United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Foreign Operations, Export Financing, and Related Programs, Committee on Appropriations, House of Representatives

August 1993

FOREIGN ASSISTANCE

Accuracy of AID Statistics on Dollars Flowing Back to the U.S. Economy Is Doubtful

149859

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National Security and
International Affairs Division

B-239036

August 3, 1993

The Honorable David R. Obey
Chairman, Subcommittee on Foreign
Operations, Export Financing,
and Related Programs
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

As you requested, we have reviewed how the Agency for International Development (AID) determines the extent to which U.S. foreign economic assistance dollars flow back to the United States through the procurement of U.S. goods and services. Our objectives were to (1) evaluate the accuracy and reliability of AID's reflow statistics,[1] (2) evaluate the merits of continuing AID's Buy American Reporting System (BARS), and (3) discuss the impact of the foreign economic assistance reflows on the U.S. economy.

Results in Brief

The accuracy and reliability of AID reflow statistics is doubtful because of significant data limitations and the methodologies used to generate the statistics. Both BARS and previous AID reflow studies rely on imprecise and inconsistent measuring techniques and estimates. AID agrees that reflow statistics cannot be verified.

The merits of continuing BARS are questionable because (1) the accuracy of BARS statistics is not expected to improve, (2) AID officials said BARS data is not essential for any management purpose, and (3) BARS is costly and time-consuming. In addition, there is no statutory requirement for reporting reflow statistics.

Because the foreign economic assistance program is very small compared with the size of the U.S. economy, the amount that flows back to the United States through the procurement of goods and services appears to have had only a negligible impact on the U.S. economy. Since 1990, the United States has spent between $6.7 billion and $7.4 billion annually in

[1]Reflow statistics measure the short-term impact of AID assistance on the U.S. economy through procurement of goods and services with AID funds. GAO's earlier studies relating to the impact of foreign assistance are entitled Economic Assistance: Integration of Japanese Aid and Trade Policies (GAO/NSIAD-90-149, May 24, 1990) and Foreign Assistance: How the Funds Are Spent (GAO/NSIAD-86-73, Mar. 7, 1986).

Development Assistance and Economic Support Fund programs as well as Special Assistance Initiatives.[2] Even if all AID funds were used to procure 100-percent U.S. origin goods and services, AID obligations would amount to only 1 percent of annual U.S. exports and one-tenth of 1 percent of the U.S. gross domestic product.

Background

AID is exempt from many federal procurement laws and regulations, such as the Buy American Act of 1933.[3] Nevertheless, AID's policy is to procure U.S. goods and services to the greatest extent possible. The Foreign Assistance Act of 1961, as amended, allowed AID to use funds for procurement outside the United States only if the President determined that such procurement would not result in certain adverse effects upon the United States. President Kennedy made such a determination in 1961, authorizing procurement from developing countries for all AID-financed procurement, but not from industrialized countries without a special case-by-case waiver.[4]

U.S. foreign economic assistance funds, which are channeled through AID, are currently being provided to over 100 countries to promote such objectives as economic growth and democratic values. AID uses a variety of assistance mechanisms, including cash transfers, participant training, commodity import programs, and technical assistance. Most of these mechanisms involve purchasing goods and services.

AID has been providing the Congress reflow statistics since the late 1970s. From 1979 to 1987, AID estimated reflow levels ranging from 64 percent to 75 percent. These estimates were based upon a set of parameters and assumptions about AID worldwide disbursements that AID economists developed in 1973. In 1988, AID stopped using this model because its assumptions were no longer valid. Since then, AID has funded three

[2]The Development Assistance program includes funding for such programs as the Development Programs, the Development Fund for Africa, International Disaster Assistance, and Operating Expenses. The Economic Support Fund program includes cash transfers, project assistance, and commodity import programs. The Special Assistance Initiatives program, established in fiscal year 1990, provides funding for extraordinary economic assistance in developing countries.

[3]The Buy American Act of 1933 does "not apply with respect to articles, materials, or supplies procured and used outside the United States."

