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REPORT TO THE CONGRESS

Improvements Needed In System For Managing U.S. Participation In The Asian Development Bank B-173240

Department of the Treasury
Department of State
and other Agencies

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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MAY 8, 1973



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D C 20548

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c To the President of the Senate and the
Speaker of the House of Representatives

This is our report on improvements needed in the system
for managing U S participation in the Asian Development
Bank. Federal participation in this program is administered
by the Secretary of the Treasury with assistance from the
National Advisory Council on International Monetary and
Financial Policies

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We made our review pursuant to the Budget and Accounting
Act, 1921 (31 U S.C 53), and the Accounting and Auditing Act
of 1950 (31 U.S.C. 67)

We are sending copies of this report to the Director,
Office of Management and Budget, the Secretaries of the
Treasury, State, and Commerce, the Chairman of the Board of
Governors of the Federal Reserve System, and the President
and Chairman, Export-Import Bank of the United States.

Comptroller General
of the United States

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ABBREVIATIONS

ADB	Asian Development Bank
AID	Agency for International Development
GAO	General Accounting Office
IMF	International Monetary Fund
KEC	Korea Express Company, Limited
NAC	National Advisory Council on International Monetary and Financial Policies

D I G E S T

WHY THE REVIEW WAS MADE

The U S Government is relying increasingly on multilateral organizations to assist the economic development of other countries

U S contributions to these organizations have increased about 350 percent, from \$0.4 billion in 1963 to \$1.9 billion in 1973. Funds for bilateral assistance meanwhile have decreased about 16 percent, from \$2.5 billion in 1963 to \$2.1 billion in 1973.

GAO made this study to determine how effectively U S officials have managed participation by the United States in the Asian Development Bank, one of the multilateral organizations

GAO previously has issued two reports dealing with U S participation in other financial institutions: an August 22, 1972, report on the Inter-American Development Bank and a February 14, 1973, report on the World Bank and the International Development Association

Background

The Asian Development Bank was established in December 1965. Membership in the Bank is open to all members of the United Nations or any of its specialized agencies

As of December 31, 1972, the Bank had 37 members--23 regional members, including 20 developing countries

and 3 classified as developed (Japan, Australia, and New Zealand), and 14 developed nonregional countries, including the United States, Canada, the United Kingdom, and 11 Western European countries

Responsibility for management of the U S participation rests with the Secretary of the Treasury who is assisted by the National Advisory Council for International Monetary and Financial Policies (NAC) 254

NAC members include the Departments of the Treasury, State, and Commerce, the Federal Reserve System, and the Export-Import Bank of the United States

FINDINGS AND CONCLUSIONS

The U S Government's role in the Asian Development Bank's lending activities involves reviewing projects for financing as proposed by the Bank's President, voting its approval or disapproval of this financing, and suggesting changes in the projects when it believes such changes are needed

Although recent improvements have been noted, such as the earlier receipt of information on proposed loans, in GAO's opinion, the Treasury does not yet have a fully functioning system for managing U S participation in the Bank. As a result, Treasury is not in a position to assure the Congress that funds contributed are being used

efficiently and effectively for the intended objectives

The current U S system of management needs strengthening in the following areas

--Formal loan documentation on proposed projects is received late in the loan-approval process and frequently sufficient time is not available to permit an adequate appraisal. Information available earlier in the process appeared to be insufficient for assessing the soundness of a loan. (See pp 22 and 23)

--As a result of the late receipt of formal loan documents on proposed projects, the U S missions' comments on the proposed loans are frequently not received in time to be effectively used during the NAC review process. (See pp 25 to 28)

--Further, NAC instructions to the U S Director of the Bank on proposed loans are frequently not received in time to permit the Director to take effective action before the Board votes on the loans. (See pp 31 to 34)

--The NAC review process, the formal mechanism for establishing the U S position on proposed Bank loans, has no formal guidelines for assessing the proposed projects. (See p 19)

--U S missions could provide useful information on Bank projects in process and the economic results of completed projects, however, the missions have no requirement to provide such information and very little was supplied. (See pp 29 and 30)

--Regular, independent, evaluative

reporting to the Bank's member governments on (1) efficiency of its operations, (2) success or failure of projects, and (3) results achieved is nonexistent. (See pp 35 and 36)

RECOMMENDATIONS OR SUGGESTIONS

To improve management of U S participation in the Bank, the Secretary of the Treasury should arrange for

--More timely, substantive information on proposed Bank loans, before receipt of the formal loan proposal documents. With earlier information, meaningful and timely input from U S missions would be possible. Many of the questions raised during the NAC review could be resolved with the Bank before the final approval stage where the Bank is reluctant to make changes in the loan proposals. (See p 39)

--Guidelines for U S officials to follow in appraising and evaluating loan proposals. (See p 39)

--Instructions requiring U S missions to furnish available information on Bank activities to Washington, D C, including prospective loan requests from would-be borrowers and progress in implementing Bank projects. (See p 39)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Treasury generally accepted GAO's recommendations for improving U S participation in the Bank, as did other U S. agencies who are members of NAC.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider having

the U.S. representative to the Asian Development Bank propose a program of continuing independent review of the Bank's development activities. This should provide the Treasury,

NAC, and other responsible U S agencies with necessary information to determine whether funds are being used efficiently and effectively to accomplish intended objectives

CHAPTER 1

INTRODUCTION

Over the past decade, the U S Government has increasingly relied on multilateral organizations as a means of channeling resources to assist the economic development of other countries. U S annual contributions to these organizations increased about 350 percent, from \$0.4 billion in 1963 to about \$1.9 billion in 1973. Funds made available in the annual foreign assistance appropriations acts for U S bilateral economic assistance over the same period decreased about 16 percent, from \$2.5 billion in 1963 to \$2.1 billion in 1973.¹

On September 15, 1970, the President submitted his message to the Congress on foreign assistance for the 1970s. He proposed a major reorganization of U S bilateral foreign-aid mechanisms and greater reliance on a multilateral approach in the field of foreign assistance, stating

"The U S should channel an increasing share of its development assistance through the multilateral institutions as rapidly as practicable. * * *"

"Our remaining bilateral assistance should be provided largely within a framework established by the international institutions."

The principal international institutions to which the President referred are

The World Bank Group

- International Bank for Reconstruction and Development (World Bank)
- International Development Association
- International Finance Corporation

Regional development organizations

- Inter-American Development Association
- Asian Development Bank (ADB)
- African Development Bank

¹Figures for 1973 are based on requests for appropriations.

United Nations Development Program

Each of the institutions is an intergovernmental entity and its governing body consists of representatives of member governments. The U S Government holds membership in all but the African Development Bank, although the United States has made a technical assistance grant of about \$1 million to this Bank.

On April 21, 1971, the President submitted another message to the Congress on the reorganization of U S foreign assistance programs. He again emphasized the role of the international institutions and said that they can effectively meet the initiatives and efforts of the lower income countries and that the United States can thus place greater reliance on the institutions and encourage them to play an increasing leadership role in the world development process. The President said also that his proposals would bring about greater efficiency and help other nations to increasingly shoulder their own responsibilities so that we could reduce our direct involvement abroad.

SCOPE OF REVIEW

We have long recognized the constraints on unilateral actions that follow participation in multilateral organizations, but we believe that opportunities exist for improving the management of U S participation in the organizations so as to improve their effectiveness and thereby contribute to the overall accomplishment of their objectives. We believe that this is equally applicable to U S participation in the international financial institutions.

On August 22, 1972, we issued a report on the Inter-American Development Bank, and on February 14, 1973, we issued a report on the World Bank and the International Development Association.

This report deals with the various aspects of U S participation in ADB. As discussed in greater detail in chapter 3, responsibility for managing U S participation in ADB rests with the Secretary of the Treasury. The National Advisory Council for International Monetary and Financial Policies (NAC) assists the Secretary in carrying out his responsibilities as Chairman. The membership of NAC includes the

Departments of State and Commerce, the Federal Reserve System, and the Export-Import Bank of the United States

We obtained such information on the Asian Development Bank's operations as was available from the U S executive departments and agencies participating in the work of NAC and from the Agency for International Development (AID) We discussed the management of U S. participation with U S Embassy and AID officials in the Republic of China, the Republic of Korea, Malaysia, Nepal, and the Philippines We also held discussions with the U S Executive Director to ADB and his staff and reviewed pertinent records at their offices.

We did not examine ADB operations since this institution is not within our audit authority, however, in our opinion, this should not prevent us from pointing out any potential problems in the Bank's operations noted in our review of Bank documents which were furnished to the United States as a member of the Bank

We did not make an in-depth analysis of the impact of the Bank's borrowings, investments, and procurement policies and practices on the U.S balance of payments. We did review and assess the adequacy of the procedures established within the U S executive departments and agencies for appraising proposed projects and programs to be financed by ADB and for evaluating the efficiency and effectiveness with which the projects and programs are carried out

Officials of the Departments of the Treasury and State denied us access to certain documents which they received from the Bank and which they presumably used to manage U S interests in the Bank These documents were refused on the basis that they were internal documents of ADB and not to be released outside the executive branch Documents prepared by the U.S Director for use by U.S. agencies were also withheld. It would seem that these documents form a significant part of the total record on which management decisions regarding ADB operations were based We believe that the documents should have been made available for our review and this report should be considered within the context of these constraints.

CHAPTER 2

DESCRIPTION OF THE ASIAN DEVELOPMENT BANK

AND U S. PARTICIPATION IN IT

CREATION, PURPOSE, AND MEMBERSHIP

ADB was, in part, a product of a strong movement toward increased regional cooperation which developed among the countries of non-Communist Asia in the early 1960s. Serious attempts to organize an Asian regional financial institution began in 1963, when a resolution adopted by the first Ministerial Conference on Asian Economic Cooperation (set up by the United Nations Economic Commission for Asia and the Far East) set the machinery in motion which culminated in the establishment of ADB

The agreement establishing ADB was signed by representatives of the United States and other nations at a conference held in Manila in December 1965, and the Bank officially came into existence in August 1966. The Bank opened for business in December 1966 and made its first loan in January 1968. The Asian Development Bank Act (22 U S C 285) approved on March 16, 1966, authorized U S membership in ADB

Although much of the groundwork of promoting the concept of ADB was done by the Asians themselves, ADB would not have come into being when it did without the very strong support of the United States. During 1964, 1965, and 1966, State Department officials and the President's Advisor on Southeast Asian Development were very active in consulting with and encouraging the Asian nations and in promoting membership in ADB to European nations.

