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Questionable Effectiveness
Of A \$20 Million Grant
Supporting India's
Family Planning Program B-161854

Agency for International Development

*UNITED STATES
GENERAL ACCOUNTING OFFICE*

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JAN. 12. 1973



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-161854

Dear Dr. Hannah:

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This report highlights various problems observed during our review of a \$20 million grant provided by your agency to the Government of India in support of its family planning program. These observations are summarized in the digest.

A draft of this report was submitted to you for comment. The response, included as an appendix, was considered in the preparation of this report.

In response to our draft, the Acting Assistant Administrator of the Bureau of Asia replied that the extent to which the purposes of the grant had been achieved could be more accurately and usefully determined at the end of India's fourth 5-year plan; i.e., March 1974. We believe that such evaluations should be made. Accordingly, we are recommending that you obtain from your Auditor General periodic evaluations of the extent to which the conditions of the grant are being achieved, including the full impact of the grant after the fourth 5-year plan ends on March 31, 1974.

We are also recommending that you reconsider the use of dollars earmarked for population programs for purposes unrelated to foreign exchange costs of such programs for those countries where ample amounts of U.S.-owned local currencies are available. Recent legislation proposed by the Senate, and discussed in this report, provides guidance on the use of dollars in such countries. That legislative guidance is more restrictive than the present policy being followed by your agency.

Copies of this report are being sent today to the House and Senate Committees on Government Operations; the House and Senate Committees on Appropriations; the Subcommittee on Foreign Operations, Senate Committee on Appropriations; the Foreign Operations and Government Information Subcommittee, House Committee on

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Government Operations; the Secretary of State; and the Director,
Office of Management and Budget.

We wish to acknowledge the cooperation extended to our
representatives during the review.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Oye V. Stovall". The signature is fluid and cursive, with a large initial "O" and a long, sweeping tail.

Oye V. Stovall
Director

The Honorable John A. Hannah
Administrator, Agency for
International Development

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ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
GOI	Government of India

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR
AGENCY FOR INTERNATIONAL
DEVELOPMENT

QUESTIONABLE EFFECTIVENESS OF A
\$20 MILLION GRANT SUPPORTING
INDIA'S FAMILY PLANNING PROGRAM
Agency for International Development
B-161854

D I G E S T

WHY THE REVIEW WAS MADE

In November 1967 the Congress added title X to the Foreign Assistance Act to provide broader and more specific authority for assistance on population control in developing countries. Title X funds are to be used for population control assistance only. This assistance includes demographic studies and research, personnel training, constructing and staffing clinics, providing medical assistance and supplies, and disseminating family planning information.

In mid-1970 the Agency for International Development (AID) announced that it was providing a grant of \$20 million to India to help expand its population control program. AID stated that the grant was made in accordance with title X of the Foreign Assistance Act and that the funds would be spent in the United States for goods and services normally imported by India and financed by development loans.

In light of the General Accounting Office's (GAO's) understanding of the rationale and background of title X and the substantial amounts of U.S.-owned excess currency in India, the grant seemed unusual. Although its stated purpose was to further the objectives of the family planning program, it appeared to have the attributes of general economic assistance. Therefore GAO inquired into the circumstances

surrounding the grant and into the effectiveness of the grant in improving and expanding India's family planning program.

Background

India's population, estimated at 547 million in 1971, is expanding at a rate of about 14 million a year. It is expected to reach one billion in the 20th century. India's increase in population is, in the main, attributable to the control of communicable diseases and the improvement in health services. The death rate dropped from an estimated 27 per thousand in 1950 to an estimated 14 per thousand in 1971. The birth rate over the same period dropped from an estimated 40 per thousand to 39 per thousand. Life expectancy rose from 32 years in 1950 to an estimated 53 years in 1970.

India's gross national product rose 39 percent from 1960 to 1969. Its per capita product increased 12 percent from 1960 to 1964 and has not increased since. Therefore, population growth is nullifying about two-thirds of all investments in economic growth and social progress in India.

The Congress has expressed concern about the harmful impact of this situation and its effect on the American foreign aid program. The Congress has also criticized AID for doing too little in the population planning area.

FINDINGS AND CONCLUSIONS

Although GAO does not in this report question the legality of this transaction, little evidence was found that AID's \$20 million grant of population control funds for general commodity imports would have a favorable impact on India's family planning program.

Existing conditions were not conducive to expanding the program sufficiently for India to effectively use the rupees generated by the grant. Rupee expenditures under the program previously had not equaled those budgeted. Such equalization would require a 78-percent increase over the prior year's rupee expenditures, and India's administrative and fiscal procedures were constraints on the program.

Policy on use of excess foreign currencies

Until the middle of fiscal year 1970, AID operated under the concept that it was not authorized to use title X funds to meet a need for local currencies for population programs in any country where U.S.-owned local currencies were excess or where there were ample local currencies available under Public Law 480. Under that concept AID funded numerous population and family planning activities for India; local costs and budgetary support of the project were funded with rupees, and foreign exchange costs were funded with dollars. (See pp. 9 and 10.)

On November 7, 1969, AID announced a modified title X policy which provided that:

"Dollars can be authorized to finance local costs where careful examination indicates that such expenditures will contribute significantly to the achieve-

ment of population and family planning goals."

Concurrent with the policy modification, AID in November 1969 offered the Government of India (GOI) a grant of up to \$50 million of title X funds for family planning purposes. (See p. 10.)

