

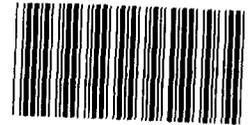
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Statement of
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Director, International Division
before the
Subcommittee on Foreign Operations
of the
Senate Appropriations Committee
on
GAO Reviews of
Foreign Assistance Programs



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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to provide an overview of our recently completed and on-going work on U.S. foreign assistance programs and projects.

We will discuss our work on bilateral and multilateral developmental assistance and military assistance. We believe that implementation of our recommendations will bring about program improvements; reduce costs; and provide better opportunities for congressional oversight.

BILATERAL ASSISTANCE

Our bilateral economic assistance reviews continue to emphasize programs which are managed and disbursed by the Agency

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for International Development (AID). Much of our work focuses on the efficiency and economy of AID assistance regarding food, health, natural resource conservation, and human resource development. We also continue to report on the effectiveness of AID functional assistance in meeting developing nations' unique needs. We have made observations on ways AID could improve its program planning, project implementation, monitoring, and evaluation. We have seen recent progress at AID toward improved project planning and implementation, but much remains to be done.

AID project management

Since AID's inception, over 8,745 projects have been completed costing about \$15.5 billion. As of September 30, 1981 another 1,973 projects were underway with estimated costs to AID of over \$11.4 billion. Since 1973 there has been a significant slowdown in the number of AID projects completed and a dramatic increase in the agency's committed, but unspent funds (about \$5.2 billion as of September 1981). While there are many factors that have contributed to AID's slow project completion record, we have reported on some which we believe AID can influence in a positive manner. We have emphasized the need for AID to better use lessons learned during the past 3 decades of designing, programming, and implementing projects in developing countries. We have suggested that AID should increase recipient-government involvement in program design and management for U.S.-supported projects. In this context, we have suggested that AID emphasize the ability of host countries to carry projects through the

implementation phase and to sustain the recurring costs of generated activities when external financing ends.

For example, we reported in 1981 that the management and effectiveness of AID projects in health-care, water development, agriculture assistance, and disaster assistance, as well as projects to strengthen governmental institutions, ultimately depend upon the ability of host countries to absorb U.S. aid and implement the projects. Without this ability, and/or host government willingness to support projects, the results are either large obligations of unspent assistance funds or expenditure of funds for projects with limited life after U.S. assistance is terminated.

Our February 22, 1982 report on Haiti is our most recent view of AID's difficulty in implementing projects. We recommended that AID should avoid further delays in project implementation by working directly with the Haitian people until the Government of Haiti could effectively meet project responsibilities.

Another aspect of the problem of program implementation is under review in a current study on how efficiently AID funds are spent and how effectively AID program objectives are met through contract arrangements for supplies and services between contractors and host countries. Our study's preliminary results confirm our concern and that of the AID Inspector General that (1) AID has not accumulated complete data on the extent of its host-country contract activities and that (2) accountability processes and procurement procedures could be improved.

Private-sector emphasis

AID has recently placed increased emphasis on mobilizing greater participation of the U.S.-private sector in overseas development and in promoting and encouraging the expansion of local, private-sector activities in developing countries. The administration believes that increased private-sector participation in development will help developing countries generate capital and decrease the need for traditional forms of U.S. assistance. In addition to the new initiatives, the United States has been funding a number of programs to encourage more active private-sector participation in development. These programs include the Trade and Development Program and the OPIC program on which we issued reports in 1981.

In August 1981, we issued a report that was intended to help the U.S.-development community consider different ways to use trade as a development mechanism. We examined how four developing countries have used trade in their economic development process and what assistance is provided in this area by bilateral and multilateral donors. We examined obstacles for developing countries to implement maintain a successful trade strategy and how these obstacles are being addressed. Obstacles we reviewed included lack of trained personnel, marketing experience, quality control, available credit, and tariff and non-tariff measures in potential or actual markets.

We are presently reviewing the extent to which AID promotes and works with U.S. and host-country private sectors. This

assignment includes the identification of (1) programs which are directed toward, and implemented through, the private sector and (2) funds spent on procurement of goods and services both here and in developing countries.

We are also nearing completion of another review involving the relationship of private and voluntary organizations (PVOs) in the U.S.-development assistance program. Our tentative findings are that AID and the PVO's have yet to forge an effective partnership - AID still needs to define its purposes for, and the scope of, the partnership. We believe the PVO's have opportunities to improve their program impact and, along with AID, should reassess the present direction of increasing PVO financial dependency on AID funding.

