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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

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to provide the Subcommittee with an evaluation of the foreign assistance and related programs and observations on AID management based on the work we have done or are doing. Our statement is relatively brief therefore we have prepared a supplement with further details for submission for the record.

Our evaluation of the foreign assistance programs is based upon the recent reviews and studies we have made of AID's food, population, housing assistance, Sahel development, security supporting assistance programs and the U.S.

participation in international programs; that is, the United Nations, the World Bank, Inter-American Development Bank and the Asian Development Bank.

Our observations on AID management are primarily based on current studies we have made or are making of AID operating expenses, personnel management and procurement practices. Also, Mr. Chairman, we are prepared to discuss in detail our recent review of the general operations of the American University in Cairo, Egypt, with particular emphasis on the University's educational endowment fund. As you know, our report on this matter was issued just prior to these hearing.

#### OVERVIEW OF FOREIGN ASSISTANCE PROGRAMS

The Congress has expressed a general policy that development assistance is in the United States' interest and that the principal goals are to alleviate poverty among the world's poor majority, promote conditions to enable developing countries to achieve economic growth with equitable distribution of benefits, to encourage development processes which result in the respect and enhancement of civil and economic rights and to integrate developing countries into an open and equitable international economics system.

We consider it important to first note that the many foreign assistance programs currently authorized and funded by the Congress and administered by the executive branch --principally the State Department, Agency for International

Development, Agriculture Department, and the Treasury Department--have contributed to each of these objectives. On the other hand, the programs we have recently evaluated have in each instance resulted in observations on our part that substantial improvements are possible in the planning, direction, and implementation of such programs and projects. For example, in the area of population, AID's strategy of concentration on a contraception program needs to be changed so that a greater impact can be made on the willingness of potential parents to desire small families. The program's effectiveness could also be improved if greater attention were given to more effective mechanisms for coordinating the efforts of the many organizations and agencies providing population assistance.

In the area of food and nutrition, far more effort needs to be applied to overcoming disincentives to increasing agricultural production in the developing countries; target groups for making credits to small farmers needs to be more specifically defined; increased efforts can and should be directed towards greater involvement by other developing countries in international research and development organizations; and our P.L. 480 donation and concessional sales programs are not always reaching the poorest people within the developing countries.

In the housing assistance area, the lowest income levels are not being reached and host country institutions need more exhortation to continue low income housing initiated under the Housing Investment Guaranty Program.

More importantly, far greater efforts need to be directed toward interrelating the many individual programs which are sponsored under our foreign assistance program. There is a potential for a far higher degree of inter-relation between population control programs, agriculture programs, health and education programs and housing program. More effective ways must be devised to assure that each of the individual programs contributes to and supports each other as well as the overall foreign assistance objectives.

The recently introduced International Development Cooperative Act of 1978 will, in our opinion, bring the foreign assistance program up to date organizationally as well as policy-wise. The present organization structures and programs are unwieldy and somewhat fragmented and indeed in need of overhaul and change. Many of the problems alluded to earlier will be more susceptible to correction under the proposed reorganization and redirection inherent in this proposal. We believe the proposed bill places an appropriate emphasis on the importance of development assistance and the benefits the United States gains by creating a community of nations which are partners in an

international economic system. The bunching of functions which are now separately administered by the State Department, AID, Treasury Department, or the Agriculture Department will facilitate better management and enhancement of obtaining the objectives sought by the Congress over the past 30 years. However, there are some proposed aspects of program administration that may be of concern to the Congress and particularly to this Subcommittee. For example, the provision in section 208(c) which provides the head of the new agency with sole authority on a case-by-case basis to forgive interest due on loans outstanding and to convert debt principal from dollars to local currency would appear to circumvent the current Appropriations Committee's controls. In another instance, section 703(e) provides during fiscal year 1979 that AID employees that otherwise would be eligible for retirement shall have their annuity computed on the basis of the highest year of basic salary rather than the high 3 years. Provisions of this nature could have a substantial impact on presently existing legislative and executive branch prerogatives and deserve extensive congressional debate and consideration. Should Congress favorably act on the latter provision, we would strongly recommend that adequate funding be provided in order not to further exacerbate the currently projected retirement fund shortfalls.

## AID MANAGEMENT

Over the years, Mr. Chairman, this Subcommittee has expressed concern about AID management particularly its operating costs and personnel management activities. To be responsive to the interests of the Subcommittee we started three reviews in 1977 to address AID operating expenses, AID personnel practices, and AID procurement practices.

