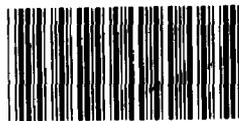


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United States General Accounting Office
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Statement of
J. Kenneth Fasick
Director, International Division
before the
Subcommittee on Foreign Operations
of the
Senate Appropriations Committee
on
Foreign Assistance Programs

GAO 00200

SEN 00305

Mr. Chairman and Members of the Subcommittee:

We appreciate once again the opportunity to provide the Subcommittee with an overview of the results of our [studies of selected aspects of the foreign assistance programs]

In our testimony today we will emphasize, in addition to a broad foreign assistance overview, the results of our reviews of AID's research and study contracts and other elements of AID management. With your permission, Mr. Chairman, we would also like to place in the record brief summaries of a number of other studies we undertook during the past year on development assistance programs, economic supporting assistance programs, and U.S. participation in international programs.

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testimony

Overview of Foreign Assistance

The major development assistance goals stressed by the Congress are:

- . Assistance to the poor majority to alleviate the worst physical manifestation of poverty.
- . Self-sustaining economic growth with equitable distribution of benefits.
- . Encouragement of development processes in which individual civil and economic rights are respected and enhanced.
- . Integration of the developing countries into an open and equitable international economic system.

U.S. efforts to achieve these goals through various foreign assistance programs authorized by the Congress and administered by the executive branch have had some successes, but we have observed that further improvements can be made in program planning and implementation. For example, in a report on population assistance, we concluded that more must be done by AID, other donors and developing countries to coordinate their efforts in individual countries. Agreements between donors and recipients must be reached on strategy, leadership, and program representation.

Our work in six countries on the effectiveness and management of the P.L. 480, title II, food donation program has showed that oftentimes the programs are not being focused on the neediest groups and that transportation and storage problems are causing food to spoil or to be directed to unauthorized uses.

Our report on the Housing Investment Guaranty Program pointed out that the program can reach some poor families, but cannot for the most part, reach the very poorest families in the poorest countries.

With respect to the congressional mandate that economic assistance be directed to the poorest of the poor in developing countries, we believe that more attention must also be given to strengthening public administrative processes and capabilities in these countries. In the absence of adequate processes and capabilities in this area, it will not be possible to sustain economic growth or meet other development assistance goals.

In this connection, we are preparing a report on training and related efforts needed to improve financial management capabilities in Latin America. Economic assistance can be more efficiently and effectively used if developing countries have adequately trained financial managers and analysts.

While our findings differ somewhat from country to country, in general we found there is a great shortage of trained accountants, auditors, and other financial managers. The major universities in the five countries we visited are developing curriculums in this field, but some of the problems which persist include:

--few up-to-date textbooks in this field have been translated into Spanish and Portuguese.

--professors in this field are paid such low salaries, that the universities in most cases can only retain part-time instructors.

--what is being taught in this field is often not applicable to the public sector and sometimes oriented exclusively towards compliance with tax law and not toward generally accepted accounting principles.

Increased assistance for training programs is probably the best and most direct way to help governments improve their financial capabilities so that development programs chances of success are enhanced. Yet this is one area in which emphasis and resources have been decreasing in both bilateral and multilateral development programs

Grants and Contracts for Research and Study

Our review of grants and contracts for research and study which was done at your request showed that AID cannot readily establish the full amount of money it spends for research, studies, and evaluations, nor can it readily determine the total amounts dedicated to research for specific areas of development through its present reporting systems.

We also identified several problems in AID's management procedures for justifying, coordinating, monitoring, and utilizing research, study, and evaluation activities. These include:

--giving adequate consideration to information already available to the U.S. Government before contracting for more research, study, or evaluation;

--assuring that it has received the product for which it contracted; and

--disseminating the information within AID and elsewhere in the U.S. Government.

We believe AID needs better information on how much research it is supporting to judge whether the amount expended is appropriate in relation to the size of the total AID program.

Also, we believe AID should strengthen the management control over its research, study, and evaluation activities to obtain maximum benefit from funds invested in such activities.

We were advised that AID had instituted a review of the effectiveness of its research, study, and evaluation management system and is planning to strengthen its computer system to facilitate future reporting. This is a subject on which this Committee's interest and concern have prompted AID to take the steps necessary for improved management and increased effectiveness.