Grant arrangement

In June 1970 AID and GOI representatives signed an agreement providing for a \$20 million U.S. grant to finance the foreign exchange costs of general commodity imports not related to family planning and for India to increase expenditures for its family planning program from the equivalent of \$420 million to \$440 million under its Five Year Development Plan (April 1969 through March 1974). With the conclusion of that agreement, AID obligated \$74.6 million of the \$75 million earmarked for title X purposes for fiscal year 1970. (See p. 10.)

GAO could not determine the exact status of the \$30 million balance of AID's original offer to India. However, AID has indicated that, in the future, it might provide dollars to support expanded local currency expenditures in excess-currency countries. (See p. 10.)

Its review of the \$20 million grant (performed in Washington and New Delhi) caused GAO to doubt that under existing conditions India would be able to effectively use the additional rupees generated by the grant.

Available data indicated, for example, that spending for family planning, as previously stated, would have to increase 78 percent over fiscal year 1970-71 spending during the remaining 3 years of India's 5-year plan. GAO also found evidence that administrative and

fiscal procedures continued to be major constraints on the program. (See pp. 12 and 18.)

In GAO's opinion, AID is not increasing India's family planning program nor is it improving program management by making this dollar grant to India. The grant has only resulted in additional general development assistance.

GAO does not question India's need to control the growth of its population. GAO does question AID's ability to influence or assist family planning by providing resources under the conditions described in this report.

RECOMMENDATIONS OR SUGGESTIONS

The Administrator of AID should reconsider the use of dollars, earmarked for population control, for purposes unrelated to foreign exchange costs of the population program for those countries where ample amounts of U.S.-owned foreign currencies are available.

A more direct and positive relationship between the amounts granted and the underlying purpose of the grant would enhance the possibility of attaining the objectives of the grant. In the absence of such relationship in India, there is little tangible evidence that appropriated funds earmarked for assisting in population control are achieving the purposes for which intended.

GAO also recommends that the Administrator of AID obtain from the

Auditor General periodic evaluations of the extent to which the purposes of the grant are being achieved, including the full impact of the grant after the fourth 5-year plan ends on March 31, 1974.

AGENCY ACTIONS AND UNRESOLVED ISSUES

AID said that expansion of the Indian program simply could not be achieved by allocating additional U.S.-owned excess local currencies. Moreover, AID might provide dollars to support expanded local currency expenditures in the future, if such aid would lead to significant improvements in family planning programs.

The conditions in India at the time the grant was made strongly indicated that the dollar grant would not add substantially to the family planning program and that resources were available in India to meet the needs of an expanded program.

GAO believes that U.S.-owned excess foreign currencies should be used first. In furthering the objectives of a program, when resources are not adequate in excess-currency countries and when a direct and positive relationship has been established, dollar support could then be provided to meet foreign exchange costs.

GAO noted that the Senate, in the bill (H.R. 16705) making appropriations for foreign assistance and related programs for the fiscal year ending June 30, 1973, provided guidance on the use of dollars for programs in excess-currency countries. However, the Congress adjourned before enactment. (See p. 11.)

CHAPTER 1

INTRODUCTION

U.S. officials have stated that population growth is nullifying about two-thirds of all investments in economic growth and social progress in the less developed countries, including those assisted by the United States. The Congress has expressed concern about the harmful impact of this population growth on the developing countries and its effect on the U.S. foreign aid program. The Congress has also been critical of the Agency for International Development (AID) for doing too little in the population planning area.

In November 1967 the Congress added title X to the Foreign Assistance Act of 1961 to provide broader and more specific authority for assistance on population control in developing countries. Title X provides for a wide range of programs relating to family planning, including such activities as demographic studies and research, personnel training, constructing and staffing clinics, providing medical assistance and supplies, and disseminating family planning information.

The Congress earmarked \$35 million of fiscal year 1968 foreign assistance funds for title X programs only. This amount rose to \$50 million for 1969, \$75 million for 1970, \$100 million for 1971, and \$125 million for 1972. It was the Congress' desire that the administration more aggressively pursue population problems and afford family planning activities a higher priority in its foreign assistance programs.

Earmarking funds for title X means that the funds are available only for use as population control assistance. The funds do not become available for other purposes if they are not used for the population control program. AID obligated \$34.7 million in fiscal year 1968 for this purpose, \$45.4 million in 1969, \$74.6 million in 1970, \$95.9 million in 1971, and \$123.3 million in 1972.

The purpose of our review was to inquire into the circumstances of a general commodity import grant of \$20 million to India from title X funds and, particularly, to

seek evidence of an improved and expanded Indian family planning operation.

We made the review at AID offices in Washington, D.C., and New Delhi, India. At AID's request we did not review the program at operational levels because of the sensitivity of India's family planning officials to a foreign presence in their program.

In this report we do not question the legality of the grant. We do question whether it was needed and would serve to advance the progress of the family planning program in India. The dollar grant was in essence foreign exchange which was used by India for general economic assistance, in consequence of which the Indian Government agreed to increase its allocation of resources for family planning purposes the equivalent of \$20 million in rupees over a 5-year period.

On April 27, 1972, we gave AID a draft of this report for review and comment. AID's consolidated response, dated June 21, 1972, is included as appendix I and is discussed in the report where appropriate. AID disagreed basically with our conclusions and recommendation.