[4]Recent legislation (P.L. 102-391, section 597 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, Oct. 6, 1992) modified this legal framework by restricting the procurement eligibility of "advanced developing countries." This legislative change does not affect the findings in this report.

separate reflow studies[5] that have focused on determining reflow levels from assistance to specific countries. Each of these studies concluded that existing AID data systems did not provide sufficient information for accurately reporting reflows. In fiscal year 1992, AID implemented BARS to generate quarterly worldwide reflow statistics. A copy of the one-page BARS report for fiscal year 1992 is reproduced in appendix I of this report.

Accuracy and Reliability of AID Reflow Statistics Doubtful

AID estimates the origin of goods and services by reviewing payment documentation, which frequently does not contain origin data. Although the Commodity Import Program and certain host country contracts[6] require suppliers to certify origin, most other payment documentation contains limited or no origin information. In a 1992 audit of BARS, the AID Inspector General[7] found that 46 percent of the disbursements it reviewed contained no origin information. In such cases, AID officials estimated the origin of procurements based upon their knowledge of the project or program. AID's 1991 reflow study concluded that using mission officials' estimates could overstate U.S. reflows by as much as 15 percent, depending on the complexity of the project, the officials' knowledge of true origin, and the time spent reviewing the payment documentation.

Accurate and reliable reflow statistics that measure economic impact must be true and consistent measurements of the origin[8] —not source—of goods and services.[9] Both BARS and AID reflow studies measure reflows by allocating assistance dollars to the country of origin. For example, in BARS, AID payments to a U.S. firm providing technical services in one country may be distributed among one or more countries of origin. Office costs

[5]Analysis of FY 1988 USAID/Thailand Expenditures by Source and Nationality, KMA & Associates (Aug. 1989); Reporting System for Source/Origin Procurement and Private Sector Support, Development Associates/Development Alternatives, Inc. (July 1990); and The Impact of U.S. Economic Assistance on the U.S. Economy: Interim Report, Logistics Management Institute (Mar. 1991).

[6]These contracts are administered by the recipient country for AID-financed technical assistance services, commodity purchases, or construction services.

[7]Audit of AID's Buy American Reporting System (July 17, 1992).

[8]For reflow purposes, AID defines origin as the country in which a commodity is manufactured or produced. For services, origin is the country in which contractors, grantees, and AID employees spend the service payment.

[9]For reflow purposes, AID defines source as the country from which a commodity is shipped. For services, source is the nationality of the individual providing services or the country where the firm supplying the service is located. Reflow statistics based on the source of goods and services measure the percentage of funds paid to U.S. entities but do not necessarily reflect the economic impact of such payments. For example, goods could be purchased from a U.S. source but contain components from foreign manufacturers. In such a case, a portion of the U.S. supplier's payment would flow to a foreign country.

incurred in the United States and salaries paid to U.S. nationals would be counted as U.S. origin. Costs incurred by the U.S. firm in the recipient country, which might include expenses for rent and salaries paid to non-U.S. employees, would be counted as local origin. If the U.S. contractor procures goods or services from subcontractors, the origin for these payments is generally determined by the nationality of the subcontractor. For goods, in general, AID payments to a U.S. supplier are presumed to be U.S. origin unless AID knows the goods were of foreign origin.