### AID Operating Expenses

We recently issued a report to AID's Administrator addressing operating expenses. The weaknesses we identified relate to:

- the lack of an effective AID headquarters review and evaluation of budget requests submitted by overseas missions,
- the use of operating expense funds for questionable and in some cases, unauthorized purposes, and
- the lack of effective management and control over nonexpendable personal property purchased with operating expense funds.

Questionable and unauthorized uses of operating expense funds resulted, in many case, from the failure of AID officials to adhere to policies and regulations governing use of such funds. For example, missions are not allowed to spend more than \$1,500 in making alterations, improvements,

and repairs to short-term leased properties without prior Washington approval. We identified renovations to 33 leased properties in 7 countries that exceeded the limitation.

We also identified numerous weaknesses in acquiring, using, disposing and safeguarding AID's nonexpendable property. In Washington, where there is a high concentration of nonexpendable property, the weaknesses resulted largely from an absence of adequate guidance. In the case of overseas property management, the weaknesses resulted not from lack of guidance, but from failure to adhere to existing guidance and procedures.

The results of our review have been of considerable interest to the Administrator and other AID management officials. Even before our report was issued, AID initiated several actions to improve its management of operating expense funds. In early December, the Administrator directed AID's Auditor General to thoroughly investigate the specific cases of noncompliance, including excessive expenditures on leased property, and to identify corrective actions. In addition, a program of management audits of overseas missions is now underway to insure that operating expense funds and U.S. Government property are appropriately controlled and administered.

Regarding the budget review weaknesses, AID has significantly expanded the informational content of budget submissions together with other steps to permit more effective review in Washington. AID also intends to take steps to insure greater staff continuity.

AID shares our concern over the problems of property management. A current inventory of Washington property was initiated and completed in December 1977 and the reconciliation to property records is now in process. AID is also developing better guidelines for domestic property management. The Auditor General's review of overseas missions will focus attention on each mission's compliance with agency and Federal regulations and establish adequate local policies and procedures regarding acquisition, issue, use and disposal of nonexpendable property.

#### AID Personnel Practices

Over the years this Subcommittee has expressed its concern with AID's management of its personnel resources. Overstaffing in the top three pay grades, especially those in the Foreign Service ranks, and the heavy concentration of its staff in Washington have been of ongoing concern. We have commented on these problems before this Subcommittee in years past and our recent review of AID's staffing showed that many of your concerns continue to exist.



AID continues to have imbalances in its staffing levels, grades and skills. For example, we found many FSR employees were occupying Civil Service position one, two, and three grades below their equivalent FSR rank and many remained in Washington longer than the normal 3-year rotation tour. We also noted that some 64 FSR employees were not assigned to a permanent Washington position. Many of these employees had limited assignment prospects in Washington or overseas because of their rank and occupational background. We also observed that there are many questionable positions authorized in AID's overseas missions at the FSR-1 and FSR-2 rank. Many are related to administrative and management functions. We have noted a wide variance between mission staffing patterns.

These conditions arise, and are further aggravated, by rotation of upper level personnel from overseas to Washington where only a limited number of positions at their equivalent rank frequently exists. This necessitates AID placing many of these employees in positions of lower rank or, when no appropriate position is available, to assign them to its subcomplement pool to await a vacancy.

As you know the AID Administrator is aware of the Subcommittee's concerns and is actively engaged in bringing about the improvements the Subcommittee has been seeking.

His initial effort was to direct extensive studies of AID's organizational structure and personnel system and AID has, since November 1977, been engaged in carrying out a reorganization which it expects to complete in mid-1978. The major thrust of the reorganization is to decentralize AID's major decisionmaking to overseas missions. In commenting on personnel management in its fiscal year 1979 congressional presentation, AID points out that it has established a policy generally restricting new Foreign Service hiring to mid and lower grades. AID expects that this policy, together with limited promotions to higher grades, will over time result in a lower and more balanced grade structure.

#### AID's Procurement Practices

During 1976, we issued four reports which noted procurement weaknesses in AID's contracts and grants with universities, private voluntary agencies, and experts and consultants. As a result of the weaknesses noted in these reviews, we undertook a broader review in 1977, which disclosed poor or questionable practices and procedures in:

- planning the procurement;
- negotiating and awarding the contract;
- monitoring the contract during the implementation phase; and
- achievement of the contract goal.

As a result of poor planning, AID awarded four contracts valued at approximately \$900,000 to design and implement commercial contraceptive distribution systems in Ghana, Nepal, Tunisia, and El Salvador. However, AID did not fully recognize the impact legal restrictions imposed by recipient countries would have on the project, nor did they obtain needed host country approvals of the project concept, contract document, or contractor before award of the contracts in some of recipient countries. Consequently, the projects experienced excessive delays, the scope of the contracts had to be amended and increased costs were incurred.