Economic Support Fund

The United States also provides assistance through the Economic Support Fund (ESF). ESF resources may be allocated to countries in amounts which may not be justified solely on the basis of development need when U.S. security interests would be served. Although ESF resources may be spent for such needs as financing commodity imports or to support balance-of-payments, the funds intended for development projects must be spent, to the extent possible, according to the accountability criteria used for functional development assistance.

We note that the administration plans to increase ESF as part of an emphasis on international security assistance to stabilize countries which are threatened by external intervention and to

provide resources to allow for base rights negotiations. As mentioned previously, we have expressed concern about the adequacy of planning and monitoring for AID's established programs for development assistance; thus we are concerned that the nature of ESF programs (administered through AID and subject to similar congressional mandates and agency regulations) are even more difficult to monitor. We are beginning a study that will specifically review the adequacy of AID financial and programmatic controls of commodity import and other balance-of-payment support. We are planning to report the results of our study prior to hearings on the 1984 budget.

Other bilateral programs

Our recent reviews of bilateral assistance are not limited to the programs of AID but also cover the Inter-American Foundation (IAF), Peace Corps, and the U.S. involvement in refugee programs. The objective of these reviews is to note the need for program efficiency and to identify needed improvements for management attention.

In this regard, we are completing a review of the Inter-American Foundation which was created by the Congress in 1969 as an experimental program designed to provide new direction and emphasis for U.S.-assistance programs in Latin America. From our review of selected IAF projects in Latin America, we found that the majority have a good chance of meeting some or all of their objectives. A number of problems, both in project design and implementation, limit achievement of project objectives.

We also observed that opportunities exist for IAF to provide more effective monitoring and supportive activities for projects; to improve coordination with other development assistance efforts in the region; and to systematically disseminate its experience with experimental and innovative projects. We expect the final report to be issued in June 1982.

Our May 1981 report on the adequacy of the preparation of volunteers for Peace Corps service contained recommendations which were generally accepted by the Peace Corps. We recommended that the Peace Corps establish centralized and uniform policies and procedures for selecting and training volunteers, and for evaluating reasons for volunteer attrition. Recently, as called for in legislation signed on December 29, 1982, we monitored and reported on what we believed to be an equitable separation of Peace Corps from ACTION.

In addition to reviewing the U.S.-direct assistance to refugee programs, we also take into account the Department of State's and AID's management responsibilities to coordinate the U.S. contributions to the various international organizations involved. Since April 1975, we have reported on the problems encountered in the protection, care, and processing of Indochinese refugees and are currently reviewing the implementation of new U.S. screening policies for Indochinese refugees. We are also now undertaking a study of the status of U.S. and international assistance to African refugees.

MULTILATERAL ECONOMIC ASSISTANCE

Our work concerning the U.S. participation in the provision of multilateral economic assistance concentrates on identifying opportunities to reduce costs and to improve management effectiveness. For example, we reported in September 1981 that the United Nations member countries wanted to shift resources from completed, obsolete, marginally useful, and ineffective activities to new activities, but that limited identification of such activities had taken place. We recommended to the Secretary of State that U.S. efforts be intensified to overcome the slow progress of the United Nations to control costs by identifying and reducing marginal activities. As slow as these efforts have been, they are only directed at the U.N. assessed budget. There is no specific program to identify marginal activities in organizations supported through voluntary contributions. We do note, however, that the Department of State has included the elimination of marginal programs and activities as an objective for U.S. membership in the United Nations.

In April 1981, we reported that the multilateral banks, of which the U.S. is a member--the Inter-American Bank, the World Bank, and the Asian Development Bank--have made progress in implementing independent evaluation systems. We made recommendations to the Secretary of the Treasury to encourage more improvements in this area.

We are planning to start a review of the changes the administration are proposing in U.S. participation in

international organizations and financial institutions. These changes include cutbacks and deferrals in U.S. contributions and subscriptions along with continued U.S. emphasis on controlling costs on the part of these international organizations.

MILITARY ASSISTANCE

Turning now to our work on U.S. security assistance programs overseas, we would like to discuss our recent reports and on-going or planned reviews on Foreign Military Sales (FMS) and program management.