ADB's purposes are to foster economic growth and cooperation in the region of Asia and the Far East and to contribute to the acceleration of economic development of its developing member countries

Membership in ADB is open to (1) members and associate members of the United Nations Economic Commission for Asia and the Far East and (2) other regional countries and non-regional developed countries which are members of the United Nations or any of its specialized agencies

As of December 31, 1972, ADB had 37 members--23 regional members, including 20 developing countries and 3 classified as developed (Japan, Australia, and New Zealand), and 14 developed nonregional countries, including the United States, Canada, the United Kingdom, and 11 Western European countries

MANAGEMENT STRUCTURE OF ADB

A Board of Governors, a Board of Directors, and an administrative and professional staff headed by the Bank President carry out ADB's work

All ADB powers are vested in the Board of Governors, which consists of one governor and, usually, one alternate appointed by each member government. The U S Governor is the Secretary of the Treasury, the alternate is the Deputy Under Secretary of State for Economic Affairs. The Board of Governors concerns itself largely with policy matters and overall ADB performance, generally on the basis of recommendations by the Board of Directors. The Board of Governors holds annual meetings and such other meetings as may be provided for by the Governors or called by the Board of Directors.

The Board of Directors is responsible for the direction of the general operations of the Bank as conducted by its President and for all powers delegated to it by the Board of Governors. Because the Board meets weekly at ADB headquarters in Manila, the position of Director is a full-time job. The Board consists of 12 directors, each elected for 2-year terms by the Board of Governors. Eight directors are elected by governors representing regional member governments and four are elected by governors representing non-regional member countries. The United States, Japan, Australia, and India, each have sufficient votes to elect individual directors to represent their respective governments. The Australian Director also represents Hong Kong and Papua, New Guinea, by agreement. Each of the other eight directors represents a group of those member countries whose votes elected him. Voting power is weighted in proportion to shareholdings of subscribed Ordinary Capital stock.

ADB's President is elected by the Board of Governors for a term of 5 years and the Board of Directors appoints the vice-president(s). The term of its first President, Takeshi Watanabe, expired in November 1971, and he was reelected for a second term.

SOURCES OF FINANCING

ADB has two separate funds for lending operations, Ordinary Capital Resources and Special Funds. Ordinary Capital Resources are obtained through paid-in capital from members' capital stock subscriptions, borrowings in the world capital markets, income from investments, and sales of loan participations. Special Funds are obtained primarily from two sources--contributions from members and a provision in ADB's Articles of Agreement that permits the Board of Governors to transfer up to 10 percent of the unimpaired paid-in portion of Ordinary Capital to Special Funds.

Ordinary Capital

As of December 31, 1972, subscriptions to ADB's authorized capital totaled \$2,204 million. The Articles of Agreement called for 50 percent of each member's capital subscription to be paid into the Ordinary Capital Resources, one-half in convertible currency or gold and one-half in the member's own currency. The other 50 percent was to be in the form of callable capital to be used to support ADB's borrowings. In November 1971 the authorized capital stock was increased by 150 percent for additional subscriptions and became effective in November 1972. The resolution for the increase calls for 20 percent of each member's capital subscription to be paid in, 40 percent in convertible currencies and 60 percent in the member's own currency. The remaining 80 percent is to be in the form of callable capital to be used to support ADB's borrowings.

Since 15 members, including the United States, have not yet subscribed to the additional shares of the increase in capital stock, the amount each country has subscribed is misleading. Japan has subscribed \$542.9 million and the United States \$217.1 million to ADB's total subscribed Ordinary Capital of \$2,204.4 million.

As of December 31, 1972, Japan held 24.63 percent of the capital stock and 20.24 percent of the voting power and the United States held 9.85 percent of the capital stock and 8.422 percent of the voting power. When the additional shares of the increase in capital stock are subscribed by all

members, both Japan and the United States will own about 20 percent of the capital stock and hold about 16.5 percent of the voting power. Regional country members now own 76.482 percent of ADB's capital stock and hold 73.6 percent of the voting power. These percentages will drop to about 62 percent when the additional shares of the increase in capital stock are subscribed by all members. When the increase in capital stock is subscribed, the developing countries will have contributed about one-third of the Bank's capitalization and about two-thirds will be widely distributed among the developed member countries. (See app I for a listing of members, subscriptions, and voting power.)

As of December 31, 1972, ADB had received \$539.7 million in paid-in capital funds. Of this, \$26.6 million was authorized to be set aside for Special Funds, leaving \$513.1 million for Ordinary Capital Resources. It had \$31 million in Ordinary Reserves and a total Ordinary Capital account balance of \$555 million.

ADB has raised the equivalent of \$231 million through bond sales in Germany, Austria, Japan, Switzerland, the United States, Belgium, Luxembourg, Italy, and to regional central banks. It held \$9 million in cash in banks as of December 31, 1972, and \$456 million in investments, mainly time deposits.

Special Funds

By the end of 1972 ADB had received commitments for contributions to its Special Funds in the amount of \$205.8 million, most of which had actually been made available. Also, \$26.6 million was transferred to Special Funds from Ordinary Capital Resources as discussed above. The principal contributors were Japan with \$122.6 million, Canada with \$27.6 million, Germany with \$21 million, the United Kingdom with \$14.3 million, and Australia with \$11.6 million. Twelve other countries, including the United States, had contributed a total of \$8.6 million. The U.S. contribution to the Bank's Special Funds of \$1.25 million was specifically designated for the Technical Assistance Special Fund which had total contributions of \$9.9 million as of December 31, 1972. Public Law 92-245 dated March 10, 1972, authorized a contribution of \$100 million to the Bank for "United States Special Resources." These funds are to be

used to finance specific high-priority development projects and programs in developing member countries, with emphasis on the Southeast Asia region, and are restricted to development loans and reimbursable technical assistance. As of December 31, 1972, no funds had been appropriated by the U S Congress for this program (See app II for a listing of Special Fund contributions)

DEVELOPMENT ACTIVITIES

Through December 31, 1972, ADB had approved 116 loans for projects in 18 countries, totaling \$926.1 million-- \$724.6 million from Ordinary Capital Resources and \$201.5 million concessional loans from Special Funds. Disbursements under these loans totaled \$136.3 million.

In January 1968 ADB made its first Ordinary Capital loan, in June 1969 it made its first concessional loan from Special Funds. The pace of lending increased from \$41.6 million in 1968 to \$316.1 million in 1972. Recent projections by ADB's staff foresee total lending reaching an annual level of \$600 million by 1975, with a hope for a 50/50 ratio between conventional and concessional lending in the seventies.

Ordinary Capital lending

As of December 31, 1972, ADB's conventional lending from Ordinary Capital Resources consisted of 72 loans totaling \$724.6 million for projects in 11 countries. Of the 72 loans, 16 loans totaling \$221.8 million were approved during 1972. Disbursements under the 72 loans totaled \$118.7 million by the end of 1972.

Loans are currently made at 7-1/2-percent interest, before May 1970 the interest was 6-7/8 percent. A commitment charge of 3/4 of 1 percent is also levied on unwithdrawn portions of ADB loans. The repayment terms of these loans have ranged from 7 to 27 years, including grace periods ranging from 2 to 7 years. However, maturities and interest rates for most of the loans made to development banks are not fixed until each portion is credited for a specific project.

Special Funds lending

As of December 31, 1972, ADB had approved 44 Special Funds loans to 14 countries, totaling \$201.55 million. Of the 44 loans, 16 totaling \$94.34 million were approved in 1972. Disbursements under the 44 loans totaled \$17.6 million by the end of 1972.

Loans from Special Funds are currently made at interest rates ranging from 1-1/2 to 3 percent per annum and repayment

terms have ranged from 12 to 40 years, with grace periods from 3 to 10 years. For one loan the maturities were not fixed until each portion was credited for a specific project.

Distribution of assistance

To date, ADB loans and technical assistance have been concentrated in the sectors of industry, including development banks, transportation and communications, public utilities, and agriculture, including fisheries and irrigation.

The Bank's Articles of Agreement state that special attention should be given to the needs of the lesser developed countries. However, two major factors hamper the accomplishment of this objective. First, the less developed countries lack the expertise to quickly develop projects suitable for ADB financing. Second, there is generally a shortage of Special Funds and these countries frequently cannot afford the terms of Ordinary Capital loans.

Of the 20 less developed member countries, the 5 countries with the highest per capita gross national product (Singapore, Republic of China, Malaysia, the Philippines, and Korea) had received 62 percent of all ADB commitments as of December 31, 1972.

CHAPTER 3

IMPROVEMENTS NEEDED IN MANAGEMENT OF

U.S. PARTICIPATION IN ADB

This report deals principally with the role played by the U.S. Government, as a member of ADB, in distributing Bank resources used for financing economic development projects in developing member countries

In a general sense, the U.S. Government's role in regard to ADB lending activities, like that of all members, relates primarily to reviewing projects for financing as proposed by the ADB President, voting its approval or disapproval of this financing, and suggesting changes in the projects when it believes such changes are needed. The proposed projects are reviewed principally to insure that they are in accord with the policies and objectives of both the United States and the Bank.

The information on a proposed loan is fed into the U.S. system at a point rather late in ADB's project evaluation and proposal formulation process. Because of this lateness and the facts that all Bank operations are located in Manila, the Philippines, and the U.S. management of its participation is in Washington, D.C., the U.S. appraisal and decisionmaking process is forced into a very short time frame.

Once financing for a project is approved by the Board of Directors, implementation and evaluation is performed by the Bank staff. U.S. monitoring of implementation is sporadic and informal. Regular, independent, evaluative reporting to member governments on efficiency of operations, success or failure of projects, results achieved, etc., has been virtually nonexistent.

We believe that, as a minimum, the U.S. executive branch should have enough working knowledge and data to give firm assurances to the Congress that the funds contributed to an international organization are being used efficiently and effectively for intended objectives. In our opinion, the executive branch has not been in a position to give such assurances for funds contributed by the United States to ADB.

PROJECT APPRAISAL AND APPROVAL

ADB's Board of Directors normally meets weekly at the Bank's headquarters to consider loans recommended by the Bank President for approval by the Board. Under the Bank's management system, a loan request from a country is first evaluated by the Bank staff and then by a survey team that visits the country and prepares a project appraisal report. The projects are developed by the prospective borrowers with guidance from the Bank's staff. If the Bank staff considers the loan request worthwhile and the Bank President approves, it is submitted to the Board of Directors as a proposed loan. The loan package submitted to the Board for approval consists of a set of loan documents, including the report and recommendations of the President, the project appraisal report, the draft loan agreement and side letters, and a draft guarantee agreement, if applicable. The directors normally have 3 weeks to review the proposed loan before it is voted on at a Board meeting. Most of the directors have authority from their governments to make decisions on proposed loans. We understand that only Japan and the United States require their directors to obtain instructions from their national governments on each proposal.

U.S. MANAGEMENT SYSTEM

The U.S. Executive Director of the Bank is the focal point through which the United States exercises its role in ADB. The Director receives his instructions from the Secretary of the Treasury, who has primary responsibility for managing U.S. interests in ADB with the assistance and advice of the National Advisory Council on International Monetary and Financial Policies (NAC).

NAC is designed to coordinate the policies and operations of all agencies of the U.S. Government to the extent that they make or participate in making foreign loans or engage in foreign financial exchange or monetary transactions. It is also designed to make recommendations to the Secretary for the guidance of the U.S. representatives to ADB, the World Bank, the International Monetary Fund, and certain other international institutions. NAC is composed of the Secretary of the Treasury, as chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the President of the Export-Import Bank.