AID's questionable use of noncompetitive procurement was demonstrated in an award of \$296,000 for technical assistance to help a government determine the effectiveness and related costs of different mixes of education delivery systems. The award was made on the basis of a request from the Technical Assistance Bureau for the services of a specified contractor.

AID needs to improve and strengthen its monitoring of performance under its contracts and grants to assure compliance with the terms of the Agreement.

The Administrator of AID has had an intensive review made of the Agency's contracts and grants and we believe that the actions he is taking will go far in improving and strengthening AID's procurement process.

This completes my statement Mr. Chairman, we will be pleased to answer any questions.

SUPPLEMENT TO STATEMENT  
SUMMARY OF WORK ON  
DEVELOPMENT ASSISTANCE PROGRAMS

DEVELOPMENT ASSISTANCE

For fiscal year 1979 the President has requested about \$1.3 billion to carry out the development assistance programs administered by the Agency for International Development. During the past past year, our efforts to evaluate this program have been primarily directed toward reviewing those programs involving assistance to stabilize population growth and provide adequate food and housing to poverty stricken people. We also have an effort underway to address the overall development strategy in the Sahel area of Africa.

Population

The long standing problems identified as retarding the progress of developing countries are exacerbated by spiraling population which has created greater demands on the need for food, housing, education, and health. Population is growing at a rate of 2.4 percent annually in developing countries. This will double the population by the year 2004.

During 1977 we issued two reports which highlighted some of the problems encountered by AID in administering population assistance. For example, we found, in one

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country, that growth rate reduction objectives were not being met. We feel that AID entered into the program for this country without adequate assurances of the country's capability to carry out the program and with little attention to the social and economic circumstances that would be necessary for potential parents to desire small families and use family planning services.

AID agreed with our observations and stated it is taking action to change its strategy. AID also plans to follow a carefully focused approach of providing support only to specific components of a program for which the government of the country has prepared well developed plans.

In another country, we found that rapid population growth was an important hindrance to development efforts and retarded improvements in the quality of life. We noted that per capita real income has been declining, domestic food production has not kept pace with growing demand, and the percentage of eligible children in school has been declining. Family planning services were provided at government health clinics and private family planning clinics. While 190 clinics had been registered by the end of 1975, not all were active and some only provided family planning services a few hours a week. About three quarters of the clinics are in urban areas where 70 percent of the people live.

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AID agreed with our description and analysis of the population situation in this country, and agreed to take actions on our recommendations to integrate population and development assistance. We also believe that there is a need to establish an effective mechanism for coordinating the efforts of the many organizations and agencies providing population assistance in this country and other countries where none exist. While AID agreed that better coordination was needed, it cautioned us that formal mechanisms were not always desirable.

We are currently processing a report on the issue of influencing fertility through social and economic change in developing countries. We found that AID's programs to reduce the rate of population growth in developing countries have focused on providing family planning information and services. While progress has been made, acceptance of family planning has not approached levels needed to achieve any acceptable stabilization of population.

Although it is well recognized by authorities in the field of population and health that large families in developing countries are the result of complex social and economic factors as well as lack of effective birth control, AID has not devoted sufficient resources to those programs which would build motivation for smaller families.

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There is also a need to give greater consideration to population growth in development planning for the region of Africa known as the Sahel. This past June, we addressed a letter on this subject to your Subcommittee, and to several other committees of the Congress, pointing out that the United States is involved in a multi-billion dollar, multi-donor, long-range program to develop the Sahel. We found that those drafting development strategies were not giving adequate attention to the implications of population growth for achievement of development goals. AID advised us of plans to intensify its efforts to promote a better understanding of the wide range of activities under the heading "population," and the relationship of these of the total development effort.

We will continue to focus our efforts on population programs, including our current review of coordination practices in six countries in Africa, Asia, and Latin America.

### Food

The food and nutrition problems of developing countries have been a major concern of the foreign assistance programs, and consequently, the subject of several of our reviews during the past 3 or 4 years.

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During the past year, we reported on the numerous constraints in developing countries which discourage farmers from increasing crop production by using more fertilizer. For example, developing countries choose to maintain artificially low food prices thereby reducing the incentives to increase production.

We recommended that the United States should work with other donors to encourage recipient governments to revise policies which discourage increased food production. The responsible agencies generally agreed with this recommendation, but it is not apparent what positive actions are being taken.