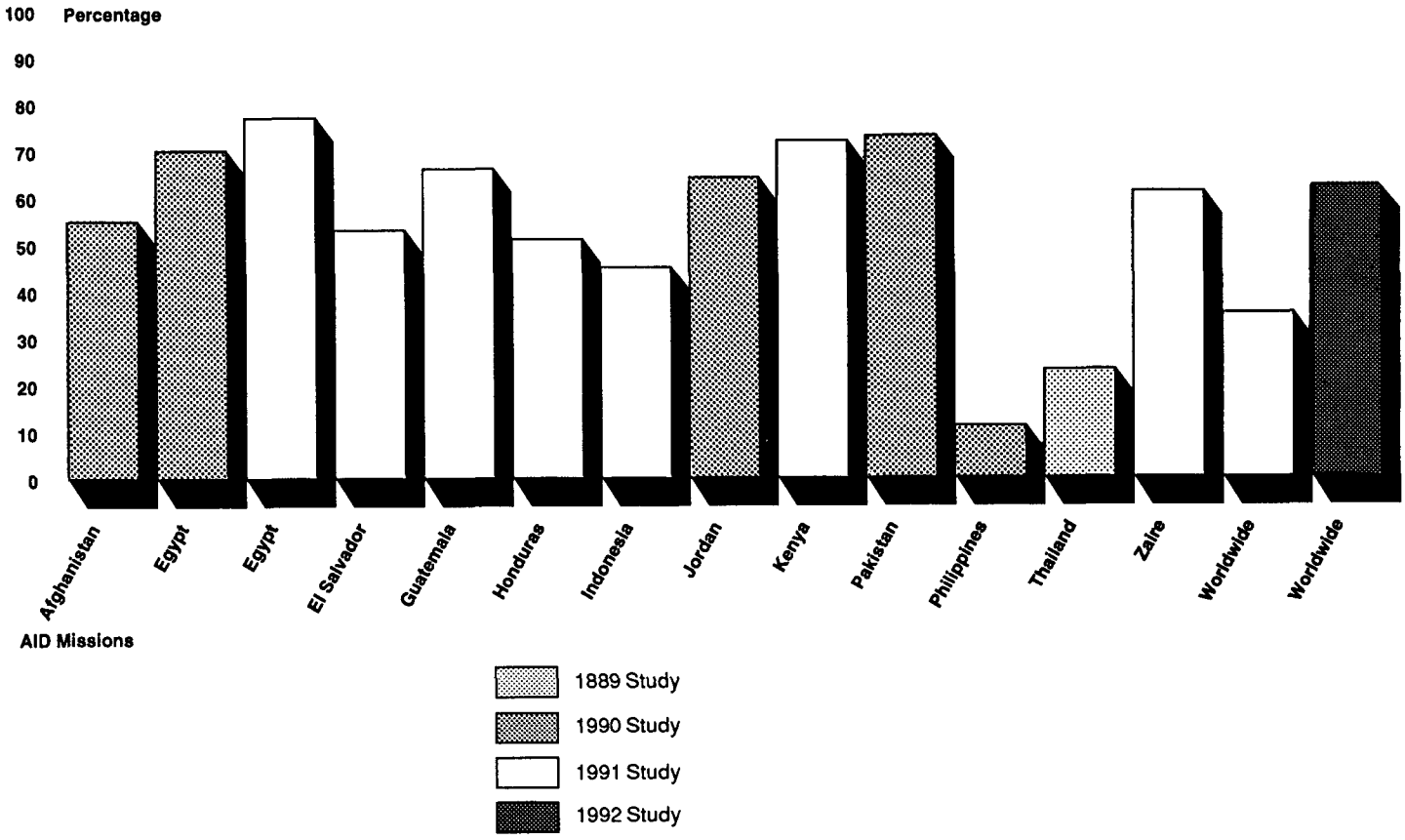
Both BARS and AID reflow studies rely on imprecise and inconsistent measuring techniques and estimates that cannot be verified because the necessary origin information generally is not available. In both BARS and AID reflow studies, if goods are at least 50-percent U.S. origin, they are considered 100-percent U.S. origin for calculating reflows, and the reverse is true for foreign goods. Consequently, U.S. origin is imprecisely estimated. For services, BARS estimates origin inconsistently because AID officials are instructed to consider the origin of goods purchased by first-tier and lower-level service subcontractors in their reflow estimates only if they have knowledge of the goods. We were told that AID does not know how often AID officials have this information.

AID officials responsible for BARS believe that BARS statistics are reasonable estimates of worldwide reflow levels because they are based on estimates and judgments made by knowledgeable AID officials. These officials cautioned, however, that BARS is an estimation based, not accounting based, system, and they did not claim that BARS statistics are accurate measurements of reflows.

