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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

U.S. SYSTEM FOR APPRAISING AND
EVALUATING INTER-AMERICAN
DEVELOPMENT BANK PROJECTS AND
ACTIVITIES B-161470

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D I G E S T



WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) made this review to assess how U.S. officials were managing U.S. financial participation in the Inter-American Development Bank (IDB). The U.S. Government has contributed 95 percent of IDB's hard currencies (\$3.5 billion) since 1960 and has agreed to contribute another \$1.8 billion.

IDB was established in 1959 to assist in the economic development of Latin America and has 24 member countries. The Secretary of the Treasury has primary responsibility for directing and managing U.S. interests in IDB. The National Advisory Council on International Monetary and Financial Policies (NAC), which he chairs, assists him in carrying out his responsibility. The focal point for U.S. dealings with IDB is the U.S. member of the IDB Board of Executive Directors, who is instructed by the Secretary of the Treasury.

FINDINGS AND CONCLUSIONS

U.S. officials have pursued a soft-line or low-profile approach in their dealings with IDB and its members. The NAC has not been very effective in dealing with problems on a timely basis. For the most part, the United States has not done much more than agree to IDB proposals put before it or merely advise IDB of a contrary or different U.S. view on a proposed project or transaction. Though U.S. officials privately have opposed loans behind the scenes, the United States has never voted against any loan proposed by IDB's President. (See p. 42.)

U.S. officials have been able to delay loans to countries involved in expropriations of property and to exercise a restraining influence in some other areas considered out of line with U.S. interests.

On other issues, the United States has not fared well. U.S. officials have been aware of persistent problem areas attending IDB operations. Their lack of forcefulness in handling these issues has let them go unattended or only partially corrected.

As a consequence, IDB has acquired a reputation as a "borrower's bank"; i.e., the 22 Latin American members generally shape policies and dictate terms and conditions under which they borrow. A number of significant deficiencies reportedly existing in IDB's organization, administration, and operating

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practices, including inadequate project planning and execution, remain uncorrected. (See pp. 65 to 72.)

U.S. officials have long known that IDB has not adhered to any stringent criteria based on the economic performance of borrowing countries. Lending practices have been somewhat flexible and permissive, with references to "fair share" allocations of resources, which allows political pressures from the borrowing countries to influence the process of development lending. Such practices do not necessarily result in the best use of IDB's resources. (See pp. 29 and 30.)

Despite U.S. efforts over the past several years to get constraints placed on access to IDB's funds for long-term loans at low interest rates by the more developed Latin American countries, more than \$270 million of such funds were committed to these countries in a 20-month period ended December 31, 1971. (See pp. 31 and 32.)

The executive branch does not have an adequately functioning system for appraising proposed activities, following through on their implementation, and evaluating the results. (A move toward such a system was made with the establishment in 1968 of an independent group to review and evaluate IDB operations.) (See pp. 46 to 68.)

An independent assessment of the results achieved by the substantial resources that have been channeled through IDB was not an element of the GAO review. GAO's review was directed toward identifying areas where the United States could improve its participation in IDB with the view toward improving the IDB itself.

GAO's efforts in making this review were considerably hampered by the Treasury Department's delaying tactics and refusal to make certain records available for examination. (See pp. 8 and 9.)

RECOMMENDATIONS OR SUGGESTIONS

If the review and evaluation group established in 1968 is to become an effective tool on which the United States can rely for information on the way IDB operations and activities are carried out, the Secretary of the Treasury will need to continue working to strengthen the group, to be willing to press IDB to act on the information the group provides, and to develop stronger positions than he has in the past for dealing with IDB. Specifically, the Secretary in consultation with other NAC members should:

- Sort out the recommendations made by the review and evaluation group which the United States wishes to support and vigorously pursue their acceptance and implementation by IDB. (See p. 74.)
- Develop instructions to guide U.S. officials in making appraisals of specific loan proposals and provide for followup to have working knowledge of the implementation and results of projects. (See p. 74.)

- Develop, and get IDB to agree to, firm and sustainable lending criteria. (See p. 74.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of the Treasury agreed with GAO's recommendations aimed at improving the effectiveness of IDB's review and evaluation group, as well as those aimed at improving the appraisal and followup on implementation of projects. (See p. 75.)

All member agencies of the NAC commented on a draft of GAO's report. The Export-Import Bank of the United States felt that the draft report represented a constructive review of the major procedure and policy questions affecting U.S. relations with IDB. The Federal Reserve System thought that the draft report made a persuasive case for the need for improvements in the appraisal of proposed loans and evaluation of the results of lending activities. (See pp. 79 and 81.)

NAC agencies thought that the draft report underestimated U.S. influence on IDB policies and lending activities. This report has been modified to reflect these NAC views. (See pp. 7 and 8.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Department of the Treasury raised strong objections to GAO's including in its report discussions of the foreign economic policy issues confronting the executive branch in managing U.S. participation in IDB. GAO believes that these issues are appropriate for disclosure so that the Congress may be better informed in exercising its oversight role concerning U.S. support. The Department also rejected GAO suggestions directed toward furnishing information on IDB operations that would assist the Congress in exercising this oversight role. (See p. 78.)

The Congress may wish to consider:

- Whether the executive branch's low-profile approach in dealing with IDB and its members is compatible with the magnitude of financial support the Congress is asked to approve for contributions to IDB.
- Whether the executive agencies' decision to withhold certain information from GAO and the Congress concerning IDB activities is compatible with such level of support.