In another report, we note that AID has been successful in providing credit to small farmers in Latin America. However, in some countries, target groups to which credit may be made available were too broadly defined. We believe that AID can better meet its overall objectives to assist the poorer majorities and direct credit assistance to operators of small farms by refining target group definitions and criteria. AID agrees and is in the process of doing so.

In another report, we focused attention on the international agricultural research centers. As part of its



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food and nutrition assistance programs, AID contributes up to 25 percent of the budgets of international agricultural research centers supported by the consultative group on international agricultural research.

We examined AID's support of international agricultural research centers and its research strategy for inter-regional programs. We made several recommendations for improving research strategy, such as defining objectives more specifically and establishing relative priorities among research programs. We also highlighted the need for AID to be more forward looking regarding issues that affect the scope and direction of the centers' future evolution.

The United States is virtually the sole financial supporter of the Core Program of the International Fertilizer Development Center at Muscle Shoals, Alabama, and the only major external donor (37 percent in 1976) to the Asian Vegetable Research and Development Center in Taiwan. These research centers were established at AID's initiative with the hope of gaining international financial support. However, other major international donors are reluctant to support these institutions for political reasons; therefore, the United States is in the position of continuing to provide most of their long-term costs.

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We believe that the operating costs of international research and development organizations that are performing work vital to developing countries should be financed by contributions from the developed countries of the world. Therefore, this Subcommittee may want to explore with AID the likelihood of international support for these centers, and the probability that a substantial and sustained long-term AID commitment may be required.

We are currently reviewing the effectiveness and management of the Public Law 480, Title II program. This is an important part of U.S. efforts to alleviate malnutrition in developing countries. To date, we found that, while the Title II programs in the six countries we examined are generally benefitting large numbers of needy people, there are also a number of areas where substantial improvement can and should be made in the programs. Specifically, AID and its overseas missions need to devote more effort to identifying and targeting Title II food aid to the poorest people within these countries. Equally, some of the poorest countries are receiving little U.S. food aid, while large amounts of Title II food continue to be furnished to other relatively more affluent nations.

Due to the lack of transport facilities within these countries, there are some cases where significant problems

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are being experienced in reaching the intended recipients, particularly those in the critical rural maternal-child health category. Moreover, efforts to date by AID overseas missions and voluntary agencies to integrate Title II programs with host government development programs, in order to gain an additional development benefit from our food aid, have been spotty. We believe this area deserves more emphasis and direction by top AID management. Weak project administration at the country level has also been a recent problem in several cases, resulting in some diversion of U.S. food aid or a failure to reach the intended beneficiaries, and this indicates a need for increased AID attention to the day-to-day aspects of running the program.

### Housing Assistance

Our recent report on worldwide shelter assistance activities noted that inadequate housing aggravated by rapid but haphazard urban growth has profoundly affected the overall development prospects in developing countries. In order to reach the lowest income levels and the most people, international donors have sought to reduce housing standards, and thus housing costs, to a minimum. In our view, there is a need to distribute housing investment guaranties among a greater number of low-income countries; a need to develop host country institutions capable of continuing the kind of low-income housing initiated by

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the housing investment guaranty program; and a need to improve internal AID coordination and project analysis to assure integration of AID housing efforts with overall development activities. AID generally agreed with these views and told us that positive efforts are being made to address most of the issues and problems identified in our report.

In a current review of AID's housing investment guaranty program, we are examining ongoing low-income housing guaranty programs in several countries to identifying problems that may be arising and to assess how these are being managed. We are also looking at the activities of AID's Office of Housing in Washington, its regional housing offices abroad, and their relations with AID's geographic bureaus and overseas missions. The key issues we are addressing include: (1) the program's ability to serve the low-income target groups, (2) program accomplishments in developing host country institutions capable of financing and replicating these low-income housing projects; and (3) effectiveness of AID's current management structure --one which separates housing programs from bureau-managed development programs.

### Sahel Development Program

Since the end of the 1968-73 drought in the Sahelian area of Africa, much attention has been focused on developing

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a long-term program to help the countries there achieve a basic measure of food self-sufficiency and social and economic progress. The Congress, in fiscal year 1978, authorized \$200 million to participate in the program being formulated under the broad development strategies enunciated by the Club du Sahel--an international planning and coordinating mechanism representing the Sahelian countries and the principal aid donors.

In recognition of the importance of this program, which is estimated at about \$1 billion annually for a 20- to 30-year period, we started a broad review of the overall progress and constraints toward development in the Sahel. While much progress has been made, we found that there are many problems which we believe will require continuing attention; such as:

- improving management capability,
- strengthening the development program,
- clarifying the structure for managing development in the Sahel,
- dealing with some of the basic constraints impeding effective aid delivery, such as training needs and local cost financing,
- defining the interrelationships between the AID's development program and the overall development effort,
- clarifying the AID's policy of financing needed infrastructure projects, and

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--ensuring more effective use of funds allocated for study and research purposes.