CHAPTER 2

INDIA'S POPULATION PROBLEM AND AID'S ASSISTANCE

India's population, estimated at 547 million in 1971, is expanding at a rate of about 14 million people a year, and it is expected to reach one billion in the 20th century. Although India's gross national product rose 39 percent from 1960 to 1969, its per capita product increased only 12 percent and has not increased since 1964.

India's increased population is mainly attributable to control of communicable diseases and improvement in health services. The death rate has steadily dropped from an estimated 27 per thousand in 1950 to an estimated 14 per thousand in 1970. The birth rate over the same period dropped only from an estimated 40 per thousand to 39 per thousand. Life expectancy rose from 32 years in 1950 to an estimated 53 years in 1970.

The Government of India (GOI) was one of the first to recognize the necessity of curbing population growth and to adopt birth restraint as a formal national policy goal. India's program, which began in 1951, was generally ineffective for the first 15 years.

In 1965, however, the program gained momentum and the equivalent of \$5.6 million was spent for family planning. By 1970 spending had risen to the equivalent of about \$50 million. An April 1970 assessment, made by a former AID Mission director to India, noted that in 1968-69 the per capita outlay for family planning was already as large as, or larger than, the outlay in countries regarded as front-runners in the field.

Other than the \$20 million grant which is the subject of this report, AID's technical assistance to India's family planning program through June 30, 1971, has amounted to about \$7.6 million plus the equivalent of about \$14,000 in U.S.-owned local currency and \$1.4 million in GOI trust funds. This assistance has been mainly in the form of technical assistance grants for commodities, participant training, and technical advice. Additionally, in 1968 AID authorized, for budgetary support of the GOI family planning

program, a rupee grant equivalent to about \$11.3 million. As of July 1, 1971, 13 Americans were assigned to AID's family planning office in India.

AID's Area Auditor General (South Asia) reviewed most of AID's population project activities in India from their inception in May 1967 through June 30, 1970. The Auditor General's report of April 26, 1971, indicated that only limited progress had been made in subproject activities, primarily because of dilatory actions and time-consuming procedures of GOI. The report also commented on GOI restraints placed on AID surveillance of its assistance.

CHAPTER 3

AID'S POLICY CHANGE LEADING TO \$20 MILLION GRANT

Our review showed that AID changed its policy in the middle of fiscal year 1970 to permit greater use of title X funds for excess-currency countries and thereby paved the way for making program grants to India from title X funds.

In January 1968 the AID General Counsel, in his interpretation of title X, pointed out that local currencies would clearly be chargeable against the title X funds if acquired with appropriated dollars to meet a need for local currencies for population programs. However, it was his opinion that generation of local currencies for family planning could not fairly be specified as a purpose for dollar expenditures, if ample amounts of U.S.-owned local currencies were already available for such programs.

That interpretation apparently had a great deal of impact in the case of India because, as of June 30, 1970, the U.S.-owned rupees amounted to almost \$1 billion and exceeded U.S. needs for the foreseeable future. Furthermore, India, the United States, and international financial institutions do not look upon the use of U.S.-owned rupees as an additional resource nor as real financial aid.

AID apparently found it increasingly difficult to obligate the funds earmarked for title X purposes. AID recognized that one of the principal determinants in full use of funds earmarked for the population control program was the policy governing funding methods, particularly as it restricted greater use of grant dollars for financing local costs in excess-local-currency countries. Because of this concern AID in November 1969 modified its title X policy.

On November 7, 1969, AID announced the modified title X policy and stated that:

"Dollars can be authorized to finance local costs where careful examination indicates that such expenditures will contribute significantly to the achievement of population and family planning goals.

In excess currency countries an additional showing is necessary that the foreign exchange is needed by the economy on balance of payments grounds."

The statement also pointed out that in excess-currency countries local currency could be generated by nonproject loans or nonproject grants.

A consortium met in Stockholm, Sweden, on November 24 and 25, 1969, to review the problems and progress in India's family planning program and to discuss the possibility of further external assistance. At the meeting, GOI officials stated that the import requirements of the program were few and that the family planning program needed very little foreign exchange support. What was needed, the official stated, was assistance from abroad to finance local currency which could be used to augment India's current program.

At that meeting the United States made an offer of aid, stating that under certain conditions it would be willing to give up to \$50 million in the form of a grant. An underlying assumption in the U.S. offer was that GOI would initiate actions for necessary fiscal and administrative reforms as outlined in an October 1969 United Nations study of India's family planning program.

After several months of discussion, AID provided a grant of \$20 million for India's family planning program on June 30, 1970. With this grant, AID obligations totaled \$74.6 million of the \$75 million earmarked for title X purposes in fiscal year 1970.

According to AID files, it appears that the grant represented the first installment of the \$50 million AID had offered India for its family planning program in November 1969. However, the AID Mission in India advised AID/Washington in July 1971 that additional increments would not be required. AID indicated nevertheless that additional financing might be provided.

The grant was to insure expansion and improvement of India's existing family planning program. The grant provided for the foreign exchange cost of commodity imports generally required in the Indian economy and did not provide specific

objectives or program requirements. AID explained that a prerequisite of the grant required GOI to furnish a plan for using the rupee equivalent of the grant. Moreover, AID and GOI were to hold semiannual meetings to discuss and review family planning activities. AID believed that the plan met the specific objectives or program requirements which we had indicated were lacking.

We considered the prerequisite and the resulting plan during our inquiry into the circumstances of the general commodity import grant. It is our view that the plan does not require a substantive performance which would reasonably insure that the funds would be used effectively in furthering the objectives of the family planning program. We believe that a more direct and positive relationship between the amount granted and the underlying purpose of the grant would have enhanced the possibility of attaining the objectives of the grant.

