure full coverage in the future. Reports on these storage facilities are included in field trip reports. Copies of these reports are kept in individual files for each center.

The mission could not provide us with any documentation covering meetings and discussions with representatives of host government and other external donor agencies concerning the elimination of disincentives. Nor did the mission have specific documents addressing disincentives. Mission officials said they deal with disincentives on an individual project basis and thus the issue of disincentives is inherently incorporated as part of the regular project design and implementation process. The mission then provided us with one document--a project paper covering Kenya's Agricultural Systems Support--which included information on (1) constraints associated with trained agricultural manpower, access to institutions, services, and infrastructures by small holders and adaptive research and (2) agricultural pricing policies of the Government of Kenya. However, the impact of Public Law 480 transactions on efforts to increase agricultural production in Kenya was not considered.

Pakistan

On October 11, 1977, the mission in Islamabad reported that there is adequate storage facilities available for title I commodities. This conclusion was based on data furnished by the host government, part of which had been verified by mission officials. The mission also had data on Pakistan total storage capacities, anticipated storage levels and potential storage problems that may arise in the future. A mission representative for the title I program stated that Pakistan progress in carrying out storage construction plans are reviewed periodically. Furthermore, he informed us that Canadian storage experts share the results of detailed field inspections of storage facilities with the mission. The mission has also provided consultants to assist the Government of Pakistan in the initial steps of drawing up a strategy for long-term public and private storage of agricultural commodities.

The Agricultural Attache of the U.S. Embassy in Islamabad, said that storage problems may arise in late spring of 1979. Such a situation could result if (1) Pakistan experiences an exceptional wheat harvest, (2) U.S. wheat shipments are delayed, and (3) wheat shipments from other donor nations arrive during the same timeframe as U.S. shipments. The mission also reported possible disincentives that could arise due to various internal policies in Pakistan.

The only title II program in Pakistan was stopped in 1977 because of a dispute between the Government of Pakistan and its forwarding agent for the commodities. A significant result of the dispute has been the spoilage of nearly 400 metric tons of commodities. In March 1978, the mission billed the Pakistan Government for payment of $468,000 covering the cost of the commodities. The bill has been reduced to $310,000, however, to recognize the value of the commodities recovered and distributed. The mission is currently discussing with the Pakistan Government the possible payment of the reduced amount.

Honduras

The mission has been making inspection visits to the regional warehouses of the voluntary agency distributing title II commodities, however, the visits were not documented. In light of the required certification to satisfy the Bellmon Amendment, we commented that documentary evidence of inspections, condition of storage facilities, and verification of space available appears necessary. The mission, acting on our observation, now requires that the visits be documented.

Indonesia

In November 1977 the American Embassy recommended that the Secretary of Agriculture certify that adequate storage facilities exist within Indonesia to prevent spoilage or waste of title I shipments. The Embassy telegram also contained information supplementing prior comments that title I commodities would not result in a substantial disincentive to domestic production.

In October 1978, an Embassy official advised us that prior to enactment of the Bellmon Amendment the Embassy maintained only limited data concerning the adequacy of storage facilities in Indonesia but that subsequently the Agricultural Attache's Office has developed and maintained extensive information covering the requirements of the Amendment. He stated that information for replying to the Bellmon Amendment was obtained primarily from the Government of Indonesia.

An official of the Agricultural Attache's Office in Jakarta also said that three proposed shipments of title I rice to Indonesia were postponed because of their potential adverse impact on domestic rice production. Original plans called for three title I rice shipments, each totaling 100,000 tons, during the period of September 1978 to December 1978. However, because limited storage facilities were available, mission officials reported that the title I shipments might compete for storage space with Indonesia's forthcoming good harvest, thus providing a disincentive to both the farmers and to the Government's domestic procurement efforts. By October 1978, title I rice shipments had been rescheduled and plans then called for 50,000 ton increments during the period March 1979 to September 1979.

Concerning title II activities, two voluntary agencies which handled title II commodities in Indonesia amended their program plans to comply with the requirements of the Bellmon Amendment as requested by the mission. In October 1978, however, we learned that a third voluntary agency had had some prior spoilage and waste problems related to title II commodities in Indonesia. In December 1977 the AID Area Auditor General for East Asia reported spoilage and storage problems in the Indonesia title II program. The Auditor General reported that between July 1, 1975, and June 30, 1977, an American voluntary agency experienced numerous commodity losses in Indonesia.