U S appraisal and decision process

Formal meetings of NAC are held at three levels--the Staff Committee level, the alternates (assistant secretaries of the member agencies) level, and the principals (heads of the member agencies) level. The Staff Committee, chaired by the Secretary of NAC (an official of the Treasury Department whose full time job is NAC Secretary), meets regularly each Tuesday afternoon. The alternates meet less frequently, on an "as needed" basis, to resolve issues that have stalemated the Staff Committee or issues of substantive policy. The principals also meet "as needed "

Upon receipt of documents on proposed loans, the U S Director forwards them to the NAC Secretary and to the cognizant U S mission by diplomatic pouch. The Director also sends NAC a telegram which summarizes the proposed project to be financed and which includes his independent analysis, when appropriate, and his recommendations, based on his staff's appraisal. This covering telegram should be detailed enough to enable the U S mission and Washington officials to furnish comments on the proposed project if the detailed loan documents are delayed. The U.S. mission in the country requesting the loan also sends its comments by telegram through the State Department to the NAC Secretary.

The NAC Secretary distributes the loan documents, the Director's telegram, and the U.S mission's comments to the Treasury Department's technical staff and to the other NAC member agencies, who route them to their various technical experts for appraisal and comment. The individual opinions and analyses resulting from their work are gathered into a single position by each agency for discussion at NAC meetings.

Although the NAC review of the loan documents on proposed projects is the basis for determining the U S position on proposed loans, the reviews are made by the various NAC member agencies without formal guidelines or criteria against which to assess the soundness of proposed projects.

After the NAC Staff Committee meetings, the representative from each agency reports on the discussions and recommended actions to the NAC principal or his designee. Each principal or designee then decides which way he will vote, and, several days after the Staff Committee meeting, the NAC

Secretary obtains the vote of each principal by telephone and prepares a memorandum of recommended action and a draft telegram of instructions to the U S Director for the approval of the Secretary of the Treasury

Decision implementation

The Director's actions on proposed Bank loans are based on his general understanding of overall U S policy and objectives and on specific instructions received from the Secretary of the Treasury. Formal approval by the ADB Board of Directors, according to its Articles of Agreement, consists of voting by the directors. U S officials informed us, however, that the Board follows the practice of the other international financial institutions, in that it does not actually cast votes member by member for or against a proposed loan. Instead, the proposal is discussed in the Board meeting (which is conducted by the Bank President as the Chairman of the Board of Directors), the directors make comments and may make minor changes in the proposal, and approval is reached by consensus. Occasionally, consideration of a particular proposal by the Board may be delayed by the President at the request of one or more directors.

To prevent nation-to-nation confrontations in the Board meeting which might damage U S foreign relations and reduce the effectiveness of ADB, NAC officials told us that U S policy is to try to avoid opposing formally, or raising serious criticism of, a proposed loan in the Board meeting. They explained that, if the United States found some aspect of a loan proposal objectionable, the Director and his staff would discuss it with other directors and the Bank staff and would attempt to convince them of the desirability of modifying the proposal before it goes before the Board for approval. If there is not enough time to accomplish this before it is scheduled to go before the Board or if there has not been enough time to study a proposal, the Director may request that consideration of the proposal be delayed.

Management of U S participation in the loan processing system of ADB may be summarized as consisting essentially of the following steps

- 1 Information, analyses, and recommendations on proposed ADB loans and actions are transmitted to NAC by the U S Director and the cognizant U S mission

2. Proposed ADB loans and actions by the NAC agencies are appraised on the basis of information furnished them.
3. Proposals are discussed in NAC meetings to formulate a recommendation to the Secretary of the Treasury.
4. The Secretary of the Treasury or his designee decides what action is to be taken by the United States and transmits instructions to the U.S. Director.
5. The Director implements the Secretary's instructions.

It is apparent, therefore, that the timeliness and appropriateness of the Secretary of the Treasury's decisions on ADB proposals and the effectiveness with which those decisions are implemented directly affect the quality of U.S participation in ADB.

IMPROVEMENTS NEEDED IN
U S MANAGEMENT SYSTEM

As stated earlier, officials of NAC agencies have said that they try to influence and persuade the other directors and the Bank staff to make needed changes in loan proposals before the proposals are formally presented to the Board of Directors for approval

While refraining from passing judgment on the concept itself, we believe that the current U S management system is not effectively making this concept work. A number of NAC agency officials also voiced this opinion.

The U S Director must learn or be informed of problem areas in forthcoming ADB loan proposals early enough in the project formulation stage to have time to convince the ADB staff and management of the desirability of his suggested changes. As the Director stated, by the time the proposal has reached the Board of Directors, it is too late to try to influence ADB management because many plans of both the Bank and the prospective borrower have been arranged around the project as drafted. Changes are difficult to make at that time because of commitments that may have been made.

For this approach to be successful there must be (1) sufficient detailed information to adequately evaluate proposed projects and (2) the information must be received well before the Board's formal approval of loans.

The formal loan documentation on proposed projects is received from the Bank late in the loan proposal process, and frequently sufficient time is not available to permit an adequate appraisal. Information received before this is not sufficient for a satisfactory appraisal. The distance factor further aggravates the timing problem. Most of the Bank's project evaluation and proposal process takes place at its headquarters, and, except for the U S Executive Director and staff who are located there, all management of U S participation in the Bank is located in Washington.

We believe the lack of sufficient time for NAC's review and evaluation of the Bank's proposed projects will necessitate hasty analyses which are apt to lack quality. This timing problem may also reduce the effectiveness of the

U S Director's attempts to intervene when NAC identifies problems in proposed loans

Insufficient time for appraisal of loan proposals

Officials of NAC agencies stated that their respective agencies had ample time, usually about 3 weeks, to evaluate the proposals, formulate agency positions, hold the necessary NAC meetings, reach a consensus, and recommend decisions to the Secretary of the Treasury in time for him to instruct the U S Director as to the action to take on the proposals

However, individuals responsible for actually reviewing the loan documents in detail and identifying problems informed us that they generally had the documents for 3 days or less before their comments were due. Most (generally the country-desk officers) reported that they frequently received the loan documents on Friday before the Tuesday afternoon NAC Staff Committee meeting at which the proposal was to be discussed and that occasionally they received documents the same day their comments were due or after. The country-desk officers sometimes received more than one loan proposal at the same time for review, in addition to their other duties. They stated that, in most cases, there was not enough time to perform an adequate review

Our review of NAC's appraisal of 41 proposed loans to 5 countries from 1968 to 1971 showed that the average time available was 3 4 working days per loan. Eighteen of the 41 loans were available for 2 working days, or less, before the NAC Staff Committee meeting. We noted that, for the loans examined, the Director's telegram, which was intended to provide preliminary working information if the loan documents were delayed, frequently arrived the same day the loan documents arrived or after.

NAC has had further difficulty in performing timely appraisals of proposed loans during December, the last month of its fiscal year, when the Bank apparently puts on a year-end rush to process loans. In December 1970 the Bank signed more than 50 percent of the total loan commitments for the year from Ordinary Capital Resources and Special Fund resources

The U S Director and several other directors have urged ADB management to spread review of loan proposals more evenly over the year. However, little progress toward this objective has been made, as illustrated by the following table

Percentage of Loan Commitments Signed in December

<u>Fiscal</u> <u>year</u>	<u>Ordinary Capital Resources</u>	<u>Special Fund resources</u>
1970	59	54
1971	41	42
1972	44	56

During December 1970 the NAC Staff Committee discussed and approved 14 proposals from the World Bank Group, 8 from the Inter-American Development Bank, 18 from ADB, 19 from the Export-Import Bank, and 27 other actions, a total of 86 proposals, some of which were discussed more than once. Several NAC agency personnel told us that they did not have time to look at some of the December proposals.

Agency comments and GAO analysis

In commenting on our draft report, the Department of the Treasury did not agree that the time pressure on reviewing proposed loans would result in hasty analyses which are apt to be incomplete or that this could reduce the effective intervention by the U S Director when problem proposals are identified. The Department believed that the average of 3 days per loan was ample time for an experienced technician to identify problems in a loan document and that, when less time was available, the U S Director's summary telegram could be used to provide technicians a basis for drawing tentative conclusions. The Department also commented that our analysis neglected several factors, such as the availability of advance airmail copies of loan documents before regular NAC distribution, the additional time available to NAC agencies between Staff Committee discussion and NAC vote, the right of agencies to reopen consideration if late documents reveal issues not identified in cable information, and the use of telephonic communication with the U S Director to clear up questions before NAC Staff Committee discussion.

We agree that 3 days per loan would probably be sufficient time for an experienced technician to evaluate a loan document, but, as mentioned previously in this section, the reviewing officers sometimes receive more than one loan proposal for review at the same time, in addition to their other duties. We also noted that the U.S. Director's telegrams, intended to provide information when the loan documents were delayed, frequently arrived the same day the loan documents arrived or after.

We have taken a broad approach to the subject of time available for evaluation of loan documents, while the Department has taken a narrow viewpoint by pointing up exceptions to the general conditions that exist and the emergency measures that are available when the time allowed for loan appraisal is not sufficient. An adequate system of appraisal should not normally include emergency measures. We believe that there is sufficient evidence that, in general, the time available for loan appraisals is not sufficient.

U S missions not effectively used as sources
of information on Bank activities

Although the U S missions (U S embassies and AID missions) generally furnish comments to NAC on proposed ADB loans, NAC frequently did not receive the comments in time to fully use them. U S missions are not required to monitor or report on ADB projects, but sometimes they are aware of a project because of AID's having a loan to the same organization or gathering material for routine economic reports to Washington. However, the U S missions have not been fully used as a source of information on Bank activities.

In particular, AID activities could serve as information sources in a number of ways. First, the experience gained in executing projects has increased AID's knowledge of both the economic development and the specific needs of individual countries. Second, because AID activities are sources of information, they attract visiting appraisal teams from ADB. The resultant exchanges presumably benefit the ADB teams and provide AID with insight into proposed Bank projects.

Untimely information from
U S missions on proposed loans

In addition to not having enough time to properly evaluate ADB loan proposals, NAC agencies have not received timely information and comments from U S missions.

In May 1970 all U S missions in the ADB region were advised that their comments on ADB proposals were helpful to NAC consideration and were welcomed by both NAC agencies and the U S Director. The instructions stated that their comments should reach Washington "well in advance" of NAC Staff Committee meetings because NAC consultation could not be delayed, due to the necessity of meeting the schedule of the ADB Board of Directors.

In our review of 33 proposed loans to 5 countries from 1968 to 1971, we found that 20 U S missions' comments arrived in Washington on or after the date of the NAC meeting for each proposed loan and 7 comments arrived on or after the date the NAC vote had been taken.

During our review in the field, personnel informed us that quite often the loan documents did not arrive from Manila before the Staff Committee meeting date, in which case the only information available to them was the Director's covering telegram which they felt was not in sufficient detail for their purposes.