We note that the Senate recently provided guidance on the use of dollars for programs in excess-currency countries in a bill passed on September 28, 1972, making appropriations for foreign assistance and related programs for the fiscal year ending June 30, 1973. However, this guidance was not included in the bill passed by the House on September 21, 1972. The Senate and House had not resolved the differences between their respective bills when the Congress adjourned on October 18, 1972.

We understand that the Senate provision was designed, among other things, to cover such situations as the AID grant to India. The Senate provision (H.R. 16705) stated:

"Sec. 111. It is the sense of the Congress that excess foreign currencies on deposit with the United States Treasury, having been acquired without the payment of dollars, should be used to underwrite all local costs of United States foreign assistance programs. Therefore, none of the funds appropriated by this title shall be used to acquire, directly or indirectly, foreign currencies or foreign credits from non-United States Treasury sources when there is on deposit in the United States Treasury excess foreign currencies

having been acquired without payment of dollars unless such acquisition has been previously justified to the Appropriations Committees of the Senate and the House of Representatives."

CHAPTER 4

ONLY LIMITED FOREIGN ASSISTANCE NEEDED

FOR INDIA'S FAMILY PLANNING PROGRAM

Although one of the primary purposes of AID's \$20 million grant was to expand India's family planning program, we doubted that under existing conditions India would be able to effectively use the grant-generated funds.

The opportunity for the United States to provide direct assistance appears quite limited. India has the industrial base and manpower pool to meet almost all the requirements for its national family planning program, and the capacity to produce commodities needed by the program either exists or can be quickly created. AID recognized in late 1968 that the need for imported commodities for the Indian family program was not very great.

The Indian Ministry of Health expressed the belief that foreign technicians did not have much to offer Indian family planners. An AID official indicated in September 1969 that, for the past 5 years, efforts of donors to become actively involved in the family planning program at operational levels had been largely frustrated and that GOI's tolerance for advisors was extremely limited.

India's requirements for financial assistance for family planning also seem to be quite limited. Historical budget and expenditure data indicated that GOI had consistently failed to spend its budgeted funds for its family planning program. With the signing of the grant, India agreed to expand its family planning program from the equivalent of \$420 million to \$440 million.

The following tables reflect, in the dollar equivalent of rupees, our analysis of India's budget and expenditure performance in its family planning program.

GOI Family Planning Budget and Expenditures

Period	Budget	Expenditures	Amount of budget	Percent of budget
			not spent	not spent
(millions)				
1961-66	\$ 28.4	\$ 21.9	\$ 6.5	23
1966-67	19.4	18.1	1.3	7
1967-68	41.5	34.0	7.5	18
1968-69	<u>49.5</u>	<u>40.7</u>	<u>8.8</u>	18
(Fourth 5-year plan)				
1969-70	\$ 56.0	\$ 49.9 ^a	\$ 6.1	11
1970-71	71.8	61.6 ^a	10.2	14
1971-72	80.0	102.8)		
1972-73	212.2 ^c	102.8)	308.5 ^b	
1973-74		102.9)		
	<u>\$420.0</u>	<u>\$420.0</u>		
			<u>\$16.3</u>	
			<u>20.0</u> (\$20 million U.S. grant)	
			<u>\$36.3</u>	

^aEstimated.

^b\$308.5 million remaining to be spent to fully expend budgeted funds of \$420 million ($\$308.5 \div 3 = \102.8).

^c\$212.2 million is the amount remaining in budget to reach \$420 million.

GOI Family Planning Budget and Expenditures
Plus \$20 Million Grant

Period (fourth 5- year plan)	Original budget	Original budget	Expenditures	Percent increase over 1971 expenditures needed to meet budget
		plus \$20 million grant		
(millions)				
1969-70	\$ 56.0	\$ 56.0	\$ 49.9 ^a	
1970-71	71.8	71.8 ^b	61.6 ^a	
1971-72	80.0	86.7 ^b	109.5)	78 ^d
1972-73	212.2 ^e	225.5 ^b	109.5)	328.5 ^c
1973-74		109.5)	109.5)	
	<u>\$420.0</u>	<u>\$440.0</u>	<u>\$440.0</u>	

^aEstimated.

^bThe \$20 million was allocated equally to the budgets for the remaining 3 years' budget, to raise budget to \$440 million.

^c\$328.5 million equals the \$308.5 million (first table, above) plus the \$20 million grant--the amount needed to be spent to expend budget.

^d\$109.5 million ($\$328.5 \div 3$) is a 78-percent increase over the 1970-71 expenditure of \$61.6 million.

^e\$212.2 million is the amount remaining in budget to reach \$420 million.

The tables show that, during the first 2 years of the 5-year plan, GOI failed to spend over \$16 million of budgeted funds. With the \$20 million grant, India must spend \$36.3 million above its original budget in the remaining 3 years. If the remainder of the total budget is averaged over the last 3 years, as shown in the table above, \$109.5 million will have to be spent annually to meet GOI's budget. This indicates a 78-percent increase in spending over the 1970-71 expenditures in each of the remaining fiscal years in India's 5-year plan.

There were ample indications, both from GOI sources and from AID analyses, that India's program was not suffering from a lack of funds and that GOI was willing and able to meet any additional funding needs.

--A senior GOI official told AID in 1967 and again in 1968 that the family planning program would not be limited by financial constraints.