Other AID Management Activities

We issued a number of reports to the AID Administrator early last year on AID's operating expenses, personnel procedures, and contracting practices. In following up on the actions taken in response to these reports, we found that progress had been made in improving the formulation, internal review, and evaluation of operating expense budget requests submitted by overseas missions; management and control over

the leasing and purchasing of non-expendable properties; and planning, awarding, and monitoring service type contracts. We also found that AID is involved in developing a "unified personnel system"; however, that project was in its early stages and not yet susceptible to evaluation.

AID has prepared new guidelines for managing and controlling property but progress has been limited. In Washington actual inventory counts have not been totally reconciled with property records (except for typewriters), and missions overseas still have property accountability problems. At one mission we visited, property receipts had not been posted to property records for up to 6 months. At another, much excess and unservicable furniture was on hand; 45 of 78 warehouse items we inspected were broken. Many of these pieces were not under inventory control of the mission. At some missions a replacement and utilization program for non-expendable property was not carried out, and they had no systematic method for determining the quantities and types of items needed nor when a replacement item should be budgeted.

In Washington we found that of 1,270 travel advances recorded as outstanding to AID personnel in July 1978, 420, valued at \$218,000, had remained outstanding for 2 years, or more. Some advances were held by employees who had terminated

AID employment or were under a contractual arrangement with AID and thus outside of AID's normal control procedures for travel advances. The AID Controller's office assured us that steps will be taken to resolve the continuing problem of travel advances remaining outstanding for unusually long periods. However, these very same conditions were reported by the AID Auditor General in 1976. We believe corrective action is long overdue.

In response to the AID Administrator's instructions to intensify reviews of operating expenses, the AID Auditor General issued 18 reports on operating expenses from March 1978 to November 1978. These reports covered AID activities in 16 missions and 2 regional offices overseas.

At certain missions overseas, personal service contracts were apparently used to fill some of the permanent personnel needs. As you know, ceilings for U.S. and foreign national direct-hires at overseas missions are established by the Office of Management and Budget and AID must stay within these ceilings in staffing its missions. Normally personal service contracts are used to accomplish temporary or intermittent services. At some missions, however, we found employees paid under personal service contracts performing the same permanent type of tasks as direct-hire employees--- clerk typists, boiler mechanics, electricians, drivers, automotive mechanics, program advisors, project officers,

air conditioning repairmen, and administrative assistants. Some of these contractors are paid from U.S. appropriated funds; others are paid from local currency trust funds. The AID Auditor General also reported, in 1978, that overseas direct hires are supplemented by personal service contracts and that as long as missions have unlimited access to personal service contracts the direct-hire ceilings will remain ineffective.

Last year we discussed with you and your staff AID's rescheduling of loan repayments, when the borrower is unable to service the debt. AID agrees that if circumstances upon which a loan was originally negotiated drastically change for the worse, debt rescheduling may be appropriate. By the same logic accelerated loan repayments may be appropriate when the borrower's financial position significantly improves. AID loans are made on concessional terms at interest rates lower than the rate which the U.S. Treasury paid to obtain the funds loaned.

In a recent report to the AID Administrator we referred to a proviso in AID loan agreements since 1962 which stipulates that AID may request the borrower to negotiate accelerated loan repayments where there had been significant improvement in the internal and external economic and financial position and the prospects of the borrowing country. We also referred to a report we issued to the Congress in

August 1974 entitled "The Brazilian Economic Boom: How Should the United States Relate to It." In that report we recommended AID initiate discussions with Brazil to renegotiate better loan terms.

AID and the Department of State did not agree with, nor implement, that recommendation. However, since the summer of 1974, AID has recognized the likelihood of some AID loan recipients receiving substantial windfalls from increasing petroleum earnings and established a policy that when the borrower of an AID concessional loan appears to be experiencing growth in its foreign exchange reserves considerably in excess of its import and debt servicing requirements, AID would apply certain general criteria to that country and then propose appropriate action to the Administrator.

AID did exercise this option to renegotiate two concessional loans to Venezuela and as a result will save an estimated \$19 million of the subsidized costs attributed to these loans.

Yet the criteria AID established to determine when the option to request renegotiation is so broad that many highly developed countries probably could not meet the criteria.

We are not aware that AID is currently actively pursuing the feasibility of requesting renegotiation of "soft" loan terms.

* * * * *

In summary, we feel that some reassuring progress is being made to improve the substance, management, and administration of the foreign assistance programs. Much more needs to be done and we feel the managers in AID, State, Treasury, and Agriculture are aware of the challenges they face. We will be pursuing our efforts to highlight these needs, and we know this Committee's attention to these matters will continue to have a material effect in the achievement of these objectives.

This completes our statement, Mr. Chairman. We will be pleased to answer any questions.