Opinions varied among officials of NAC agencies in Washington as to the amount of information received before the actual proposal was received through NAC channels

We were advised by NAC officials in Washington that the ADB teams that visited the borrower country to assess proposed projects nearly always contacted the U S. missions to exchange ideas, and, whenever the team did not contact the mission, the mission contacted the team. Thus, one would conclude that, although the missions did not always receive the loan documents from the U S. Director before their comments were due to NAC, they nevertheless had basic knowledge of the project from which to comment.

Most of the personnel interviewed during visits to the U S missions said that ADB appraisal teams usually contacted them for information during their visits to the country. However, an official in one mission said he was not sure that they were contacted by all teams and that in the past they had had no advance notice of a team's visit and that the team could bypass them without their knowledge. As far as we could determine, U.S. missions had never been instructed to make contact with the ADB teams.

We noted that the current U.S. Director, who took office in October 1970, has started corrective action on some of these problems. He has personally visited a number of U S. missions to discuss coordinating the activities of these posts and his own staff. He has initiated a practice of notifying U.S. missions when an ADB team is scheduled to visit the country and he is attempting to bring about more detailed discussion between U.S. missions and ADB teams.

Documents on proposed loans are preceded by a telegram from the Director summarizing the proposed loan, noting any problems, and presenting his recommendation. These telegrams are based upon statements made in the loan documents themselves, inquiries with the ADB staff, information

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obtained from U.S. missions, and the professional judgment of the Director's staff. We found, however, that these telegrams frequently did not arrive in time for use prior to the NAC Staff Committee meeting.

Other sources of information furnished by the Director that we noted were (1) Monthly Loan Status Reports, Quarterly Financial Statements, and other reports and publications of ADB, (2) official minutes of the Board of Directors meetings prepared weekly by the Executive Director and distributed to U.S. agencies (we were denied access to these minutes), and (3) routine correspondence with U.S. officials

Neither the Director nor his staff evaluate ADB loan proposals in detail. The Director said he was more concerned with the overall ADB staff management competence, which he felt to be very good, and with the review of basic policy issues.

During our visits to Manila, we were told by the U.S. Director's staff that their appraisals of ADB proposals, like those of NAC agencies, consist largely of a review of the loan documents. They said they rely on experience to guide them in looking for "holes" in the proposals and raising commonsense questions. They stressed that they are not in a position to question technical or engineering aspects of a proposal. They do have access to the Bank staff to answer questions.

We should point out that our conversations with the new U.S. Director took place shortly after his arrival in Manila. We have since been informed that the Director, noting our concern about lack of knowledge of details of loans and observing himself the need for better and more timely information, has been making a concerted effort to review ADB projects, approved and under consideration, in the field. We were told that he and his staff have arranged to visit all but one developing member country, have visited two dozen loan projects and a dozen technical assistance projects, and have discussed with U.S. and/or country officials some 60 loan projects and 20 technical assistance projects in the countries visited. We were also told that he has been in travel status 30 percent of the time and has visited 15 of the 19 developing member countries. He has also

informed U S. missions of possible loan activity in their countries, requested their early comments for assistance in guiding ADB to any extent possible and appropriate, improved the flow of materials between Manila and U S. missions, and encouraged communications between these missions and ADB teams in the field We were told that he has visited in the offices of all departments of the Bank The Director believes he and his staff are better informed on ADB loans and activities than any other member of the Board, but he is still not satisfied with the U S input into the entire process

Agency comments and GAO analysis

The Department of the Treasury, in commenting on our draft report, stated that most of the 33 comments from the U.S missions that we had examined arrived on or before the date of the NAC Staff Committee meeting and that none of the comments that arrived after the NAC vote had raised any objections to the loans. The Department stated that, more importantly, all of the comments arrived prior to ADB Board action, so that it would have been possible to reconsider the U S Director's instructions if the field comments had raised serious objections The Department added, however, that it is now considering having initial country-team comments forwarded at an earlier stage keyed to NAC consideration of the Monthly Operations Information document, to supplement the present system

We believe that the Department's position is not reasonable when it considers receipt of U S mission comments on the date of the NAC Staff Committee meeting as satisfactory, since there would be little or no time available for evaluation of these comments. Further, its point that none of the comments received after the NAC vote raised any objections to the loans is not pertinent to the basic problem of untimely information from the U S missions

Nevertheless, it appears that the Department has, in spite of the exceptions taken to our draft report, agreed in principle with the point by stating that it is considering steps to improve the timeliness of comments from the U.S. missions

Lack of information on approved loans

At the time of our review, there was an almost complete absence of feedback of information on the progress and results of previous loans approved or followup on issues by either NAC or by the Department of the Treasury. Several agency officials told us that they never hear of a loan after it has been approved in the NAC meeting, yet they felt that feedback on these loans could be very helpful in considering proposals for similar loans in the future.

Officials of the U S missions stated that they had not been given the responsibility of monitoring or reporting on ADB projects and had not done so. Sometimes, however, they are familiar with an ADB project because of AID's having a loan to the same organization or gathering material for routine economic reports to Washington.

We noted, however, that in the past Treasury had failed to take advantage of the fact that AID installations were in a unique position to be of real service. In fact, it had been the practice of the U S Director to discourage contact between AID and ADB--apparently in an effort to down play the U S image and avoid the possibility or appearance of U S domination of the Bank. This problem appears to have been corrected by the present U S Director through the encouragement of cooperation and consultation between AID, the U S Director, and ADB survey teams.

U S embassies are required to report to Washington on various topics under the State Department's Combined Economic Reporting Program. During 1969 a report requirement was added for an evaluation of U N assistance programs. In view of the lack of information on the progress of ADB projects and the lack of feedback to those responsible for future decisions, it would be desirable for the embassies to also report periodically on the general progress of ADB projects in process and the results (impact upon the economy, realization of expectations, etc) of completed projects. Any significant problems or weaknesses noted would be reported so that the U S Director could bring them to the attention of ADB management for appropriate action.

The U.S Director currently receives two reports from ADB management--the Monthly Loan Status Report and a

periodic problem loan report--that could provide a
springboard for independent embassy reporting

Also, the U.S Director communicates to Washington the
results of issues he has been instructed to raise in the
Board meetings.

Need for adequate time for
implementing U.S. decisions

The lack of sufficient time in the early stages of the U.S. loan appraisal-approval process has had a progressive effect which ultimately hinders effective action by the U.S. Director in implementing decisions on proposed Bank loans. Low-profile persuasion, which is the heart of the basic U.S. approach, generally requires some time to be effective.

We found that the Director frequently does not have sufficient time to act after he has been informed of a course of action to be taken on a particular loan. In an analysis of 39 Bank loans approved from 1968 through 1971, we found that NAC instructions to the Director on 23, or about 60 percent, were received one day or less before the loan was approved by the Bank's Board of Directors.

U.S. officials in both Washington and Manila stated that the U.S. Director was not without instructions, even when the NAC telegram failed to arrive before the Board meeting. They said that Treasury officials telephoned instructions to the Director when time was short.

The following examples demonstrate how NAC instructions to the Director on actions to be taken on questions raised by NAC about proposed loans were not received in time for the Director to take effective action.

Seoul-Inchon Expressway Project

In September 1968 the Bank made a project loan to the Republic of Korea for \$6.8 million to finance the foreign-exchange cost of the Seoul-Inchon Expressway, part of a national highway development program being designed and built by the Korean Government. The project consisted of a 29.9 kilometer, four-lane, limited-access freeway to be operated as a toll road.

ADB had an ex post facto role in this project, which was already in an advanced stage of construction when the loan was made, and had little or no opportunity to contribute to the project design.

In considering the loan at the meeting of the NAC Staff Committee on August 27, 1968, the following problems were discussed, all of which had been revealed by the ADB appraisal report

1. Some of the costs that would be covered by the loan had already been incurred. The loan agreement signed on September 16, 1968, allowed withdrawals to be made for expenditures since January 1, 1968
2. Technical problems had occurred, due in part to the fact that the road was being built on an accelerated work schedule of three shifts a day, 7 days a week. Under these conditions, proper planning and execution of work and sufficient quality control tests were difficult to maintain. Inspectors from the Ministry of Construction found it very difficult to keep up with testing requirements.
3. There were some deviations from normal procurement procedures in acquisition of materials and employment of consultants. A portion of certain materials financed by ADB that would arrive too late for use in the actual project was to be used to replace the Korean Government's inventory of materials that was actually used.
4. Although the project consultants considered the composition and thickness of the pavement of the road to be adequate, it was conceded that the design criteria fell short of international expressway standards.
5. The loan documents did not disclose criteria for the loads to be carried on the pavement, although the principal need for the freeway was for truck traffic between the port of Incheon and Seoul, a city with a population of 5 million.

NAC also noted that the last two factors indicated the need for substantial additional maintenance that was not considered in the cost studies

On September 2, 1968, the Director received a telegram from the Department of the Treasury which authorized him to concur in approval of the proposed loan but which stated that NAC agencies felt it would be desirable for him to seek satisfactory resolutions with ADB management on certain engineering problems (mentioned above). Since the ADB Board met and approved the loan on the following day, September 3, 1968, it is doubtful that the Director had enough time to resolve the problems with the ADB management. Had the telegram been sent promptly after the NAC meeting on August 27, 1968, the Director would have had time to attempt to resolve these problems. We found no explanation for the delay in sending the telegram.

The Director was unable to bring NAC questions to the attention of ADB management until the day before the Board approved the loan, a time when his chances of success were considerably reduced.

The Korea Express Company

ADB made its first direct loan to a private firm, the Korea Express Company, Limited (KEC), in September 1969. The purpose of the \$7.5 million loan was to finance the foreign-exchange cost of importing transportation and stevedoring equipment. The transportation equipment consisted mainly of 275 trucks and trailers of various sizes and supporting shops and terminals.

In spite of the fact that Korean highways have a weight limit of 33 tons, some of the trucks proposed by KEC could carry gross weights up to 60 tons. By way of contrast, trucks are restricted to an overall gross weight of under 37 tons on U.S. interstate highways, which are built to higher standards than the few Korean highways.

The ADB appraisal report stated that this project would play a major role in fulfilling the objectives of the Government of Korea in constructing the Seoul-Inchon Expressway and the Seoul-Pusan Expressway. As noted in the prior example, the ADB had previously identified serious design and construction deficiencies in the Seoul-Inchon Expressway, and NAC had noted a lack of criteria for loads to be carried.

On August 26, 1969, the U.S. Director recommended favorable NAC action and did not mention any problems with the proposal. On August 29, 1969, the U S Embassy in Korea also recommended favorable NAC action but expressed reservations about the 10-1/2-year maturity period of the loan Korea had agreed with the International Monetary Fund (IMF) to restrict its medium term (3 to 10 years) borrowing. The Embassy felt that the proposed maturity period only barely escaped the IMF limitation and that a longer maturity would have been better.

At the meeting of the NAC Staff Committee on September 3, 1969, several members stated that the loan was clearly a supplier credit for trucks and related equipment which normally are not financed beyond 5 years. They felt the 10-1/2 year maturity period could have been an attempt to get around the IMF limitation. NAC also noted that the weights of some of the trucks and trailers to be acquired were not compatible with the standards of the Korean highways. The comparison with U S highway standards was noted.