We plan to continue our efforts to review and evaluate U.S. participation in the Sahel development program.

Loan Program

On January 5, 1978, we issued a report to the Congress entitled "Legislative Changes Urged in Loan Program of the Agency for International Development." We believe that legislative changes are needed to provide for more realistic administration of foreign assistance lending by AID as well as for more consultation with the Congress.

The report shows that AID has been experiencing increased loan collection problems, which have been resolved generally by adding uncollected interest to the loan balance and rescheduling principal due dates to defer payment. By June 30, 1975, for example, borrowers in countries owing \$9.3 billion of dollar-repayable loans had missed making payments on loans having unpaid balances totaling \$5.4 billion. Four of these countries, owing \$4.9 billion, required debt relief on all their dollar-repayable loans. During fiscal year 1976, some of the countries were making payments in accordance with their revised agreements; others were not.

AID has continued to lend to most countries having problem loans. Some loans were made after the recipients

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had been provided relief from making payments on earlier loans. Current lending patterns indicate that some relatively minor problem countries today could become major problems.

To provide for more realistic administration of foreign assistance lending by AID as well as for more consultation with the Congress, we recommended that debt relief be furnished from appropriated funds and that new lending be subjected to closer scrutiny when borrowers are unable to repay prior loans. We have prepared specific legislative language for implementation of our recommendations and plan to furnish such language to appropriate committees upon request. AID opposes our recommendations.

We reported also that AID has reduced the age of its undisbursed loans. On March 31, 1973, for example, 35 percent of undisbursed loan balances represented loan agreements over 2 years old. This was down to 28 percent at March 31, 1976, so that 72 percent represented loan agreements 2 years old or less. AID accomplished the reduction primarily by making disbursements on many of the older loans. It also deobligated some of the funds, but it adopted this solution on a relatively limited scale.

In some cases, in lieu of deobligating funds that were not disbursed when planned, AID extended the disbursing

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periods; consequently, its undisbursed loan portfolio as of March 31, 1976, still included some very old loans that were not fully disbursed. We recommended that AID also cancel undisbursed loans that have been outstanding for long periods and rejustify them as new loans when a valid need for the assistance still exists. AID did not comment to us on this recommendation.

SECURITY SUPPORTING ASSISTANCE

We have given priority attention to the security program because of the program's size and the increasing concern of the Congress and this Subcommittee with the program impact. The President has requested about \$1.8 billion in fiscal year 1979 to carry out this program.

In September 1977, we issued a report on the results of our review of the Egypt program. Since the U.S. level of our assistance to Egypt is based on political considerations and not on Egypt's economy capacity to accelerate its development program, there is great need for AID to assure itself that Egypt develops the capacity to effectively absorb the assistance available to it. In view of Egypt's limited capacity to provide local currency financing, we suggested that the Congress consider the merits of providing hard-currency financing for the local cost of selected projects in the U.S. assistance program. Such financing,



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could serve as an incentive to obtain Egyptian support for projects which would be more consistent with the "new directions" of U.S. foreign assistance.

We are also preparing a report on the results of our review of the Israel security supporting assistance program. From fiscal year 1972 to 1978 the United States has provided Israel with about \$2 billion to reimburse Israel for purchases made in the United States under the commodity import program. In recent years, this assistance has financed about half of Israel's annual commercial purchases in the United States.

Beginning in fiscal year 1976, the Israel program also included a cash grant component. Initially this grant was related to Israel's costs stemming from the 1975 Egypt-Israeli Sinai Agreement. More recently, the objective of the cash aid is to help the Israel Government cope with the problems of a large undisbursed level of aid in the commodity import program. The cash grant is not tied to U.S. purchases. Through fiscal year 1978, Israel has received \$768 million as cash grant.

In the report, we will comment on (1) a \$250 million pipeline of undisbursed aid that has build up in the program, (2) the problems in handling the large amount of documentation

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required to reimburse Israel for procurements in the U.S., and (3) our observations on alternative methods of how the program may be tied to U.S. procurement.

During the course of our work on the security supporting assistance program to Israel, we also took the opportunity to obtain information on the status of U.S. development programs that AID and the U.S. voluntary relief agencies are conducting in the Israeli occupied territories of the west bank and Gaza. This assistance is furnished under the Middle East special requirements fund. From what we learned, the following observations can be made:

- AID has not developed an overall assessment of the needs for the area or an aid strategy for carrying out the program.
- Assistance has been used to support vocational training, education, health and rural development activities. This has contributed to the growth of a healthy, educated and skilled population. Although, some participants have emigrated from the area.
- Reaction to the program has been positive and much good work is being done by the various institutes and organizations involved with the program.