--In April 1969 an official of GOI told AID that, if the program could use more funds than were budgeted, the funds would be made available and that the family planning program would be inhibited only to the limit of its managerial capacity.

--An AID official noted in March 1970 that a number of Indian officials had stated that the program was already overfunded.

Apparently, the situation did not change after the grant agreement was signed. A senior GOI official noted in January 1971 that the program was not fully using the funds provided by GOI and questioned the need for the \$20 million grant. AID personnel reported at the same time that expenditure delays raised doubts among GOI officials that the rupees budgeted for the 5-year plan could be utilized. Concern at AID's Mission in India prompted a suggestion that AID ask GOI for assurance that the program could absorb the additional funds before releasing the \$20 million in grant funds.

Despite these reservations, AID assured GOI in February that it would not withhold the grant funds. Subsequently,

AID released all the \$20 million in foreign exchange credits to GOI in March and April 1971.

AID, in its response to our draft report, did not comment on our analyses of India's budget and expenditure performance in its family planning program or on the extent that the program would have to be expanded in subsequent years to reach the intended level.

AID did cite notable increases in GOI's budget and expenditures for construction. Nevertheless, AID pointed out, progress in implementing an expanded program had been adversely affected during the past year by events unrelated to India's family planning program, such as the suspension by the U.S. Government of \$87.6 million in program assistance to India. Despite these difficulties, GOI had confirmed its intention to expend the \$440 million in rupees for family planning over the whole fourth 5-year plan period.

AID also responded that India's expanded program, made possible by the U.S. grant, included the establishment of 17 additional Intensive Districts (described in the next paragraph), for a total of 34 by the end of the 5-year plan, as well as the selection of one area to test new ways of motivating clients and delivering family planning services.

We considered India's Intensive Districts program during our review and noted that the program had not made substantial progress. The program was first conceived by GOI late in 1967. It was designed to concentrate resources on limited geographic areas and thereby to obtain optimal input, which would yield greater returns than spreading the same amount of resources thinly over a larger area.

Of India's 335 districts, 51 were selected as Intensive Districts on the basis of high population density, problem-solving needs, and the possibility of particular dividends from intensive efforts. Initial effort was to be concentrated in 17 of the 51 Intensive Districts.

The AID Mission in India signed an agreement in June 1968 to provide technical assistance to the project and obligated \$415,000 for the purchase of equipment. By the close of calendar year 1969, however, GOI had decided to set the

project up only as a pilot effort. It canceled much of the planned activity, and AID deobligated all but \$100,000 of the \$415,000. Certain equipment valued at about \$47,000, which had been ordered and delivered to the General Services Administration but not shipped to India, had to be declared excess to AID's needs.

AID's Area Auditor General, in an audit report issued April 26, 1971, noted that the vacillation in the planning processes and the inability of the Central and State Governments to effect the necessary coordination had prevented the Intensive Districts program from progressing. The internal audit findings were developed during the period that AID and GOI were negotiating the program grant and developing an expanded program.

AID said that GOI planned to expand expenditures over the last 2 years of the plan period (1972-73 to 1973-74). Therefore AID suggested that it would be more appropriate to measure the full impact of its \$20 million grant after the 5-year plan period ends on March 31, 1974.

We agree that the full impact of the \$20 million grant on India's family planning program can best be measured after the expiration of the fourth 5-year plan and the program expansion efforts of GOI are a matter of record. But we found little if any evidence to support a positive conclusion that AID's objectives of expanding India's family planning program or stimulating management improvements would be achieved. We found instead that previously budgeted rupee funds had not been expended, a 78-percent increase in expenditures would be required in future years, and administrative and fiscal procedures were major constraints on the program. These conditions existed prior to the India-Pakistan war, which AID stated had had an adverse effect on all of India's social development programs.

Moreover, about \$16.7 million of the grant had been expended for general economic assistance, leaving little motivation for implementing the plan during the remaining 2 years of the planning period.

CHAPTER 5

NEED FOR ADMINISTRATIVE REFORM IN

INDIA'S FAMILY PLANNING PROGRAM

Prior to the signing of the \$20 million grant agreement on June 30, 1970, AID recognized that the grant funds could not be effectively utilized without administrative reform on India's part. Nevertheless a commitment for needed reforms was not secured in the grant agreement. The grant funds were released in March and April of 1971 before a review was made of India's family planning activities, although AID then had evidence that the lack of reforms continued to be a major constraint on the program.

AID noted in November 1969 that analyses by the United Nations, GOI, and its own Mission pointed to the need for significant management improvements. AID's offer of grant assistance was to be linked to a GOI effort to make such reforms.

The United Nations issued a report dated October 1969 which documented the need for improvements in several areas. Some of its recommendations follow.

- GOI Executive Board--The board should be given the authority to streamline and speed up the funding process.
- Rigidity in funds allocation--States should be allowed more flexibility in determining how funds allocated by the Central Government are to be used.
- Delay in appropriation--Unnecessary control by State finance departments should be removed.
- District program management--The positions should be opened to people with greater managerial abilities.
- Temporary status of family planning program--GOI should give the family planning program permanent status.

- Career development and unified health services--GOI should draw up a plan for obtaining, motivating, and keeping the best available people for its family planning program.
- Research and evaluation--There should be cost-benefit studies of government-run clinics vis-a-vis private clinics, studies of the use of market research to improve mass communication, and an analysis of the design criteria for family planning vehicles.
- Training--The Central Government should limit its training to higher echelon personnel, such as planners, administrators, etc., and leave local training to the States.
- Voluntary organizations--GOI should determine which voluntary agencies are putting Government funds to good use and should identify what voluntary agencies can do without overlapping Government activities.