The voluntary agency submitted a report to the mission in July 1976 which showed a commodity loss of almost 2 million pounds, costing approximately $330,000. Also in July 1976, the agency issued a claim against the Government of Indonesia for the cost of the commodities.

The report further stated that the Government of Indonesia acknowledged receipt of the voluntary agency's claim and stated that it had determined that the food was unfit for human consumption and that some had been sold as animal feed.

A representative of the AID Food for Peace Office in Washington stated that the Indonesia title II problem surfaced in 1976. Therefore, even though the case is not resolved totally satisfactorily, that office has no plans for further action against the Indonesia Government.

Responding to a question concerning how such bad experiences in title II activities affects current and future determinations pursuant to the Bellmon Amendment, a Food for Peace Officer in Washington said that a number of steps have been taken to help prevent the reoccurrences of the bad experiences. Workshops focusing on improved management of title II programs, have been held in Africa, Latin America, and Asia. Warehouse management and commodity control have highlighted some of the workshop sessions. In addition, concentrated efforts have been made, with some success, to increase Food for Peace program staffing overseas to better support voluntary agencies' feeding programs.

CONCLUSIONS AND RECOMMENDATIONS

In our report to the Congress (ID-77-6, July 5, 1977), we stated that there was inadequate evidence that effective action had been taken on an earlier recommendation (ID-76-2, Nov. 26, 1975), calling for concerted action by major donors for removal of agricultural production disincentives in developing countries. We strengthened the recommendation by asking that relevant U.S. agencies work for concerted action by donors to incorporate, where appropriate, a requirement in new agreements for food, financial, and technical assistance that affirmative action be taken by recipient countries to remove constraints to increased agricultural production. We believe that our review of the implementation of the Bellmon Amendment lends further support to the need for action recommended in our prior reports on disincentives.

The information provided AID/Washington to help satisfy the Bellmon Amendment was sketchy. Certain mission files generally did not contain supplementary written information detailing the countries' food storage capabilities or the potential impact of Public Law 480 commodities on local food production. Therefore, we believe that the missions' evidence, provided to enable the Secretary of Agriculture and working group of the DCC Food Aid Subcommittee to make the determinations required by law, is thin. Part of the problem may stem from the lack of guidance and criteria established for missions to ascertain what constitutes adequate storage facilities and a substantial disincentive to domestic production. Nevertheless, we believe that the missions routinely should have been able to provide written evidence from their files concerning their efforts to discourage agricultural production deterrents and to be apprised of the adequacy of storage facilities. For instance, we believe information such as that obtained from the U.S. voluntary agency at our suggestion by the Kenya mission, in addition to findings on the adequacy of storage facilities disclosed by the inspections, would have been helpful in satisfying the requirements of the Bellmon Amendment. We also believe that such information should be regularly maintained at the mission.

The AID Office of Food for Peace has, through workshops and additional overseas staffing, attempted to increase the overall Agency capacity to improve title II program management overseas. With respect to the Bellmon Amendment, however, we believe stronger efforts are needed at overseas posts to insure that the legislative requirements are being met, and thus, reduce the likelihood of spoilage and waste of U.S.-provided food.

An Office of Food for Peace official agreed that stronger efforts are needed to more effectively carry out the Bellmon Amendment and advised us that a soon-to-be printed, revised AID Handbook on Public Law 480 activities will, in fact, require additional efforts be exerted preparatory to approving title I and II programs. The new handbook will include title I, II, and III activities--the current handbook only deals with title II--and will include additional instructions for accumulating data for determining the adequacy of storage facilities available for Public Law 480 foods. The officials recognize the need for removing all disincentives to local food production in countries receiving Public Law 480 foods. These officials consider the issue of disincentives difficult, however, and believe the issue differs in each country, making unproductive the establishment of broad worldwide criteria for determining that Public Law 480 programs would be significant disincentives to increasing agricultural production in recipient countries. They prefer to deal with the disincentive issue on a country-by-country basis.