We are preparing a document which will detail our observations concerning assistance to the occupied territories. We propose to provide a copy of this document to the appropriate committees of the Congress.

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We intend to continue our efforts in the security supporting assistance area. We currently plan to initiate, in the near future, a broad review of the program in order to identify for the Congress (1) the criteria or absence of criteria for selecting countries for this type of assistance, (2) the relationship between supporting assistance aid and development aid, and (3) why the programs have built up such large undisbursed pipelines and what is being done about those undisbursed funds.

### INTERNATIONAL ORGANIZATIONS

In 1977 we issued five reports to the Congress on the management of U.S. participation in International Organizations. These reports show a continuing need for the Executive Branch to upgrade this aspect of U.S. foreign affairs and we made several recommendations to this end.

Of specific interest to this Committee are our findings with respect to the funding of development assistance through the voluntary contributions and not through the assessed contributions of member states.

We support the U.N. Development Program (UNDP) country programing concept wherein technical assistance is coordinated and funded primarily through a single channel. The UNDP system of country programing is based largely on the needs and priorities of a developing country as agreed to

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by the country. These needs are assessed in terms of UNDP resources, and a 5-year plan or country program is established by the recipient country and UNDP. Approved UNDP assistance projects, funded through voluntary contributions, are then carried out primarily by the specialized agencies under the team leadership of the UNDP resident representative.

Our Government continues to support and follow the concept of funding development activities through voluntary contributions and using UNDP as a central funding channel and focal point for development planning and programming. We urge that U.S. efforts in this area be increased, and we encourage strengthening the leadership role of the UNDP resident representative.

### INTERNATIONAL FINANCIAL INSTITUTIONS

Amendments to the Inter-American Development Bank Act in 1967 and the Foreign Assistance Act in 1973 required the President, acting through the U.S. representatives to the international financial institutions, to propose and actively seek establishment of an independent review and evaluation system for the Banks. These amendments also directed the Comptroller General to:

- prepare auditing and reporting standards to assist in formulating the terms of reference for a review and evaluation group,

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--periodically review audit reports and related information, and

--report to the Congress and the President.

The Comptroller General has submitted the required statements of auditing and reporting standards and independent review and evaluation systems have been established in the World Bank, Inter-American Development Bank, and the Asian Development Bank.

We are reviewing the procedures, activities, and reports of these organizations and pursuant to the respective legislation we will be reporting our findings to the Congress and the President. We have completed our field work at the World Bank and the Inter-American Development Bank, and we are now working at the Asian Development Bank.

We believe the World Bank has made considerable progress toward developing an independent review system. Auditing and reporting standards have been adopted and the review group has been placed under a Director-General who is responsible to the Board of Executive Directors. Under guidance of the Director-General, the Bank's Operation Evaluation Department has worked with operating departments in establishing a framework for improved project reporting which in turn provides a basis for review of other important activities.

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In view of this progress, we believe that now is an opportune time for enhancing the effectiveness of the system by improving auditing and reporting standards.

With respect to the Inter-American Development Bank, the effectiveness of the Group of Controllers, an independent review and evaluation system of the Bank, has improved since its creation in 1968. Its reports have been instrumental in improving the Bank's operations. The Board of Directors, however, is considering reorganizing the Group in 1979. Some of the proposals being considered would, in our opinion, significantly change the Group. We believe the Group's independence should be protected and its role strengthened.

With regard to the Asian Development Bank, we believe the Bank has made some progress in establishing an effective review system, but the expansion of Bank activities and the need for more current independent reviews of Bank procedures calls for a more independent and wide-scope approach than the present system to evaluating completed projects.

We believe that the Secretary of Treasury should instruct the U.S. Executive Director to suggest that the Bank openly announce recognition of the principal of a truly independent review group to perform selective reviews of major Bank programs and activities.

PEACE CORPS

We have recently completed a review of Peace Corps and will be preparing a report on the results of that review. To complement our detailed audit work, we sent 1,200 questionnaires to volunteers in six countries and received responses from 635 volunteers--a return rate of 53 percent. We also visited five of the six countries where questionnaires were sent.

