

095802

~~445.16~~



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

74-0164

INTERNATIONAL DIVISION

B-159451

AUG 10 1973

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



Dear Dr. Hannah:

We have reviewed the East Asian regional economic assistance program to see if it is being effectively and efficiently managed consistent with United States policies and objectives. During fiscal years 1966-72, the United States provided \$88 million in regional assistance to East Asia and the amount of assistance may be increased substantially in coming years since a large reconstruction program is planned for Southeast Asia. Even at the present time, existing development plans envision huge investments in the region.

One plan for developing the Mekong River Basin estimated that \$12 billion would be required by the year 2000. A second plan indicated about \$3.25 billion more would be needed to finance regional transportation projects. In discussing U.S. commitments, a responsible Agency for International Development (AID) official advised us that the United States has made no financial commitments for the overall Mekong Basin development scheme and does not intend to provide more than 25 percent of the total cost of large individual projects.

Some of the regional program projects which have received sizable amounts of U.S. funds are: Nam Ngum Dam—\$14.4 million, Pa Mong Dam feasibility studies—\$13.7 million, Asian Institute of Technology—\$12.1 million, regional education projects—\$11.5 million, transportation and communication preinvestment studies—\$2.7 million, International Rice Research Institute—\$1.9 million, and the Asian Vegetable Research and Development Center—\$1.2 million. We reviewed these AID-administered projects to determine whether they (1) have regional significance—benefit more than one country and receive the cooperation and support of the countries of the region, (2) encouraged contributions by other countries and international organizations, and (3) were managed adequately to protect U.S. interests.

RESULTS OF OUR REVIEW

We found that the East Asian regional assistance program has provided funds to projects necessary for the economic development of the region and has helped promote regional cooperation. For example:

~~701642~~ / 095802

- The Nam Ngum project will economically benefit both Laos and Thailand. It will provide the Lao Government with a badly needed source of revenue and Thailand with less expensive electrical power.
- Several education projects are gaining recognition and are attracting students from throughout the region.
- Projects, such as the International Rice Research Institute, the Asian Institute of Technology, and those in the transportation-communication area, have attracted substantial financing from non-U.S. Government sources outside the region.
- Coordinating committees established to oversee major program areas (Mekong development, education, and transportation-communications) have succeeded in getting member nations together to plan and coordinate programs.

On the other hand, AID had not promulgated policies and procedures adequate for administering regional programs and this had resulted in a number of management deficiencies. Existing AID policies and procedures were established for bilateral assistance programs which often are not applicable to regional projects involving participation by other donors. For example, the various education projects were inconsistent about what contributions by non-U.S. donors qualified as matching U.S. contributions and the regional projects were not returning unused grant funds promptly. We found that AID had no procedures for identifying and requesting the return of such funds. In December 1971, we discussed this matter with AID officials who then discussed this with project officials. During the entire calendar year 1971, grantees returned a total of \$32,890.69, but in the next 2-1/2 months after our discussion with AID officials, a total of \$106,484.16 was refunded.

Other problems which should be considered when planning or approving future regional projects include: (1) the inability of member nations to agree on regionwide priorities for development programs, (2) difficulties, in some instances, in obtaining contributions from countries both within and outside the region, (3) U.S. contributions exceeding the amounts originally intended, and (4) the inappropriate inclusion of projects primarily benefiting one nation.

Regionwide priorities

The United States has committed over \$37 million to various Mekong River Basin projects but a comprehensive development plan with regionwide priorities has not been developed. Regional transportation and communications programs were formulated for roads, railways, water

transport, and civil aviation but the participants considered it impractical to identify regionwide priorities. We believe the representatives of these countries can and should work together more closely and develop comprehensive development plans with regionwide priorities.

Project contributions

The United States agreed to provide half the cost of the Nam Ngum Dam project but the inability to raise sufficient funds from other donors made it necessary to construct the project in phases. The first phase of the project, completed in December 1971, cost \$28.8 million. The second phase, estimated to cost \$24 million, has not yet been financed.

Problems were also noted in obtaining contributions to the Asian Vegetable Research and Development Center, and the Pa Mong Dam project may also experience funding problems because of the large amounts of local currency required.

Level of U.S. participation

In justifying the regional education program to the Congress, AID stated that it planned to provide up to half the costs for establishing and operating proposed projects for 5 years. However, about \$5.6 million is being provided without requiring matching contributions and, in some cases, non-U.S. donors will not match the U.S. contribution within 5 years.

In addition, some matching contributions credited to non-U.S. donors either were not from budgeted funds or were being repaid in kind. Contributions to the education projects included income from charges for using facilities constructed with U.S. funds, tuition receipts, and items which the donor had obtained previously and continued using. In the case of the Nam Ngum project, the reported contributions included \$1.25 million of cement provided by Thailand even though Thailand is being reimbursed with an equivalent amount—dollar value—of electric power.

Project benefits to region

In several instances regional assistance program funds have been used for projects which are of little benefit outside the country in which they are located. They would more appropriately be part of AID's country assistance program.

B-159451

The United States obligated \$1.6 million of regional program funds for 17 transportation/communications feasibility studies but most of the projects which have been funded are located principally within a single country. Other projects have received little regional interest since they have shown only limited regional applications; for example, the Asian Vegetable Research and Development Center and the Regional Center for Tropical Biology.

RECOMMENDATIONS OR SUGGESTIONS

We recommend that you develop and implement definitive policies, procedures, and other guidelines specifically for administering regional assistance programs. This would include clarifying which funds or materials of other donors qualify as matching contributions, and such criteria should be applied consistently. In addition, if only one nation is to receive most of the benefits, a project should not be considered as part of the regional program but rather within the individual country program.

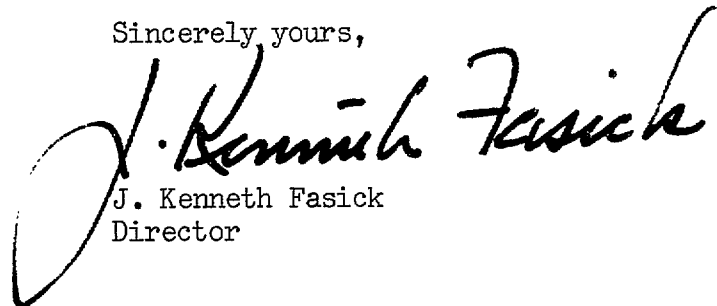
If the future reconstruction program includes significant funds for regional projects, these administrative guidelines would become increasingly useful. In this connection, we also suggest that you carefully consider major program constraints, such as the lack of a comprehensive development plan with regionwide priorities, before obligating large amounts of U.S. funds.

- - - -

We shall appreciate receiving your comments on these matters. Please let us know if you need additional information.

We are sending copies of this report to the House and Senate Committees on Appropriations and on Government Operations; the House Committee on Foreign Affairs; the Senate Committee on Foreign Relations; the Director, Office of Management and Budget; the Secretary of State; and interested Members of Congress.

Sincerely yours,


J. Kenneth Fasick
Director