AID files indicated that administrative reforms were necessary if India's family planning program was to effectively use additional funds and to expand. For instance:

- In November 1969, AID officials concluded that additional resources could be effectively used if satisfactory progress were made in carrying out administrative improvements.
- In April 1970, AID continued to stress needed administrative reform on the basis of the belief expressed generally at the special consortium meeting on India's family planning program in Stockholm, Sweden, and strongly implied by the United Nations report that major improvements were essential to a larger family planning effort.
- In June 1970, AID released a fact sheet stating, in part, that the United States, as well as other consortium members, had offered to finance a program expansion in recognition that major administrative improvements were needed to effectively carry out an expansion.

In March 1970 an AID official recorded in an internal memorandum that, although a number of improvements had been made in the family planning program, what the improvements meant in terms of program expansion remained to be seen. In some major areas, e.g., improvement of training and the use of nongovernmental organizations, no obvious progress was being made. One AID official commented that GOI had not advised the AID Mission of the progress made in improving GOI's administration of the family planning program. According to AID, however, this information was provided shortly thereafter--well before the date of the grant agreement.

In May 1970 an AID official noted that little information existed about specific administrative improvements which GOI had promised to make and that, at the November 1969 India consortium meeting, GOI had turned the United Nations recommendations into a case for external assistance and had catalogued changes already underway.

Apparently, the situation did not change after the grant agreement was signed in June 1970. In January 1971 an AID official noted that field trips made by AID personnel in India provided additional evidence that administrative and fiscal procedures continued to be one of the major constraints on the program.

When the grant was proposed, AID took the position that, because so many analyses pointed to the need for significant management reforms, the AID grant assistance should be linked to a GOI effort to make the needed reforms. Consideration was given to providing for a repayment agreement if the dollar grant did not result in additional funding of the family planning program.

In a meeting with AID officials in November 1969, GOI officials strongly opposed the use of specific performance prerequisites in the grant, on the basis that past experience with placing prerequisites in AID loan agreements caused a strain on U.S.-GOI relationships. AID conceded to the GOI position.

The grant did provide, however, that GOI and AID would hold semiannual meetings to discuss and review India's family planning activities. The first such review was to be

held in January 1971. In that month, GOI informed AID that it would not be possible to hold the review in January as AID proposed because GOI was preoccupied with other matters. GOI stated that the review would not be held before May 1971, and in fact the review was again postponed and was not held until June 1971.

Despite AID's concern about the program's lagging expenditures and despite AID's failure to review GOI's family planning program prior to the grant, AID released the \$20 million in foreign exchange credits to India in March and April 1971.

AID explained that the \$20 million grant was approved because GOI had acted upon a number of the recommended administrative improvements and that these actions were documented by AID in its Program Assistance Approval Document which authorized the grant. AID especially noted improvements in Central (GOI) and State budgetary controls permitting State Governments to increase expenditure rates substantially in several budget categories.

We carefully noted the reforms documented by AID. We also reviewed the statement made by GOI officials at Stockholm in November 1969 and most of the negotiating documents for the grant. We were not convinced, however, that AID's Program Assistance Approval Document or the other statements mentioned demonstrated that the AID grant arrangements constituted any real commitments to administrative reforms.

A comment made by an AID official in May 1970, in referring to GOI's statement at Stockholm, will serve to illustrate another AID view toward GOI reforms:

*** Beyond acknowledging most of the problems identified by the UN Report and turning its recommendations for contraceptive research and infrastructure expansion into a case for external assistance, the GOI Statement mainly catalogues what already was underway with respect to recommended improvements. ***"

In addition, as we explained above, another AID official noted in January 1971 that there was increasing evidence that administrative and fiscal procedures continued to be one of the major constraints on the program.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

We believe that the effectiveness of the \$20 million grant supporting India's family planning program is questionable. The purpose of the grant was to enable GOI to expand its family planning program. Effective expansion of the program and use of the funds was contingent upon administrative reforms. GOI had failed to expend its own funds, and administrative reforms continued to be the major constraint on India's program.

The grant will probably have little if any effect on the size of India's family planning program. The program has not suffered from a lack of funding and, in fact, has in the recent past failed to utilize its budgeted funds. There is little indication that this situation will change in the near future.

In our view, the \$20 million grant in dollars was given to India without any substantive performance prerequisites which would reasonably insure that the funds would be used effectively to achieve the objectives of the family planning program. If additional funding was in fact needed, rupees could have been made available from the huge excess of U.S.-owned rupees on hand. It would appear that the inherent pressures of obligating funds in conformance with the expressed wishes of the Congress to assist programs concerned with population control and family planning were factors in obligating the funds without an adequately developed program.

We do not question India's need to control the growth of its population nor do we question the legality of this transaction. However, we do question whether AID beneficially influenced or assisted the objectives of India's family planning program by providing resources under the circumstances described in this report. In our opinion, the \$20 million grant resulted in additional general development assistance.

AGENCY COMMENTS AND OUR EVALUATION

AID, in commenting on our draft report, said that expansion of the Indian program simply could not be achieved through the allocation of additional U.S.-owned excess local currencies. Moreover, AID might provide dollars to support expanded local currency expenditures in the future, if such aid would lead to significant improvements in the family planning program.