The major concerns of the volunteers as expressed in their responses related to host country support and weaknesses in the recruitment and placement of volunteers. Our review work confirmed these concerns. For example with regard to support we found that while each of the countries was making cash and/or in-kind contributions, there was a reluctance on the part of some country directors to approach host country officials to seek increased contributions or to fulfill existing agreements. We also noted an absence of standardized criteria as to the level of contribution a host country should provide.

Some of the more prevalent weaknesses we observed in the recruiting, selection, and placement process are:

- Volunteer recruiting, selection, and placement procedures do not (1) insure that applicants are furnished with sufficient information about overseas hiring and working conditions to better enable them to decide whether they can

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commit themselves for 2 years, and (2) require indepth scrutiny of applicants to identify unsuitable ones and to provide guidance for placing volunteers in a compatible environment.

--ACTION's staff of recruiters and Peace Corps' placement officers are often not (1) sufficiently trained nor (2) provided with uniform standards and guidance by which to make informed decisions about Peace Corps applicants.

As a result, a large number of volunteers are entering Peace Corps inadequately screened for suitability and poorly informed about the conditions under which they will serve. A consequent and costly result is that many volunteers are terminating service prior to their scheduled completion, many within the first few months of service. Currently, volunteers are under no obligation to complete a 2-year service tour. Peace Corps policy is to pay the volunteer's return transportation costs regardless of the period served.

Peace Corps continues to be plagued by problems concerning its personnel. The more significant include (1) a high personnel turnover rate, (2) cumbersome and time-consuming employment processes, (3) inability to fill staff vacancies quickly, and (4) inadequate ratios of supervisory staff to volunteer in almost all countries.

We also observed a number of on-going projects in all five countries that we visited, only generally match



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host country priorities. Those projects could not be viewed as being indirectly beneficial to the neediest people and were only directly related to country development. We believe Peace Corps programming should be coordinated with other AID donors at the Washington and overseas offices.

We also noted:

1. In three of the five countries we visited, it is questionable if Peace Corps programs are appropriate in terms of stated Peace Corps goals and objectives.
2. In two countries, Peace Corps programs were not receiving the cooperation and commitment by the host government that is essential for the program to succeed.
3. In another country where the economic condition is comparatively good, it is questionable whether the Peace Corps should maintain a large presence in light of its new program direction of serving basic human needs.

We hope to issue our report, which will discuss these matters in much greater detail, within the next few months.

SELECTED GAO REPORTS RELATED TO THE  
FOREIGN ASSISTANCE PROGRAM  
ISSUED SINCE FEBRUARY 21, 1977

	<u>ID NUMBER</u>	<u>DATE</u>
Nicaragua - An Assessment of Earthquake Relief and Reconstruction Assistance (Chairman, Subcommittee on Foreign Assistance, Senate Committee on Foreign Relations)	ID-77-25	March 17, 1977
Examination of Financial Statements of the Export-Import Bank of the United States for the Fiscal Year ended June 30, 1976	ID-77-23	April 15, 1977
Cost of Training Granted to Foreign Students under the Military Assistance Program	ID-76-79	May 17, 1977
Need to Consider Population Growth in Sahel Development Planning (Chairmen, Senate Committees on Appropriations & Foreign Relations and House Committees on Appropriations and International Relations)	ID-77-40	June 17, 1977
Impact of Population Assistance to an African Country	ID-77-3	June 23, 1977
U.S. Participation in International Organizations	ID-77-36	June 24, 1977
Observations of U.S. Military Presence and Base Negotiations in the Philippines (SECRET)	ID-77-5	July 1, 1977
Restrictions on Using More Fertilizer for Food Crops in Developing Countries	ID-77-6	July 5, 1977
Impact of Population Assistance to an Asian Country	ID-77-10	July 12, 1977
The Investment Insurance Program Managed by the Overseas Private Investment Corporation (Chairman, Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations)	ID-77-49	July 26, 1977

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Payment of Special Allowances to IGA Inspectors (Letter to Secretary of State)	ID-77-46	July 27, 1977
Analysis of Justification for Housing Supplement Allowance Paid to AID Employees of the U.S. Mission to the United Nations (Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations)	ID-77-	July 29, 1977
Examination of Financial Statements of the Inter-American Foundation for the 15-Month Period Ended September 30, 1976	ID-77-43	August 12, 1977
Examination of Financial Statements of the Overseas Private Investment Corporation, Fiscal Years 1976 and 1975	ID-77-24	September 7, 1977
Egypt's Capacity to Absorb and Use Economic Assistance Effectively (Chairman, Subcommittee on Europe and the Middle East, House Committee on International Relations)	ID-77-33	September 15, 1977
Payment of Annual Housing Supplement to Employees Assigned to the U.S. Mission to the United Nations in New York (Chairman, Subcommittee on State, Justice, Commerce, the Judiciary, Senate Committee on Appropriations)	ID-77-58	September 26, 1977
Perspectives on Military Sales to Saudi Arabia (SECRET)	ID-77-19	October 11, 1977
The Challenge of Meeting Shelter Needs in Less Developed Countries	ID-77-39	November 4, 1977
Credit Programs for Small Farmers in Latin America Can Be Improved	ID-77-1	December 9, 1977
Opinion on Eximbank's FY 1977 Financial Statements (Board of Directors, Eximbank)	ID-78-9	January 3, 1978
Legislative Changes Urged in Loan Program of the Agency for International Development	ID-76-80	January 5, 1978