Early on September 4, 1969, the day the loan was approved by the Board of Directors, a telegram was sent to the Director listing NAC questions on financing terms and weight limitations and instructing him to request further study of the proposal by the ADB staff and a comprehensive review of policy considerations by the Board.

In a letter to Treasury, the Director stated that the cable "came in just before the Board met on the loan" but that he had been able to raise the points with the Vice President who chaired the meeting in the absence of the President. The Director stated that, although he made the suggestion to the Vice President for deferral of the Board's action and further study of the loan, "it was quite clear that this was not a realistic possibility."

INTERNAL AND EXTERNAL BANK
PROJECT EVALUATION

Although some review functions are performed, there has been no systematic, independent review of the operations of the Bank for use by the member countries. The present internal and external reviews of the operations of the Bank are described in the following sections

Independent financial audit

In accordance with the Bank's Articles of Agreement, an independent firm of auditors annually audits the Bank's accounts and financial statements

Office of the Internal Auditor

The Internal Auditor is responsible for determining that the accounts and records of ADB are maintained in accordance with established principles. He is also responsible for determining that the system of internal controls is effective, that established Bank policies and regulations are properly carried out, and that its assets are adequately protected

Lack of independent evaluation of management efficiency and program results

Although the above audit and review functions provide management with worthwhile information and are essential to any system of internal management control, the Bank's directors do not receive sufficient independent, evaluative information on the Bank's operations. An effective, independent source of information is essential for the directors to assure themselves that the funds contributed by their respective governments are being used by the Bank in an efficient and effective manner to accomplish the intended objectives. Such information should be provided by a review group established completely independent of the management of the Bank. This group should report directly to the Board of Directors.

On several occasions, officials of the Departments of the Treasury and State have discussed this problem with the Bank President in a meeting of the Board. The President of

ADB has stated that he is interested in the idea and believes such a system will be needed in the near future. We understand that ADB is closely following the progress of the World Bank in developing an evaluation system and would prefer a similar system. We have been advised that the ADB President has established an office in the Operations Department to monitor approved loans and, in general, to be responsible for loan administration.

Although the evaluation system developed by the World Bank should provide meaningful information to its management officials, it is an internal review mechanism. The World Bank evaluation unit is responsible to, and under the direction of, the World Bank President and does not report directly to its Board of Directors.

Although these banks are international entities, they were created by governments of nations. The banks derive their authority from the agreements authorized by these governments, draw their power from funds provided by these governments, and exist solely to fulfill the plans and hopes of these member governments as expressed in the charters or articles of agreement of the banks. As such, the international banks, including ADB, are accountable to their member governments for the efficient accomplishment of their statutory purposes. In the case of ADB, the operational point of contact between the Bank and the member governments takes place through the Board of Directors, not the Bank President. At present, the Board of Directors has no effective source of information or means for evaluating the Bank's operations except through the Bank management. To completely fulfill its responsibility to ADB member governments, the Board needs an independent means of review and evaluation, responsive to the Board's needs and direction and reporting directly to it.

Agency comments and GAO analysis

The Department of the Treasury, in commenting on our draft report, stated that it did not believe that the absence of a formalized system for postevaluation of projects had impaired the effectiveness of its management. The Department stated that, because of the infancy of the Bank, it would have been premature to attempt to measure the actual results of

projects financed by the Bank when most of the projects had not yet been completed at the time of the GAO review. The Department further stated that it was important that some system for postappraisal of projects--like the one established in the Inter-American Development Bank or one of comparable effectiveness--be developed by the time such appraisals can usefully be carried out and stated that it is working on insuring this. The Department said, however, that it was not a shortcoming of its management system that the particular system favored by GAO had not been created in ADB at the time of the review.

Our draft report stated that there was no systematic, independent review of the Bank's operations for use by the member countries. We were referring to all phases of the Bank's development activities and not just the completed projects. An independent review system would also provide valuable information to the Bank's directors on the efficiency and effectiveness of Bank operations during the implementation of projects, as well as on the success of completed projects. Information during the implementation phase might avoid problems rather than just bring them to light after the project has been completed. Further, such a system of independent review should be established at the start of the Bank's operations in order for it to be operationally effective when it is needed.

OVERALL CONCLUSIONS AND RECOMMENDATIONS

To successfully manage a member's participation in an international organization, a system is needed to provide basic data on the programs and on how efficiently and effectively the organization's activities are being carried out. Such a system should provide for adequate appraisal of (1) information on proposed activities and (2) information and evaluations on the implementation of those activities and the results achieved. This, in turn, would provide a basis for promoting improvements in an organization's programs and operations and for justifying continued financial support for its activities.

Although recent improvements have been noted, such as earlier receipt of information on proposed loans, the Department of the Treasury, in our opinion, has not yet developed a fully functioning system for managing U.S. participation in ADB. The current U.S. system of management needs strengthening in the following areas:

- Formal loan documentation on proposed projects is received from the Bank late in the loan approval process and frequently sufficient time is not available to permit an adequate appraisal. Further, according to some NAC officials, there is little chance that the Bank would be willing to make changes in the loans once the formal proposal has been submitted to the Directors for approval. Any questions on the loans would have had to be resolved with the Bank before this stage. However, information available earlier appeared to be insufficient for assessing the soundness of a loan.
- Because of the late receipt of the formal loan documents on proposed Bank projects, the U.S. missions' comments on the proposed loans frequently are not received in time to be effectively used during the NAC review process. Further, NAC instructions to the U.S. Director of the Bank on proposed loans frequently are not received in time to permit the Director to take effective action before the Board votes on the loans.
- The NAC review process, the formal mechanism for establishing the U.S. position on proposed Bank loans,

has no formal guidelines or criteria for assessing the soundness of proposed projects

- U.S. missions could provide useful information to NAC on Bank projects in process and on the economic results of completed projects, however, the missions have no requirement to provide such information and very little was actually supplied

Further, the Bank does not have a system of regular, independent, evaluative reporting to member governments on efficiency of operations, success or failure of projects, and results achieved

Recommendations

To improve management of the U S. participation in ADB, we recommend that the Secretary of the Treasury arrange for

- More timely substantive information on a routine basis, before receipt of the formal loan proposal documents on projects to be financed by ADB. With timely information, meaningful input from overseas posts would be possible, and many of the questions raised during the NAC review could be resolved with ADB before the final approval stage where ADB is reluctant to make changes in the project and loan agreements. This would be particularly helpful in the case of the yearend rush to get loans approved
- Guidelines stipulating the desired depth and parameters of the U.S. appraisal process of proposed projects for U S officials and technicians. These instructions should include a clear statement of policy regarding the appraisal of the economic and technical aspects of the projects.
- Specific instructions to U S overseas posts requiring them to furnish available information to Washington on ADB activities, including prospective loan requests from would-be borrowers and progress in implementing approved projects. In particular, problems should be pointed out which the U S Director might want to call to the attention of the appropriate ADB staff

Agency comments and GAO analysis

The Department of the Treasury agreed that maximum use should be made of the project information provided by the Bank at earlier points in the loan preparation process, and it has taken a number of steps in that regard in the last year or two. However, the Department pointed out that the amount of information available at these earlier stages was not sufficient to permit an adequate loan appraisal and that our recommendation should make clear that the earlier information would be used only to supplement the present appraisals of the formal loan documents.

We recommended mainly that (1) the Department obtain more loan proposal information earlier in the loan preparation process and (2) use this information, to the extent possible, to determine whether NAC might raise questions on a particular loan during its formal review.

The Department accepted our recommendation that guidelines be established for the review and evaluation of loan proposal documents. However, the Department believed that the present system, in which trained and experienced senior officials in NAC agencies have latitude to exercise judgment, has worked well and that codified guidelines would become self-defeating if the guidelines became rigid rules or were mechanically applied.

Our recommendation did not intend a rigid set of rules but rather guidelines to insure that major policies of both the Bank and the United States are considered in reviewing the loans and the important elements of the loans. Experience and judgment are important factors in assessing the soundness of proposed projects, however, formal guidelines would seem to be essential to insure a thorough review process, particularly when inexperienced loan reviewers are involved.

The Department stated that our recommendation for instructing U.S. missions to furnish information on ADB activities was acceptable if the missions were not expected to carry out in-depth audits, or to uneconomically duplicate the onsite project supervision activities of the Bank, or to build up and maintain special staffs for these purposes. The Department also stated that since late 1970 the U.S. missions had been providing available information on upcoming projects,

particularly on the commercial opportunities such projects might afford to U S. suppliers, and that there was more adequate followup by U S missions than our draft report indicated

Our recommendation specified that instructions be issued to U.S. missions to furnish available information on prospective loan requests and progress in implementing approved projects There was no implication that extensive review work was expected that would require additional staff During our review at selected U S missions, we found that the missions had not been given the responsibility of monitoring or reporting on ADB projects and they had not performed any followup on the progress of Bank projects in their countries.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Because of the increasing importance of international financial institutions in the U.S foreign assistance program and the concern about the lack of U S. control over the funds provided, we believe that this report should be of particular interest to the Congress at this time

The Congress should consider having the U S representative to the Bank propose a program of continuing independent reviews of the development activities of the Bank which would provide the Department of the Treasury and other agencies in NAC with the necessary information to determine whether funds are being used efficiently and effectively for intended objectives Such information should be provided by a review group completely independent of the management of the Bank It should be of appropriate size and competence and should report directly to the Board of Directors

APPENDIX I

ASIAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES
STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER
31 December 1972