Reasons for Country Variances in Reflow Statistics

Reflow statistics generated by BARS and AID's three earlier studies show that reflow levels vary substantially by country, as shown in figure 1. For example, AID statistics indicate an 11-percent reflow from U.S. assistance to the Philippines, while assistance to Egypt, Kenya, and Pakistan reportedly generated reflows exceeding 70 percent each. The variances in reflow statistics among countries are primarily attributable to differences in (1) the country program and (2) the methodologies used by AID reflow studies for key expenditure categories.

Figure 1: U.S. Reflow Levels Vary by Country



Source: AID Reflow Studies and BARS.

An AID official explained that individual country reflow levels are largely determined by the type of assistance and program funding source. For example, a country with a large commodity import program such as Egypt shows a high reflow level because commodity import programs require that the goods be of U.S. source and origin. Conversely, programs funded by the Development Fund for Africa, which provides about $800 million annually to African countries, have statutory authority to procure from a variety of sources, in addition to the United States.

How key expenditure categories are methodologically treated by AID also significantly affects reflow calculations. For example, different methods have been used to measure reflows from the $2.8 billion in cash payments provided annually. Cash payments, dispersed primarily under the Economic Support Fund program, are provided to recipient countries for such activities as repaying U.S. and international debt and purchasing goods. There is no consensus on how to measure the impact of cash payments on the U.S. economy. One approach, used by AID's 1990 study, assumed that none of the cash payments reflowed to the United States, regardless of how they were used. According to the AID consultant who performed the study, this assumption was made because credible information on how the funds were used was unavailable. A second approach, used by AID's 1991 study, calculated reflows only for cash payments used to purchase goods and services or repay debt to international financial institutions.[10] The 1991 study excluded cash payments used to repay debts to the United States because it assumed the economic impact occurred at the time the debt was incurred, not when the debt was repaid. Under the current BARS process, only cash payments used to purchase goods and services are included in reflow statistics because AID does not consider debt repayments a procurement. If BARS included cash payments used to repay debt, U.S. reflow estimates for fiscal year 1992 would have increased from 62 percent to 70 percent.

BARS and AID reflow studies treat AID's operating expenses differently. For example, while AID's BARS and 1991 reflow study included all mission operating expenses, AID's 1989 study included only 13 percent of such expenses. The 1989 study excluded salaries and expenditures such as rent and utilities from operating expenses when it estimated reflow levels. Another factor influencing reflows from operating expenses is that in some countries AID has access to a local currency trust fund provided by the host country. When such funds are available, a larger proportion of local operating costs are financed by non-AID appropriated funds, permitting a greater portion of AID funds to be used for U.S. procurements. Such was the case in four of the countries AID's 1990 study reviewed.

The Merits of BARS Are Questionable

According to AID officials, BARS was implemented to respond to requests from a few Members of Congress for reflow statistics, not because AID needed such statistics to manage its program. AID officials acknowledged that AID is not statutorily required to produce BARS statistics, but AID stated

[10]U.S. reflows from these debt repayments were calculated using the percentage of the funds loaned by that institution that was used to procure U.S. goods and services.

that there is seldom a congressional review of the AID program or budget that does not include questions about the extent to which U.S. economic assistance funds are used to purchase U.S. goods and services. AID officials cited several instances of questioning in congressional hearings about AID's inability to produce "verifiable" reflow statistics and about the accuracy of earlier reflow statistics. AID officials believed that only a system capable of producing worldwide reflow statistics would satisfy congressional inquiries, although these officials acknowledged that BARS estimates are not verifiable.

AID officials stated that the accuracy of BARS is not likely to improve unless suppliers of goods and services are required to provide origin information. When AID designed BARS, AID anticipated that eventually reflow statistics would be based on supplier-estimated origin information, not AID officials' estimates. Accordingly, AID sought approval through the Office of Management and Budget (OMB) to require origin information from all AID suppliers. However, OMB denied AID's request, stating that

> the agency cannot reasonably justify why it needs to collect this information. USAID is not bound by statute or regulation to undertake a collection which does not serve its programmatic or policy needs. Furthermore, this proposed approach would require all USAID beneficiaries to be unduly burdened.