We believe that a more direct and positive relationship between the amounts granted and the underlying purpose of the grant would enhance the possibility of attaining the objectives of the grant. In the absence of such relationship in India, there is little tangible evidence that appropriated funds, earmarked for assisting in population control, are achieving the purposes for which intended.

The conditions that existed in India at the time the grant agreement was signed strongly indicated that the dollar grant would not substantially add to the family planning program and that resources were available in India to meet the needs of an expanded program. We believe that under such conditions U.S.-owned excess foreign currencies should be used first. When resources are not adequate in excess-currency countries and when a direct and positive relationship has been established, then dollar support could be provided to meet foreign exchange costs in furthering the objectives of the program.

RECOMMENDATIONS TO THE ADMINISTRATOR, AID

We recommend that the Administrator of AID reconsider the use of dollars, earmarked for population control, for purposes unrelated to foreign exchange costs of the program for those countries where ample amounts of U.S.-owned local currencies are available for the program.

AID expressed the belief that the extent to which the purposes of the grant had been achieved could be more accurately and usefully determined at the end of India's fourth 5-year plan in March 1974. We believe such evaluation should be made.

We recommend therefore that the Administrator request the Auditor General to periodically assess the extent to which the purposes of the grant are being achieved, including an evaluation of the full impact of the grant after the fourth 5-year plan ends on March 31, 1974.

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

JUN 21 1972

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

Dear Mr. Stovall:

We have completed our review of the draft report entitled, "Questionable Effectiveness of a \$20 Million Grant in Support of India's Family Planning Program" which was transmitted with your letter of April 27, 1972.

Enclosed is a memorandum to the Auditor General from Mr. Curtis Farrar, Acting Assistant Administrator for the Asia Bureau, which constitutes the Agency's consolidated response to this report.

Sincerely yours,



for Edward F. Tennant
Auditor General

Enclosure: a/s

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

ASSISTANT
ADMINISTRATOR

JUN 16 1972

MEMORANDUM FOR: MR. EDWARD F. TENNANT
AUDITOR GENERAL

SUBJECT: General Accounting Office Draft Report, "Questionable Effectiveness of a \$20 Million Grant in Support of India's Family Planning Program"

The GAO Draft Report entitled, "Questionable Effectiveness of a \$20 Million Grant in Support of India's Family Planning Program," stated (page 7) that the purpose for performing the review was, "... particularly to seek for evidence of a measurable impact of the grant in improving and expanding India's family planning operations." GAO then undertook to document the "questionable effectiveness" of the Grant.

As indicated in the Draft Report, the U.S. delegate to the November 1969 Stockholm IBRD Consortium Meeting on India's Family Planning Program stated:

"If the Government of India seeks to expand its family planning program beyond that presently contemplated for the Fourth Plan, we believe that foreign exchange financing of local currency for this important area is appropriate. If India seeks to expand its program beyond that now included in the Fourth Plan, the United States is prepared to provide up to \$50 million of aid over the next several years to cover a significant proportion of the increased local costs."

Responding to the Stockholm statement, the Government of India in the Spring of 1970 increased with its own resources the Fourth Five Year Plan allocation for family planning from \$400 million in rupees to \$420 million in rupees. In June 1970 agreements were reached obligating AID's \$20 million Family Planning Program Grant to enable the GOI to expand further its family planning allocation on a fiscally sound basis to \$440 million of rupees during the Fourth Five Year Plan period ending March 31, 1974. (See Section 1.2 of Grant Agreement.)

AID and other donors had stated that they were prepared to provide additional assistance when the Government of India made significant administrative improvements in order to realize an expanded Fourth Five Year Plan budget such as the \$440 million rupee budget. These

GAO note: Page references refer to page numbers in our draft report.

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recommendations were documented in the GAO Draft Report. AID approved the Grant because the Government of India had acted upon a number of these recommendations. These actions were documented by AID in its "Supporting Analysis" and annexes to the Program Assistance Approval Document (PAAD) that authorized the Grant. As a result of these administrative improvements -- especially in the area of Center and State budgetary controls -- expenditure rates of the State Governments have increased substantially in several budget categories.

A notable example is in the area of construction. The original budget allocation for construction of family planning facilities in the Indian fiscal year 1970-1971 was \$6.4 million of rupees. Shortly after the June 1970 Grant was signed, the Government of India increased its 1970-1971 budget allocation for construction to \$8.6 million of rupees. In October 1970 the Indian Government sent letters to each of the State Governments informing them that because of the AID Grant, States could be assured of adequate funds for construction of facilities and urged them to make an all-out effort to give construction highest priority. As a result, actual expenditures for construction during the Indian fiscal year 1970-1971 were \$10.6 million of rupees, thus exceeding the revised planned budget allocation for that category. This funding flexibility had not been available to Indian States prior to the Grant. During Indian fiscal year 1971-1972, the original budget of \$7.0 million of rupees for construction was increased to \$16.2 million of rupees. Although final expenditure statements are still unavailable, our Mission in New Delhi believes that total expenditures will have exceeded the expanded allocation for construction.

With respect to GAO's question pertaining to the legal interpretation of the use of Title X funds, AID's General Counsel in June 1970 approved the Program Assistance Approval Document authorizing the Grant. The document stated:

"All appropriate steps are being taken to assure that, to the maximum extent possible, United States owned foreign currencies are being utilized in lieu of dollars for programs in India. Use is being made of such U.S. rupee credits in India for family planning and other purposes. There is, however, a need for additional external resources to support additional local expenditures for expansion of the family planning program in the magnitude and at the rate sought. It is the conclusion of the World Bank and is generally recognized that the development of India is constrained by the shortage of foreign exchange resources."