Expressed in United States Dollars

Members	Subscribed			Par value of callable shares Subject to call	Par value paid-in shares		Voting power	
	Shares	Percent of total	Par value		Subscription not due	Installments matured	Number of votes	Percent of total
REGIONAL								
Afghanistan	1 195	0 589	\$ 12 974 286	\$ 8 826 857	\$ 1 552 572	\$ 2 594 857	2 566	1 011
Australia	21 250	10 466	230 714 286	156 885 714	27 685 715	46 142 857	22 621	8 914
China Republic of	4 000	1 970	43 428 572	29 531 429	5 211 429	8 685 714	5 371	2 117
Fiji	250	0 123	2 714 286	1 845 714	542 858	325 714	1 621	0 639
Hong Kong	2 000	0 985	21 714 286	14 765 714	2 605 715	4 342 857	3 371	1 328
India	23 250	11 451	252 428 572	171 651 429	30 291 429	50 485 714	24 621	9 702
Indonesia	6 250	3 078	67 857 142	46 142 857	8 142 857	13 571 428	7 621	3 003
Japan	50 000	24 626	542 857 142	369 142 857	65 142 857	108 571 428	51 371	20 244
Khmer Republic (note a)	350	0 172	3 800 000	1 900 000	-	1 900 000	1 721	0 678
Korea Republic of	7 500	3 694	81 428,572	55 371 429	9 771,429	16 285 714	8 871	3 496
Laos	105	0 052	1 140 000	770 857	141 143	228,000	1,476	0 582
Malaysia	5,000	2 463	54 285 714	36 914 286	6 514 285	10 857 143	6 371	2 511
Nepal (note a)	216	0 106	2 345,142	1 172 571	-	1 172 571	1 587	0 625
New Zealand	5 460	2 778	61 234 286	41 637 143	7 350 286	12 246 857	7 011	2 763
Pakistan	8 000	3 940	86 857,143	59 062 857	10 422 857	17 371 429	9,371	3 693
Papua New Guinea (note a)	138	0 068	1 498 286	749 143	449 486	299 657	1 509	0 595
Philippines	8 750	4 310	95 000 000	64 600 000	11 400 000	19 000 000	10 121	3 988
Singapore	1 250	0 616	13,571 428	9 228 571	1 628 571	2 714 286	2 621	1 033
Sri Lanka	2 130	1 049	23 125 714	15 721 143	2 779 428	4 625 143	3 501	1 380
Thailand	5 000	2 463	54 285 714	36 914 286	6 514 285	10 857 143	6,371	2 511
Tonga (note a)	6	0 003	65 144	32 572	26 057	6 515	1 377	0 543
Viet-Nam Republic of	3 000	1 477	32 571 428	22 148 572	3 908 571	6 514 286	4 371	1 722
Western Samoa (note a)	6	0 003	65,144	32,572	-	32,572	1,377	0 543
Total Regional	155,286	76 482	1,685,962,287	1,145,048,572	202,081,830	338,831,885	186,819	73 621
NON REGIONAL								
Austria	1 250	0 616	13 571 428	9 228 571	1 628 571	2 714 286	2 621	1 033
Belgium (note a)	500	0 246	5 428 572	2 714 286	-	2 714 286	1 871	0 737
Canada	6 250	3 078	67 857 142	46 142 857	8 142 857	13 571 428	7 621	3 003
Denmark	1 250	0 616	13 571 428	9 228 571	1 628 571	2 714 286	2 621	1 033
Finland (note a)	500	0 246	5 428 572	2 714 286	-	2 714 286	1,871	0 737
France (note a)	2 500	1 231	27 142 856	13 571 428	5 428 571	8 142 857	3 871	1 525
Germany Federal Republic of (note a)	3 400	1 675	36 914 286	18 457 143	-	18 457 143	4 771	1 880
Italy (note a)	2 000	0 985	21 714 286	10 857 143	-	10 857 143	3 371	1 328
Netherlands (note a)	1 100	0 542	11 942 856	5 971 428	-	5 971 428	2 471	0 974
Norway (note a)	500	0 246	5 428 572	2 714 286	-	2 714 286	1 871	0 737
Sweden (note a)	500	0 246	5 428 572	2 714 286	-	2 714 286	1 871	0 737
Switzerland (note a)	500	0 246	5 428 572	2 714 286	-	2 714 286	1 871	0 737
United Kingdom	7 500	3 694	81 428 572	55 371 429	9 771 429	16 285 714	8 871	3 496
United States (note a)	20,000	9 851	217,142,856	108,571,428	-	108,571,428	21,371	8 422
Total non Regional	47,750	23 518	518,428,570	290,971,428	26,599,999	200,857,143	66,944	26 379
GRAND TOTAL	203,036	100,000	\$2,204,390,857	\$1,436,020,000	\$228,681,829	\$539,689,028	253,763	100,000

^aAs of 31 December 1972 these members have not yet subscribed the additional shares of the increase in capital stock authorized by Resolution No 46 of the Board of Governors. Such additional shares are equal to 150 percent of each member's existing subscribed shares.

BEST DOCUMENT AVAILABLE

APPENDIX II

ASIAN DEVELOPMENT BANK - SPECIAL FUNDS RESOURCES

STATEMENT OF CONTRIBUTED RESOURCES

31 December 1972
Expressed in United States Dollars

	Contributions (terminated) during 1972	Total contributions committed	Amounts not yet made available	Amounts made available	Amounts drawn	Resources available for drawing
TECHNICAL ASSISTANCE SPECIAL FUND						
Australia	\$ 259,909	\$ 509,962	\$ -	\$ 509,962	\$ 509,962	\$ -
Austria		55,794		55,794		55,794
Canada		200,160		200,160	200,160	
China Republic of	-	200,000		200,000	50,000	150,000
Denmark	401,146	709,292		709,292	672,944	36,348
Finland		110,480		110,480	110,480	
Germany Federal Republic of	124,127	255,346	-	255,346	151,219	124,127
India	54,950	121,617	-	121,617	66,667	54,950
Japan	2,000,000	5,743,554		5,743,554	5,743,554	-
Korea Republic of		30,000		30,000	30,000	
Netherlands	61,639	119,936	30,819	89,117	58,297	30,820
New Zealand		173,603		173,603	102,627	70,976
Pakistan		22,514	-	22,514	7,639	14,875
Sri Lanka		18,240		18,240	18,240	
Switzerland		200,000		200,000	200,000	
United Kingdom	26,316	200,925		200,925	140,270	60,655
United States		1,250,000		1,250,000	1,250,000	
Total	2,928,087	9,921,423	30,819	9,890,604	9,292,059	598,545
AGRICULTURAL SPECIAL FUND						
Denmark	(2,133,833)	15,164		15,164	15,164	
Japan	-	23,376,623		23,376,623	23,376,623	
Netherlands		1,232,780	-	1,232,780	298,672	934,108
Total	(2,133,833)	24,624,567	-	24,624,567	23,690,459	934,108
MULTI PURPOSE SPECIAL FUND						
Australia		11,099,284	-	11,099,284	7,399,523	3,699,761
Canada		27,442,925	-	27,442,925	733,147	26,709,778
Denmark	2,148,997	2,148,997	-	2,148,997	2,148,997	
Germany Federal Republic of		20,729,248	12,909,232	7,820,016	7,820,016	
Japan		93,506,493	-	93,506,493	93,506,493	-
Netherlands		1,232,780	-	1,232,780	28,970	1,203,810
New Zealand	1,000,000	1,000,000	1,000,000	-	-	
United Kingdom		14,080,210		14,080,210	396,363	13,683,847
Total	3,148,997	171,239,937	13,909,232	157,330,705	112,033,509	45,297,196
GRAND TOTAL	\$3,943,251	\$205,785,927	\$13,940,051	\$191,845,876	\$145,016,027	\$46,829,849



PRESIDENT
AND
CHAIRMAN

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON D C 20571

July 14, 1972

CABLE ADDRESS EXIMBANK
TELEX 89-461

Mr Oye V Stovall, Director
International Division
United States General
Accounting Office
Washington, D C 20548

Dear Mr Stovall

We appreciate being given the opportunity of commenting on the draft report of the GAO on the U S System for Appraising and Evaluating Asian Development Projects We have reviewed the proposed report and would offer the following observations

The NAC agencies are generally aware of the special problems of coordinating and effectively transmitting U S views in respect to ADB projects arising from the geographical separation involved We do not disagree with the study group's suggestion that more lead time would be desirable in the transmission of documents

[See GAO note 1, p 67.]

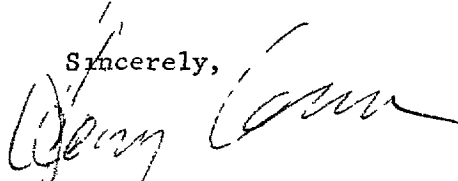
In respect to the recommendation that guidelines should be developed for NAC agencies in their loan appraisals, it continues to be our opinion that the review process cannot be reduced to a rigid set of criteria While there are certain common elements in loan proposals, there are usually individual differences which cannot be foreseen The establishment of guidelines or a checklist could unduly restrict the reviewing agencies in the scope of their inquiries

Although it would no doubt be useful to obtain information from U S Overseas Posts on Bank projects and to follow-up on the implementation and results of projects, we remain strongly of the opinion that the best safeguards to insure efficient administration of loans are to be found in the insistence on the employment of highly qualified professional staff and the selection of first rate management personnel Our view is that the NAC agencies should focus on the broad policy issues

APPENDIX III

which may be involved in the loan proposals of the ADB and other international institutions of which the U S is a member We do not believe that it is either feasible or desirable for the NAC to duplicate the work of the staff of the international institutions by making a detailed examination of the financial, engineering, and administrative aspects of each loan In this connection we feel that the authors of the draft report misconstrue the proper function of the NAC Please be assured, however, that the Export-Import Bank will cooperate to the extent of its ability in whatever efforts are undertaken by the Treasury Department to improve the coordination of NAC views in respect to Asian Development Bank activities

Sincerely,



Henry Kearns



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON D C 20561

ANDREW F BRIMMER
MEMBER OF THE BOARD

July 14, 1972

Mr Oye V Stovall
Director, International Division
U. S General Accounting Office
Washington, D C 20548

Dear Mr. Stovall

This is in response to your letter of June 15, 1972, inviting the Federal Reserve to comment on the G A O.'s recent draft report on the "U S System for Appraising and Evaluating Asian Development Bank Projects "

We believe that you have described fairly the major problems that confront the United States Government in its efforts to exert influence on the lending decisions of the Asian Development Bank. We agree that it would be desirable for the NAC agencies to have more time to consider the ADB loan documents, and certainly timely comments from the embassies in the countries for which loans are intended would be most helpful to the NAC. We also agree that it would be desirable to have more information about proposed loans farther in advance of consideration by the ADB board. Your recommendations for follow-up on disbursed loans are good, as is your suggestion for strengthening the general audit and evaluation procedures of the bank.

However, the reader of your report might carry away the erroneous impression that the U.S Government's review procedures have not been effective and have not helped improve the quality of ADB loans. In spite of the handicap imposed by distance from the ADB headquarters, which makes full and timely discussion much more difficult than would otherwise be the case, there have been a number of instances in which suggestions developed by the NAC review have been communicated to Manila in time to produce desired revisions. Where the problem is serious, delays can be obtained while a satisfactory resolution of the difficulty is sought.

[See GAO note 1, p 67]

APPENDIX IV

[See GAO note 1, p. 67]

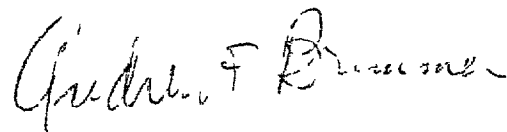
I believe that it might also be appropriate to note that the management of the ADB has been quite conservative. We should not relax our review procedures because of confidence in the management of the bank, but it is also worth noting that there is no record of scandalously defective projects having been financed by the ADB.

I should like to point out two minor corrections that I think should be made in the report. On page 24^[1] it is stated that the representatives on the NAC staff committee report committee "actions" to the NAC principals or their designees. It would be more correct to say that they report on the discussions and recommended actions. The staff committee itself does not approve or disapprove of actions.

[See GAO note 1, p 67.]

I hope these comments are helpful. We appreciate having the opportunity to comment on the draft report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Gordon F. Brinson".