AID officials agreed with OMB's conclusion and said that AID did not plan to resubmit the request to OMB. Moreover, we do not believe that requiring suppliers to estimate origin would significantly improve the accuracy and reliability of BARS. Accuracy and reliability would improve only if the suppliers provided detailed and verifiable origin percentages, and it is questionable whether the various suppliers would have that knowledge given the internationalization of the world economy. For example, cars made by a U.S. company could contain many parts and components produced in foreign countries.

AID officials said BARS statistics are not useful, nor are they being used, for management decision-making. These officials stated that, in general, most conclusions they can draw from BARS statistics are either already known or can be drawn from other sources. For example, they indicated that they can review specific programs or projects and estimate if reflow levels are likely to be relatively high or low.

The actual cost of BARS is unknown; however, AID officials described it as a costly system that places a significant burden on AID's staff resources. AID

officials said that obtaining actual cost data would be difficult and expensive. However, using estimates of the number of vouchers reviewed, review time, and average salaries, AID estimates that BARS' annual operating costs are about $485,000. They indicated that hundreds of employees review thousands of payment documents monthly, in addition to their other duties. For example, the AID mission in Pakistan estimated in 1992 that it processed about 1,000 transactions per month. One AID official said that, depending on the complexity of the voucher, it could take as much as 10 minutes per voucher to estimate origin. Mission and AID headquarters officials have complained to officials responsible for developing and operating BARS that BARS is an administrative burden taxing already stretched resources. The AID Inspector General estimated that the first quarter fiscal year 1992 BARS report took several thousand hours to prepare.

Several AID studies and officials suggested alternatives to BARS that may be less costly and administratively burdensome, but, at the same time, they realize the alternatives may not satisfy some congressional members' information requests. These alternatives, which we did not evaluate, include the following:

- A team of experts could periodically review specific contracts, projects, or programs and obtain origin information by reviewing suppliers' records rather than using AID officials' estimates.
- AID could conduct periodic reflow studies of selected countries.
- AID could provide reflow statistics based on source, which is relatively easy to determine. Source information would track how much AID funding flows back to U.S. companies or locations, but would not necessarily reflect economic impact.

One senior AID official said he disagreed that any of these alternatives to BARS would be less costly. He said that AID would need to hire consultants to conduct such studies, whereas BARS is conducted in-house and its costs are absorbed within existing staff resources. We note, however, that although BARS is conducted in-house, it constitutes a cost because time is being spent on BARS instead of other AID activities.

Although AID officials recognize BARS' limitations, a senior AID official said that AID would be reluctant to discontinue BARS unless the Congress agreed that such statistics were not needed. AID officials, however, have not discussed with Members of Congress interested in reflow statistics how or

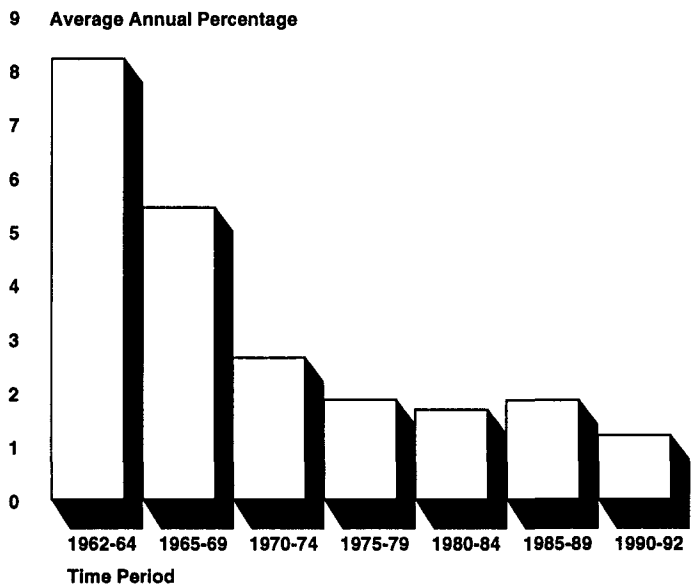
if they use reflow statistics, the difficulty and complexity of generating reflow statistics, or the staff resources required to operate BARS.