Questionable ability to repay FMS loans

Providing military aid to countries suffering severe economic problems is a major concern for the administration and the Congress. With the decline in grant-aid Military Assistance Program, U.S. security assistance has taken the form of loans and guarantees, but climbing interest rates are making the FMS loans a burden and a drain on the limited resources of many recipient countries.

For example, our recent report on the implementation of the Defense and Economic Cooperation Agreement with Turkey pointed out that Turkey's foreign debts were rescheduled in 1980 to keep it from defaulting. We noted that by 1984, Turkey will owe over \$200 million per year for interest and premium payments on U.S. FMS loans and if the U.S. provides large amounts of additional loans at market interest rates in the next few years, that debt service burden will increase even more. The administration sees a

need to provide concessional terms for Turkey. The budget proposal for International Security Assistance before the Congress specifically calls for the funding of loans for military sales at variable interest rates geared to the recipient countries ability to pay.

We believe that pressure for this type of concessional financing will continue and build in future years. We are beginning work now to look at the options available to the United States in dealing with strategic allies determined to be in need of military equipment and unable to afford the high costs and high interest rates.

Cash flow financing

Another matter of concern is a method used by the Departments of State and Defense to assist arms recipients who are in need of financial assistance. For example, Egypt received \$1.5 billion in loan guarantees and credits after the Egypt-Israel Peace Treaty, plus another \$500 million in 1981. Using this \$2-billion credit authorized through fiscal 1981, Egypt placed orders for U.S. equipment valued at over \$3.5 billion. This was possible because of the so-called "cash flow" authorization given to Egypt by the administration. Israel is also authorized to finance its program in this way.

Under normal FMS financing procedures the United States requires most buyer countries to reserve, or obligate, the full cost of the item when the order is placed. This means that if an item costs \$100 million, FMS credits of \$100 million must be set

aside when the letter-of-offer is signed. Under the cash flow system, however, Egypt sets aside only the amount of money needed to meet the current fiscal year's cash requirement and has been able to place orders valued at 70 percent more than the available credit guarantees. Egypt has already incurred debts of about \$900 million in 1982 and over \$600 million in 1983 for equipment now on order. Egypt has no likely source of cash to make these payments--other than future U.S. credit authorizations.

This method of financing again places considerable pressure on the Congress to continue providing substantial levels of credit and we believe it represents a serious long-term commitment by the United States in which there is no statutory requirement to inform the Congress or seek congressional approval. As we reported to the Senate Foreign Relations Committee in January 1982, the full ramifications and implications of this authorization for Egypt were not presented to the appropriate committees and thus may not have been subject to close congressional scrutiny.

Appropriateness of delivered equipment

Some foreign policy decisions regarding the types and amounts of weapons financed by FMS, have budget and appropriations impacts. For example, in our January 1982 report, we reported that while Egypt's needs are so great that any new equipment is welcomed, some of the security assistance financing provided by the United States was used for items that met more of a political need than a military one. F-4s, for example, were provided in 1979 because they were available quickly from U.S. inventory and were desirable

to Egypt because of Israel's successful use of F-4s in the 1973 war. However, F-4s are difficult to maintain and require sophisticated supply and maintenance capabilities, and Egypt has had difficulty in maintaining acceptable operational rates. Our report on the security assistance program in Korea, to be issued shortly, highlights similar questions concerning the sale of F-16 aircraft and points out some possible alternatives for the U.S.

Technology transfers

Another aspect of arms sales is the transfer of sophisticated technology to countries that could some day be potential competitors. We focused on this issue in our March 1982 report on military aircraft coproduction programs with Japan. Japan is doing major manufacturing work on the F-15 aircraft it is now buying and, in the process, is receiving considerable new technology for its aircraft industry. Japan has selected its commercial aircraft industry for major expansion and competition in the international market. Thus, we believe that overtime military aircraft coproduction programs will provide the industry valuable technology and experience to help its development. We believe that it is important to note that these considerations apparently were not a factor in the decisions to release various technologies in the coproduction program. Most importantly, some U.S agencies concerned with trade implications were not directly involved in the decision-making process.

Administration of security assistance

Finally, I would like to mention briefly our work on the administration of the security assistance program by U.S. managers. We reported last year on the need for the Foreign Assistance Act to cover the leasing of military equipment to foreign countries, and the need to clarify the functions permitted to be performed by the overseas security assistance branch offices. Our concerns were addressed by the International Security and Development Act of 1981.

This concludes my prepared remarks, Mr. Chairman. We will be pleased to answer any questions you may have.