¹See GAO note 2, p 67



U S DEPARTMENT OF COMMERCE
Bureau of International Commerce
Washington D C 20230

JUL 17 1972

Mr Oye V Stovall
Director, International Division
United States General Accounting Office
Washington, D C 20548

Dear Mr Stovall

We are replying to your letter of June 15, 1972, which invites Department of Commerce comments on the draft GAO report entitled, "U S System for Appraising and Evaluating Asian Development Bank Projects"

It is very helpful to have the GAO focus its attention in this area. In our opinion, this report, as did the reports which focused upon the World Bank Group and the Inter-American Development Bank, addresses important questions of U S policy-level relationships with the international lending institutions to which we are important contributors. We welcome the GAO's efforts to identify areas in which improvements might be made. In general, we agree with most of the main conclusions and recommendations of the report, subject to a few specific comments outlined below.

The central observation of the report is that it is necessary to develop more specific criteria and guidelines to assist U S officials charged with formulating and articulating U S policies concerning the operations of the Asian Development Bank (ADB) as well as other international financial institutions. We agree that this should be done to the extent practicable, and we believe that useful progress has been made in formulating such criteria and guidelines.

We are particularly drawn to those recommendations which suggest a system of more timely reporting and the provision of more time to the Washington agencies to analyze projects proposed for ADB financing. The more time that we have to review a proposed loan, the better the analysis we can make. Despite the logistical problems in achieving rapid movement of loan documents from ADB's Manila offices to the Washington agencies and to U S posts in Asia, we believe that procedures can be devised which would more fully utilize presently available U S Government expertise in performing the analysis and reporting functions in a more timely fashion.

Concerning the GAO recommendations for setting up new arrangements and machinery for the monitoring of ADB projects and the independent evaluation of the operations of the ADB, we do have reservations as to the feasibility of devising new evaluation machinery at this stage of ADB operations when the Bank has actually disbursed only \$75 million under its lending operations and few of its projects have yet been completed. Responsibility for project supervision must rest basically with the Bank management. This may also be true of evaluation studies, but we feel it is premature to come to firm conclusions on this issue. Our comments are, however, not intended to preclude an active role by U S missions in the field and by the Washington agencies, and it is hoped that U S posts will be able to give greater attention to the assessment of ADB projects in the future. We note that all the posts have recently been reminded by Washington of the importance of prompt reporting to the Washington agencies of their comments on proposed ADB loans.

The report focuses briefly on a problem with which we in Commerce have been directly concerned, namely the small share of Asian Development Bank procurement received by U S suppliers. It is probably still too early to assess the effects of our early warning system which is intended to inform American businessmen of trade opportunities at an earlier stage of ADB consideration of new projects. We agree with the GAO, however, that we cannot place undue reliance on this system to improve the trend in U S procurement from ADB financed projects. In this connection, it may be noteworthy that if the United States contribution of \$100 million to the ADB Special Funds is approved by Congress, there would be some enhancement of business opportunities for U S suppliers since U S companies will then become eligible under the Bank's rules to bid for contracts under ADB Special Funds financing.

Sincerely,


M. van Gessel
Acting Director
Bureau of International Commerce



DEPARTMENT OF STATE

Washington D C 20520

AUG 16 1972

Mr Oye V Stovall
Director, International Division
United States General Accounting Office
Washington, D C 20548

Dear Mr. Stovall

I have been asked to present the views of the Department of State and the Agency for International Development on the draft report of the GAO on the Asian Development Bank (ADB) in response to your letter of June 15, 1972. My remarks will deal primarily with the general observations and recommendations contained in the draft report rather than the specific case studies it cites.

The GAO reviewing officers have produced a comprehensive and carefully studied draft. Its focus on whether or not the Executive Branch could provide reasonable assurance to the Congress regarding the use of our funds was entirely appropriate. We were somewhat disappointed, however, that the draft did not explicitly recognize that our basic assurance must lie in the competence of ADB management and staff. Any measures taken by the Executive Branch to insure that our funds are well spent must be regarded as a supplement rather than a substitute for this factor. We believe that the ADB, despite its relative infancy, is a competent organization.

The draft report rightly stresses the importance of timely information on projects under consideration by the ADB. We are taking steps to receive more information at an earlier stage of project consideration. We have recently reissued standing instructions to our embassies

in ADB member countries to insure that their comments on proposed projects will receive due weight in NAC consideration of the projects. The NAC has also begun a more systematic review of the Bank's monthly summaries. These summaries are also being used as an "early warning" system for U.S. procurement on ADB projects similar to the one which exists for the World Bank Group.

The draft report alleges an absence of criteria by which US officials can judge ADB projects. Our comments on the draft report on the World Bank Group outline some of the criteria used in the analysis of ADB loans by State and AID officers.

We have some reservations about the comments made in the draft report on follow-up on ADB projects in progress. We agree that our responsibility as a member government and important contributor requires us to know in general terms what the ADB is doing in recipient countries and what major policy-related problems, if any, it is encountering in the planning and implementation of its loans. We do not believe, however, that member governments can or should take upon themselves the task of detailed monitoring of internationally financed projects. Considerable information on ADB activities is often available at AID missions and embassies. The increased travel USADB is now undertaking will help to meet the GAO's concern by bringing this information to the attention of officials who deal with the ADB. The draft rightly recognizes, however, that cutbacks in AID missions will make the task of collecting, evaluating, and forwarding this information more difficult.

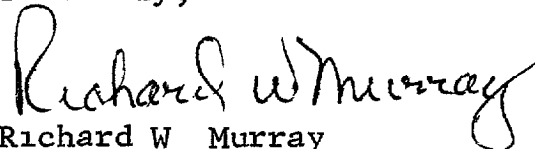
Related to the question of follow-up is the recommendation in the draft report that we urge the ADB to set up an independent review and evaluation group responsible to the Board of Directors. We favor this proposal, and we understand that the ADB has been waiting to see what the World Bank Group evaluations unit

accomplishes before deciding on its own evaluations unit. As the draft report mentions, the World Bank evaluations staff is responsible not to the Board of Directors but to IBRD management. It can be argued that this allegiance makes it a less independent body than the one proposed by the GAO. It does, however, have one characteristic which would be essential to the effective operation of any evaluation unit: the wholehearted support of the top levels of the IBRD. This has given the World Bank evaluations department the strength to produce two extraordinarily frank reports on IBRD operations. If this experience is any guide, the relationship between any ADB evaluations unit and Bank management is critical regardless of whom the evaluations group reports to.

I would also like to comment briefly on a few practical questions. The draft report mentions the problems of "bunching" at the end of the year. While this has been a problem in the past, we noticed a significant reduction in the year-end work load this past year. The draft report also comments on the difficulty of accomplishing the ADB's stated goal of channeling more assistance to the least developed countries in the area without adequate Special Funds. We fully agree with this assertion, and note that Special Funds appropriating legislation is currently before Congress.

I understand that other agencies of the National Advisory Council will be sending you separate letters commenting on the draft report.

Sincerely,



Richard W. Murray
Deputy Assistant Secretary for
Budget and Finance

APPENDIX VII



THE DEPARTMENT OF THE TREASURY

WASHINGTON D C 20220

ASSISTANT SECRETARY

DEC 5 1972

TO Mr. Oye Stovall, Director, International Division
General Accounting Office

FROM John M Hennessy

SUBJECT Treasury Comments on GAO Draft Report on Asian
Development Bank (ADB)

I am supplying herewith Treasury Department comments on the GAO Draft Report entitled 'U S. System for Appraising and Evaluating Asian Development Bank Projects.'

In contrast with the recent GAO Draft Reports on the Inter-American Development Bank and the World Bank, the present draft concerns itself to a much greater extent with management aspects of U S. participation in the Asian Development Bank (ADB). It generally avoids implicit or explicit substantive judgments on the operations of the ADB itself -- judgments of a kind GAO witnesses have assured Congressional committees they neither wish to make nor are equipped to make. This GAO approach to reviewing U.S. participation in international financial institutions is more in keeping with the intended scope of such reviews, although some inappropriate elements remain in the report.

While the report thus moves away from areas we found objectionable in earlier reports, we nevertheless find it necessary to disagree strongly with many of the assumptions and findings in the material legitimately relating to our management procedures. For convenience, my comments follow the order of presentation in the Digest section of the Draft Report; comments on the Digest of course refer equally to the underlying sections in the main text. An annex provides additional comment on specific portions of the Draft Report.

[See GAO note 1, p. 67]

[See GAO note 1, p 67]

2. Report Overlooks U.S. Policy Inputs The Digest (page ⁽¹⁾ 2) and related portions of the text of the Draft Report describe the U.S. role in relation to the Bank's lending activities almost exclusively in terms of appraisal of specific projects. In taking this narrow view, the Draft Report overlooks the fact that we also affect ADB lending policy directly and without reference to any pending loan

For example, the U.S. Director has actively participated in Bank policy discussions on the appropriate interest rate and commitment fee to be charged on loans, on the use of the Bank's local currency resources in its operations, on Bank financing of local rather than foreign costs of projects, on guidelines for country allocation of special funds lending, on whether or not the Bank should engage in financing of exports, and on guarantees or other forms of security to be required on its loans.

All of these topics were dealt with as general policy matters, with the outcome of the discussions constituting guidance to management in the formulation of subsequent individual loan proposals. They therefore represent a significant mechanism for the United States to affect Bank lending at a much earlier stage than the presentation of a project to the Board. We would like to see this important element in our management system appropriately acknowledged in your Report.

¹See GAO note 2, p 67]

3. Challenge to Effectiveness of Present System Not Supported. Our considered view is that an effective management system exists for ensuring that sufficient information on proposed ADB activities is acquired and is adequately appraised. This system is, moreover, being continuously improved, a fact notably underplayed in the Draft Report. Even if given the most critical interpretation, the sum total of the evidence put forward in the Draft Report demonstrates no more than very occasional underperformance that any system is liable to. Accordingly, we reject the suggestion that we have "not yet developed an effective system" to yield reasonable assurances regarding the utilization of funds we have contributed. If GAO feels that a post-evaluation of projects through some audit mechanism is a needed management tool to meet the emerging demands of the future, it should state this view without characterizing the current situation as deficient. This is particularly true since we are, as noted in our other comments, pursuing this very objective as a timely evolution of our management system.

[See GAO note 1, p. 67.]

[See GAO note 1, p. 67]

6. Follow-up on Implementation of Projects. The comment on page 3¹¹ of the Digest as to the absence of follow-up on the implementation of projects gives inadequate weight to the internal mechanisms of the Bank and its Board of Directors for monitoring project progress. In

¹See GAO note 2, p. 67]

APPENDIX VII

addition, there has been a vigorous program in the past year and a half by the Office of the U.S. Director to make field visits to the majority of the Bank's project sites, which is described in pp. 40-41¹ of the Draft Report. The Draft Report's findings on this point do not appear to reflect either the Board process or the action program undertaken by the U.S. Director. They therefore seem to be, at a minimum, out of date, and should be reconsidered.