Economic Assistance Is Small Compared With the Size of the U.S. Economy

The approximately $6.9 billion provided annually for the foreign economic assistance program is small compared to the size of the U.S. economy, constituting only about one-tenth of 1 percent of the U.S. gross domestic product. Furthermore, over the past 31 years, the ratio of AID-obligated funds to total U.S. exports of goods and services has declined from 8.2 percent in 1962-64 to 1.2 percent in 1990-92 because exports have grown more rapidly than the foreign assistance program. (See fig. 2.) Between 1985 and 1992, exports grew at an annual rate of 12.3 percent, while AID-obligated funds decreased at an annual rate of 1 percent. Even if AID were able to ensure that all commodities were 100 percent U.S. origin, the impact on domestic production and exports would be insignificant. Since commodities currently comprise only about 8 percent of total AID obligations, their maximum potential share of U.S. domestic production would be one-hundredth of 1 percent and impact on exports would be one-tenth of 1 percent. Nonetheless, some additional jobs may be created in the United States if more AID funds were spent on domestically produced goods and services, but the number of additional jobs cannot be readily determined.[11]

[11]The existence and magnitude of employment effects of any particular change in spending patterns depends on the macroeconomic context in which it occurs. According to a Department of Commerce study, about 19,100 jobs were associated with each $1 billion of commodity exports in 1990. Using this estimate, we calculated that if AID procured all its commodities from the United States, about 10,700 U.S. jobs could be associated with the U.S. foreign economic assistance program. However, whether these are net new jobs is doubtful because (1) the macroeconomic context is unspecified, (2) the total value of AID's current purchases of commodities in the United States is unknown, and (3) the domestic content of AID's purchases as compared to Commerce's estimate is unknown. Also, Commerce's estimate excludes the export of services, which comprises a significant percentage of AID's purchases.

Figure 2: Comparison of the Foreign Economic Assistance Program as Percent of U.S. Exports (1962-92)



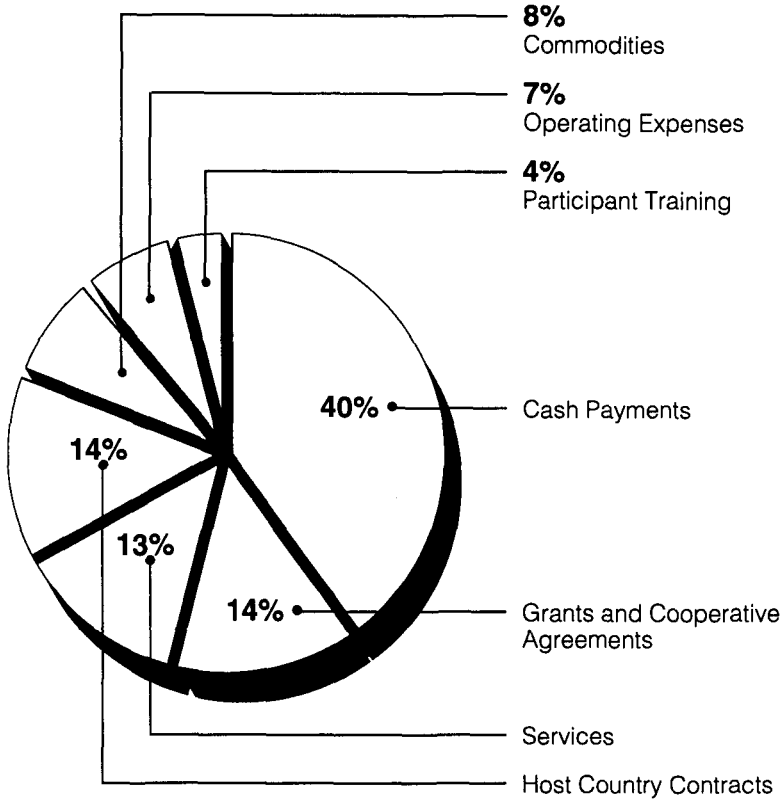
AID's Ability to Significantly Increase Reflows Is Limited