Administrative improvements such as those which made possible the increase in construction activities have led a number of other donor agencies (e.g. the United Nations Fund for Population Activities, the International Bank for Reconstruction and Development, and the Kingdom of Sweden) to allocate their currencies to support local cost expenditures for Indian family planning activities.

APPENDIX I

As one of the conditions precedent to financing under the AID Grant Agreement (Section 2.1), the Government of India agreed to "... furnish A.I.D. in form and substance satisfactory to A.I.D. . . . a plan for the use of the rupee equivalent of the Grant, which plan may be amended from time to time with approval of A.I.D." This plan was forwarded by the Ministry of Finance's Department of Economic Affairs to USAID on August 29, 1970; it was amended and accepted by the USAID in an exchange of letters dated November 4, 1970. We believe that this plan meets the specific objectives or program requirements which the GAO stated were lacking (page 12, Draft Report). The approved plan provided for additional budget support amounting to 150 million rupees (\$20 million equivalent) for the following family planning line items:

A. Research and Evaluation

- An expanded program in bio-medical research, including basic and applied research on development of new anti-fertility agents as well as conducting controlled clinical trials.
- Additional demographic research and evaluation.

B. Training

- Substantial strengthening of Auxiliary Nurse Midwife training in State programs and particularly in Bihar and Uttar Pradesh.
- Construction of additional facilities at State family planning centers.

C. Intensive Districts and Selected Area

The expanded program made possible by the U.S. Grant included the establishment of 17 additional Intensive Districts (for a total of 34 by the end of the Fourth Five Year Plan) as well as the selection of the Varanasi Area to test new ways of motivating clients and delivering family planning services. The following activities, facilities, and equipment were included in the expanded Intensive District program:

Construction

- Improvement in and/or construction of residential and working quarters at the Main Centers of the 17 Intensive Districts.
- Construction of clinic-cum-housing accommodations at sub-centers where needed to achieve the ratio of 1 sub-center per 10,000 population in the 17 Intensive Districts.

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Staffing

- Additional staffing where needed.

Training

- Innovative training programs in the Intensive Districts.
- Increased training in the Varanasi Selected Area.

Motivation

- Testing of innovative and experimental ways of motivating family planning acceptors.

Vehicles

- Vehicles, including bicycles, for the Intensive Districts and the Varanasi Selected Area.

Evaluation

- Evaluation of Family Planning activities in the Intensive Districts and the Varanasi Selected Area.

D. Construction of additional family planning facilities in Bihar, Uttar Pradesh and West Bengal

Forward movement in implementing the expanded program had been affected during the past year by the burden of caring for nearly ten million East Pakistani refugees and the cost of the India-Pakistan war. The Indian Government's budgets for all social development programs were reduced. In addition, the suspension by the U.S. Government of \$87.6 million in program assistance to India, which included some Family Planning Program Grant funds which had not been committed through letters of credit, created a barrier to carrying out the collaborative arrangements built into the Grant Agreement. But despite these difficulties, the Indian Government has confirmed its intention to maintain the level of \$440 million of rupees for family planning over the whole Fourth Five Year Plan period. It is planned to expand expenditures over the last two years of the Plan period (1972/3-1973/4) to include: the added costs of mass vasectomy camps (a program that got underway only in the summer of 1971), expanded abortion services (a liberalized Pregnancy Termination Bill became effective on April 1, 1972), additional construction, and the recurring costs of operating the new family planning facilities now being constructed. Therefore, we believe that it will be more appropriate to measure the full impact of our \$20 million Grant after the Fourth Five Year Plan period ends on March 31, 1974.

APPENDIX I

We disagree with the general conclusion of the Draft Report that AID reconsider its policy of granting dollars earmarked for population control to countries where ample amounts of U.S.-owned foreign currencies are available for this purpose. The expansion of the Indian program simply could not be achieved through the allocation of additional U.S.-owned excess local currencies. Thus, we might in the future provide dollars to support expanded local currency expenditures if such aid would lead to significant improvements in family planning programs. We would justify local cost financing in cases of excess currency countries on the grounds that the allocation of U.S.-owned local currencies does not represent additive development resources to these countries. As the GAO very cogently stated in its January 1971 Report to Congress entitled, "Opportunities for Better Use of United States-Owned Excess Foreign Currency in India" (B-146749), page 77:

"The United States does not provide additional resources when it lends or grants rupees to India, as pointed out on pages 69 and 70 of this report. Thus, there is no economic benefit in terms of new resources when the United States provides the Indians with U.S.-owned foreign currency in India. A grant of U.S.-owned foreign currency is akin to an agreement whereby the United States and Indian Governments simply decide to attribute to the U.S. Government the financing of a project that actually is financed from current Indian resources."

As indicated above, we continue to be encouraged that the FY 1970 Family Planning Program Grant to India has been a significant factor in increasing the level of Government of India support and in improving the administration of the program. The grant is associated with an expanded program which does not end until the conclusion of India's Fourth Five Year Plan (i.e. March 31, 1974). We believe that the extent to which the purposes of the grant have been achieved could be more accurately and usefully determined by GAO at the end of the period. We would welcome a review by GAO at that time.


Curtis Farrar (Acting)
Bureau for Asia

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