7. Absence of Independent Evaluative Reporting. We do not believe that the absence to date of a formalized system for post-evaluation of projects has impaired the effectiveness of our current operations. In regard to the absence of such a system, the Draft Report should recognize, by more than a passing mention of the relative infancy of the Bank, that it would have been premature to attempt to measure the actual results of projects financed by the Bank when the projects themselves have not yet been completed. The majority of ADB projects were only authorized in the last two years, and at the time of GAO's review only two of ADB's 85 approved loans had yet had time to be fully disbursed, let alone exert an economic impact over a long enough time to permit appraisal.

It is important that some system for post-appraisal of projects -- along the lines established in the Inter-American Development Bank or an alternative of comparable effectiveness -- be developed by the time such appraisals can usefully be carried out, and we are working on ensuring this. It is not a shortcoming of our management system, however, that the particular system favored by GAO had not been created in ADB as of the time of the GAO review. Your Digest statement (p.3)¹ would, therefore, be more objective if it said "while it is too early for a post evaluation system to be operative, the time is approaching when a mechanism along this line would be appropriate."

The Recommendations and suggestions contained in the Digest (pp 3-4)¹ are generally constructive in nature. Although they are in certain respects lacking in specificity, in their broad thrust they reflect trends already under way for some time in Treasury's management of U.S. participation in the Asian Bank. I would like to offer the following observations on individual recommendations.

- Earlier Receipt of Project Information. We agree that maximum use should be made of the project information provided by the Bank at earlier points in the loan

¹See GAO note 2, p.

preparation process, and have taken a number of steps in that regard in the last year or two. It should be understood, however, that at these earlier stages there does not yet exist a body of documentation to permit adequate appraisal of the loan. Accordingly, the recommendation would have to make clear that it aims only at supplementing our present appraisals based on formal loan documents before we could regard it acceptable in your final Report.

- Loan Appraisal Instructions. This recommendation is identical to one we have already accepted in connection with your IDB Report. We are prepared to accept it on the same basis if it appears in the final version of your Report, i.e., we do not feel the absence of codified instructions has a significant effect on loan appraisals, but are nevertheless prepared to codify the various existing written and unwritten guidelines. I would, however, like to emphasize again that the present system in which trained and experienced senior officials from the concerned agencies have latitude to exercise judgment, has worked well. Codified guidelines will become self-defeating if they become rigid rules or are mechanically applied.
- Role of U.S. Posts Overseas. With the phasedown of U.S. AID Missions overseas already in progress, it would be unwise to plan on a major reporting role for such missions with respect to ADB activities in their countries. Your recommendation would therefore, be more acceptable if it suggested that embassies and AID missions report on ADB activities "to the extent feasible."

All our overseas missions have since late 1970 been provided with "early warning" notice of upcoming projects to be financed by international institutions, and have been providing available information since that time, particularly with respect to commercial opportunities such projects might afford to U.S. suppliers. Your recommendation can therefore have meaning only with respect to the implementation phase of Bank-financed projects. In that regard, I wish to state, first, that there is more adequate follow-up by U.S. field missions than the Draft Report gives credit for (and, incidentally, more adequate feedback to technicians in Washington of Bank action responsive to U.S. inputs than is acknowledged in the Draft Report.) Second, I wish to reiterate our

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view -- previously expressed in connection with your IDB and World Bank Reports -- that such a recommendation is acceptable only if it is clear that our missions are not expected to carry out in-depth audits, or uneconomically duplicate the on-site project supervision activities of the Bank or build up and maintain special staffs for these purposes.

[See GAO note 1, p. 67.]

ANNEX 1

Comments on Specific Portions of the Draft Report

[See GAO note 1, p 67]

(4) Assurances on Use of Funds. On page 20,^[1] the Draft Report states "we believe that, as a minimum, the U.S. Executive Branch should have enough working knowledge and data to give firm assurances to the Congress that the funds contributed to the international organizations are or are not being used efficiently and effectively and accomplish intended objectives. In our opinion, the Executive Branch has not been in a position to give such assurances with regard to funds contributed by the United States to the ADB." The Treasury Department considers this expression of opinion wholly without merit.

Presumably, the GAO is referring principally to the fact that the Bank has not yet established an independent evaluation unit of the type that exists in the Inter-American Bank. The Asian Development Bank is a relatively young institution; its disbursements are low compared to disbursements of the Inter-American Bank and the International Bank for Reconstruction and Development. The number of projects it has completed is also correspondingly low. The time has only recently become appropriate to set up procedures and establish staff to carry out reviews of completed projects. The Treasury Department is moving to see that these things are done.

(5) Post-evaluation of Projects. On page 21,^[1] it is stated that "regular independent, evaluative reporting to member governments relative to efficiency of operations, success or failure of ADB projects results achieved is virtually non-existent." This statement is again factually correct but only because at this point very few ADB projects have been completed and been in operation long enough that they can usefully be appraised by an evaluative mechanism. The situation in many of its borrowing countries is such that the Asian Bank has often had to precede its loans with extensive technical assistance focused on project identification. Only then was it possible to carry out feasibility studies, engineering design studies and the other necessary elements before a project is ready for presentation to the Board. It should not be surprising, therefore, that the bulk of the Bank's loans were only approved in the last two years, and these projects will still require several years before completion and being placed in operation.

¹See GAO note 2, p. 67]

ANNEX 1

(6) Early Project Information. On page 28,¹¹ it is stated that the U.S. Director must learn or be informed of problem areas in forthcoming ADB loan proposals early enough in the project formulation stage for him to have time to convince the ADB staff and management of the desirability of his changes. We agree with this proposition as a general matter, and have made important progress in the past year. The Bank's Monthly Operational Information document now contains an expanded summary statement, showing country, amount and technical description for each proposed project from the time a loan application has been taken under study. In addition, a monthly updating is provided on the processing status of each loan in the appraisal pipeline. The NAC Staff Committee reviews this document monthly to identify problems relating to expropriation, suitability of financing, compliance with performance criteria, use of funds, etc. This Monthly Operational Information document also provides the basis for our system of "early warning" to U.S. field missions about forthcoming loans.

The fundamental difficulty in raising technical issues early in loan processing is that only some problem areas can be isolated much before the final, formal loan documents are prepared, while others cannot because they depend on the specific outcome of final negotiations with the borrower. It would be useful if the Report made this distinction.

(7) Appraisal Time. We do not agree with the opinion expressed on page 29¹¹ that time pressure results in hasty analyses of a dubious quality by the National Advisory Council or that it cramps effective intervention by the U.S. Director when problem proposals are identified.

[See GAO note 1, p 67]

We believe this is ample time for an experienced technician to identify problems in a loan document. In the majority of cases in which less time was available, the summary cable from USADB was available -- sometimes as much as eleven days in advance -- to provide technicians a basis on which to draw tentative conclusions.

¹See GAO note 2, p 67]

The GAO analysis neglects numerous other factors: the availability of advance airmail copies of loan documents prior to regular NAC distribution; the additional time available to NAC agencies between Staff Committee discussion and Council vote, the right of agencies to reopen consideration if late documents reveal issues not identified in cable information, and the use of telephonic communication with USADB to clear up questions prior to NAC staff discussion.

As far as the timeliness of instructions to the U.S. Director is concerned, the date-comparison material tabulated by GAO also tells very little. First, the Draft Report makes no attempt to distinguish between cases where Washington had no objections and cases where Washington wished points raised. There is obviously no need for long lead times in the majority of cases where no issues are to be raised. Second, it notes but does not give due weight to the fact that the cabled instructions are only the formal recording of the NAC result, or that telephonic instructions are provided prior to the cable instruction when a problem exists.

[See GAO note 1, p. 67.]

In general, therefore, our view is that this aspect of the Draft Report involves unwarranted or overdrawn conclusions as a result of the mechanistic application of date comparisons. We can agree that more time is generally better than less time, but not that our procedures are seriously defective in practice.

(8) Timeliness of Field Comments. On page 35^[1], the Draft Report states that country team comments generally arrive in Washington after NAC Meeting dates and occasionally after votes are taken.

[See GAO note 1, p 67]

the 33 responses surveyed arrived on or before the date of the NAC Staff Meeting and were available for the meeting. Further, none of the 6 responses that arrived after the date of the NAC vote raised any objections to the loans. Perhaps more importantly, every one of the 33 responses arrived prior to ADB Board action, so that it would still have been possible to reconsider the U. S. Director's instructions if the field comment had raised serious objections. Nevertheless, we are now considering having initial country team comments forwarded at an earlier stage keyed to NAC consideration of the Monthly Operations Information document, to supplement the present system.

¹See GAO note 2, p. 67]

(9) Feedback of Loan Information. On page 42,⁽¹⁾ it is stated "several agency officials said they never hear of a loan again after it has been approved in the NAC Meeting, yet they felt that feedback on these loans could be very helpful in considering proposals for similar loans in the future". Such comments are, of course, affected by the varying degrees of utilization of available feedback information as among individual officials. As a factual matter, the Draft Report should at least note that the U.S. Director does communicate to Washington the outcome of issues he is instructed to raise in the Board and that all ADB loan documents routinely include a status report on loan projects currently underway in the particular country. In cases where a second loan is proposed to a specific entity, the loan document provides Washington officials with very detailed information concerning the first loan. The Draft

[See GAO note 1, p. 67.]

¹See GAO note 2, p 67]

[See GAO note 1, p 67.]

The main text mentions on page 8^{11} that certain documents were not made available to GAO. We feel we have cooperated fully with your representatives and provided very extensive documentation. In our view, the extremely limited materials not made available to GAO were by no means critical to the preparation of the Draft Report. We believe your statement should acknowledge the almost complete freedom of access to materials rather than emphasize the rare exception based on legitimate grounds of protection of confidentiality of views expressed by other governments.

¹See GAO note 2, p 67]

[See GAO note 1]

GAO notes

- 1 Deleted comments pertain to material presented in the draft report which has been revised or not included in the final report
- 2 Page numbers refer to pages of the GAO draft report and many have changed in the final report

APPENDIX VIII

OFFICIALS RESPONSIBLE FOR
 ADMINISTRATION OF
 U S. PARTICIPATION IN THE
 ASIAN DEVELOPMENT BANK

	<u>Appointed or commissioned</u>	
SECRETARY OF THE TREASURY		
George P Schultz	June	1972
John B. Connally	Feb	1971
David M Kennedy	Jan	1969
Joseph W Barr	Dec	1968
Henry H. Fowler	Apr	1965
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS.		
John M. Hennessy (note a)	June	1972
John R. Petty	May	1968
Winthrop Knowlton	Aug.	1966
U S REPRESENTATIVE TO THE BANK'S BOARD OF EXECUTIVE DIRECTORS		
Artemus E Weatherbee	Oct.	1971
Bernard Zagorin	Dec	1966
OTHER MEMBERS OF THE NATIONAL ADVISORY COUNCIL ON INTERNA- TIONAL MONETARY AND FINANCIAL POLICIES		
Secretary of State		
William P. Rogers	Jan	1969
Dean Rusk	Jan.	1961
Secretary of Commerce		
Fredrick B Dent	Feb	1973
Peter G Peterson	Feb.	1972
Maurice H Stans	Jan	1969
Cyrus R Smith	Mar	1968
Alexander B Trowbridge	June	1967

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