The overall reflow level from foreign economic assistance funds is, to a great extent, determined by the type of assistance provided, rather than procurement regulations.[12] The type of assistance, according to AID, is determined primarily by foreign policy concerns, the recipient country's needs, and other factors not related to anticipated reflow levels. Once such program decisions have been made, AID's ability to increase reflow levels by tightening procurement regulations is limited.

We analyzed the extent to which AID exercises control over the procurement of goods and services within seven specified categories, as shown in figure 3. Each of these categories is governed by distinct policy and procurement regulations. For our purposes, we established a separate category for commodities to capture the total estimated amount of AID funding spent on such procurements.

[12]AID's procurement regulations are complicated, but generally stated, AID project and program agreements authorize either U.S. procurement or a combination of procurement from the United States and the least-developed countries. Waivers are required for procurement from countries not authorized in project or program agreements.

Figure 3: Estimated Distribution of AID's Annual Obligations



Note: These percentages are estimates derived from obligation information provided by AID data bases, reports, and AID procurement and financial management officials.

AID provides 54 percent of its funds in two categories where its procurement regulations do not apply: (1) cash payments and (2) grants and cooperative agreements. AID officials believe that requiring U.S. procurement in these categories may be inconsistent with the reasons for selecting these types of assistance.

Cash payments (40 percent) are used when the United States is primarily concerned with furthering its national security, economic, and political objectives. AID policy states preferences for how the funds should be used,

but does not require that the funds be used to purchase U.S. goods and services.[13]

Grants and cooperative agreement assistance instruments (14 percent) are used to support or enhance the activities of independent organizations such as educational institutions and private voluntary organizations that contribute to the achievement of foreign assistance objectives. AID's policy is to limit AID approval requirements for procurement of goods and services under these assistance instruments. AID's policy is to require U.S. procurement only if the grant or cooperative agreement has a procurement element over $250,000. In other cases, AID ranks authorized procurement sources by preference, with the United States being the preferred source.

AID's ability to increase reflows from other categories is also limited. For example, AID's ability to increase reflows from operating expenses (7 percent) is limited because the largest operating expense is salaries for direct hires, and AID cannot control where AID employees spend their salaries. AID also cannot significantly reduce some costs associated with doing business overseas, such as the cost of utilities. For host country contracts (14 percent), services (13 percent), and commodities (8 percent), AID procurement regulations generally restrict procurement to the United States and the least-developed countries. Participant training (4 percent) primarily takes place in the United States.

One AID reflow study concluded, and AID officials concurred, that further efforts to achieve higher reflow levels through procurement regulations would likely increase overall program costs. For example, program costs would increase if AID precluded all non-U.S. procurement; replaced local contractors, local project support staff, and foreign national direct hires with U.S. counterparts; and required basic construction materials to be procured from the United States. Moreover, an AID official said restrictive procurement practices may also negate long-standing U.S. efforts to encourage other aid donors to reduce their linkage of assistance and procurement.

Agency Comments and Our Evaluation

In commenting on a draft of this report, AID agreed that the accuracy and reliability of BARS data is doubtful and that the information needed to improve reflow statistics generally is not available. However, AID does not

[13]We are currently conducting a separate study of cash payment assistance as required by section 595(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1993 (P.L. 102-391).

believe that BARS should be discontinued. According to AID, reflow information is needed for AID management and to respond to congressional questions and to date no alternative that is more comprehensive, more accurate, and less costly than BARS has been proposed. Nevertheless, AID indicated a willingness to work with the Congress to identify the scope, frequency, and precision of the data required to meet congressional needs.