Opinion on FY 1977 Financial Statements of the Overseas Private Investment Corporation (Board of Directors, OFIC)	ID-78-12	January 16, 1978
U.S. Participation in International Agricultural Research	ID-77-55	January 27, 1978
Improved Management Needed over the Agency for International Development's Operating Cost (Administrator, Agency for International Development)	ID-78-15	February 14, 1978
The American University in Cairo: Alternatives for U.S. Government Support	ID-78-20	February 17, 1978

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Statement of  
J. Kenneth Fasick  
Director, International Division  
before the  
Subcommittee on Foreign Operations  
of the  
Senate Appropriations Committee  
on  
General Operations of the American University  
in Cairo, Egypt

Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss the results of our review of the general operations of the American University in Cairo, Egypt, with particular emphasis on the University Educational Endowment Fund. Our report was issued last week.

Since 1960, AID has granted the University over \$15 million, mostly in dollars, under the American Schools and Hospitals Abroad Program. This money was used to cover a

continuing deficit between the University's income and operating expenses and for construction of a new library. In 1969, AID signed an agreement granting the University an additional LE 25 million--equivalent to about \$36 million at the present exchange rate--to set up an endowment fund. In 1975 the Fund was given an additional LE 1,250,100 (\$1.7 million) to replenish Egyptian pounds used for University operating expenses.

The Fund was to be invested in business ventures and enterprises in Egypt in order to produce income to offset the University's Egyptian pound operating deficits. No investments were made until December 1974 and from then until December 1977 about LE 5.6 million (\$8 million) were invested. The Fund was also used, with AID approval, to pay University operating expenses of LE 12.5 million (\$17.9 million) and the balance was deposited in bank accounts. At December 31, 1977, the balance of the Fund on deposit in banks was LE 8.1 million (\$11.6 million).

In July 1976, AID auditors issued a report strongly criticizing the operations of the Fund. It cited questionable investments indicating a lack of investment ability, deficient managerial and administrative practices, and an improper and unreceipted cash transaction in the purchase of real estate which left LE 613,360 (about

\$1.1 million) unaccounted for. The AID report also called for reconsideration of the endowment fund concept.

Because of the serious deficiencies cited in the audit report, AID "froze" the Fund and prohibited further investments by it.

Based on our review, we believe that AID's severe criticism of the Fund was justified. In the year and a half since the audit, however, the Fund and the University Board of Trustees have made numerous changes that have corrected many of the deficiencies cited in the report. For example, two new loan agreements have been negotiated to replace and improve existing loans, and the Fund has assured itself that it will get full title to the property it purchased in the criticized real estate transaction. This will allow development of the property to proceed under new financing arrangements. Also, the Board of Trustees has made personnel and organizational changes in the Fund, including replacement of the former Fund staff. In addition, the Board of Trustees is exercising greater supervision and oversight of the Fund. Regular financial reports are required and investment proposals are reviewed and approved by the Finance Committee and by the full Board.

In our view, the basic cause of the Fund's problems was a lack of supervision by the Board of Trustees over Fund operations. The Trustees, who were mostly located in New York, met only three times a year and were not closely evaluating investment decisions or monitoring Fund operations. As we have said, changes have been made which should improve this situation. In our report we have called attention to a lack of investment criteria and some potential problems with investment goals set by the Fund. Both these areas are under study and will be discussed at the Board's meeting the first week in March.

We believe that economic and political conditions in Egypt may have improved sufficiently for the Fund to succeed now and that serious management deficiencies have been mostly corrected. A number of funding alternatives are under study by the University, the Fund, and by AID. Should the U.S. Government decide to continue financially supporting the University, we believe that the alternative which proposes a loan, rather than a grant of Egyptian pounds to the Fund has advantages over the other proposals and may be the best means of supporting the University's operational needs.

That concludes my statement, Mr. Chairman, and we will be pleased to answer any questions you may have.