Recognizing that AID is developing, and plans to soon print and distribute, a complete set of operating instructions for carrying out titles I, II, and III of Public Law 480 and that these instructions will include requirements for complying with the Bellmon Amendment, we recommend that the AID Administrator require that close monitoring be maintained over efforts made at overseas posts to support full adherence with the Bellmon Amendment provisions. We further recommend that guidelines be developed, setting forth criteria to help missions determine what constitutes adequate storage facilities for comparison with less-developed countryies actual inventory of storage facilities. Shortfalls in such comparisons might serve as indicators of problems in the overall food supply system. We suggest that the AID Office of Food for Peace and the various geographic Bureaus make a combined, extensive effort to identify and appropriately deal with economic disincentives to increased agricultural production in less-developed countries.

LISTING OF SELECTED GAO REPORTS ON AID MANAGEMENT AND OPERATIONS

"Impact of Population Assistance to An Asian Country"
ID-77-10, May 12, 1977

"The Brazilian Economic Boom: How Should the U.S. Relate To It?"
B-133283, August 26, 1974

"Changes Needed in the Personnel Practices of the Agency for International Development"
ID-78-25, March 15, 1978

"Improved Management Needed Over the Agency for International Development's Operating Costs"
ID-78-15, February 14, 1978

"Disincentives to Agricultural Production in Developing Countries"
ID-76-2, November 26, 1975

"Providing Economic Incentives to Farmers Increases Food Production in Developing Countries"
ID-76-34, May 13, 1976

"Restrictions on Using More Fertilizer for Food Crops in Developing Countries"
ID-77-6, July 5, 1977

"Credit Programs for Small Farmers in Latin America Can Be Improved"
ID-77-1, December 9, 1977

"Need to Improve AID's Project Management and Contracting Practices and Procedures"
ID-78-22, March 14, 1978

COMPARISONS FOR EIGHT CONCESSIONAL LOANS OF ACTUAL INTEREST AMOUNTS PAID IN DOLLARS VERSUS WHAT INTEREST AMOUNTS WOULD HAVE BEEN PAID IN DOLLARS HAD THE LOANS BEEN PRICED IN LINE WITH THE U.S. TREASURY COST OF BORROWING AT THE TIME OF LOAN AGREEMENT

Loan	Principal	Actual Interest		Treasury Cost of Borrowing Interest		Treasury Interest Less Actual Interest
		percent	amount($)	percent[5]	amount($)	
Venezuela 529-L-003	$10,000,000.00	0.75	$ 666,187.20[1]	3.98	$ 4,209,543.20	$ 3,543,356.00
Venezuela 529-L-004	30,000,000.00	0.75	- [2]	3.934	16,956,627.62	- [6]
Iran 265-H-017	13,581,643.30	3.00	8,170,136.78[3]	4.033	11,220,668.80	3,050,532.02
Iran 265-H-025	5,512,201.76	3.50	3,123,984.08[3]	4.453	4,048,683.94	924,699.86
Argentina 510-L-011	8,619,376.55	0.75	1,668,548.65[3]	4.088	9,940,857.65	8,272,309.00
Argentina 510-L-012	1,999,999.71	0.75	387,162.09[3]	4.082	2,302,909.49	1,915,747.40
Brazil 512-L-034	149,910,963.35	1.00/ 2.50[4]	78,427,858.82[3]	4.161	173,652,456.05	95,224,597.18
Brazil 512-L-055	149,519,582.95	1.00/ 2.50[4]	78,616,359.48[3]	4.637	197,063,751.30	118,447,391.80

[1] Quoted from "Status of Loans by Country as of 12/31/77 for Latin America."

[2] Details of renegotiated loan not available to us.

[3] Rates shown used as semiannual rates for calculating interest due.

[4] Rate for interest grace period smaller than rate for amortization period.

[5] Rates shown used as semiannual rates for calculating interest due.

[6] AID provided additional data indicating that the actual interest on loan 529-L-004 will be $2,659,617.61 through October 1980. Therefore, Treasury interest less actual interest computes to $14,297,010.01.

Source: U.S. Treasury Dept.

APPENDIX II

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