We recognize that AID is frequently called upon to provide Members of Congress information on how much AID money is spent in the United States. However, we doubt that expending nearly half a million dollars annually to generate data of questionable accuracy and reliability is the best solution. Moreover, we found no evidence that BARS data had been used in coming to any management decision. We believe that if AID continues to report BARS data to the Congress, the quality of the data should be prominently disclosed.

Recommendations

We recommend that the AID Administrator discuss with interested Members of Congress the problems with the current system and seek their concurrence on using a less expensive and burdensome method to meet their information needs. If, after such discussions, AID decides to continue BARS, we recommend that the reports submitted to the Congress prominently disclose BARS' limitations, namely that BARS data is unverifiable and of doubtful accuracy and reliability, and that, at best, the BARS data can only be used as a general indication of AID procurement from the United States.

Scope and Methodology

We conducted our work at AID headquarters in Washington, D.C. To evaluate the accuracy and reliability of AID reflow statistics, we reviewed three AID reflow studies and BARS. We interviewed the authors of the studies, assessed their methodologies, and compared them with BARS. We reviewed all BARS guidance and interviewed AID officials responsible for the development and operation of BARS. We reviewed the report and workpapers of the AID Inspector General on BARS and met with the staff that prepared the report. To assess the merits of BARS, we interviewed AID officials responsible for BARS and numerous officials receiving BARS reports, reviewed questions and comments raised by various missions on BARS, and reviewed relevant congressional hearings. To discuss the impact of AID assistance on the U.S. economy, we analyzed data on AID obligations from 1962 to 1992 and data on total U.S. exports over the same period. To

evaluate AID's ability to increase reflows, we compiled obligation data from several AID information systems and offices and analyzed relevant AID procurement and policy guidance. We conducted our review between October 1992 and March 1993 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce this report's contents earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies to the Administrator of the Agency for International Development and interested congressional committees. We will also make copies available to others on request.

Please contact me on (202) 512-4128 if you or your staff have any questions on this report. Major contributors to this report were Ronald Kushner, Assistant Director; Susan Gibbs, Evaluator-in-Charge; Dorena Rodriguez, Evaluator; and Bruce Kutnick, Senior Economist.

Sincerely yours,

Harold J. Johnson
Director, International Affairs Issues

Example of BARs Report

Agency for International Development
Buy American Report

October 1991 through September 1992

Worldwide Source/Origin Disbursements by Funding Appropriation (in U.S. Dollars)

Appropriation	U.S. Source and Origin	U.S. Source Non-U.S Origin	Non-U.S. Source U.S. Origin	Non-U.S. Source Non-U.S. Origin	TOTAL PROCUREMENT
Development Assistance	787,952,262	205,665,320	24,600,422	384,925,420	1,403,143,424
Economic Support Funds	987,865,460	155,010,361	6,091,527	361,615,892	1,510,583,240
Development Fund/Africa	254,937,715	35,137,622	4,750,349	139,734,584	434,560,270
Operating Expense/IG	336,023,785	48,003,369	5,804,554	90,477,130	480,308,838
Special Assistance Initiatives	130,231,408	81,056,444	162,708	3,952,494	215,403,054
TOTAL	2,497,010,630	524,873,116	41,409,560	980,705,520	4,043,998,826
TOTAL	62%	13%	1%	24%	100%

Percentages may not total due to rounding

The above figures represent the source/origin of goods and services purchased as a result of disbursements made by A.I.D. during FY 1992. (Cash transfers are reported in A.I.D.'s Buy American Reporting system when they have been released from the separate non-commingled U.S. dollar accounts). Cash Transfers used for procurement of goods and services, $312.7 million during this period, are included in the above numbers and $140.9 million was of U.S. source and origin. These figures exclude $1,563.1 million in cash transfers that were used to repay debt, of which $1,434.3 was U.S. debt. With the inclusion of the $1,563.1 million, the percentage of A.I.D.'s disbursements for this period which reflow to the U.S. would be 70%.

Disbursements not included in the Buy American reporting system are for miscellaneous appropriations of small dollar volume*, travel, unliquidated advances, and disbursements in-transit between accounting stations. The advances and in-transit disbursements will be reported in the Buy American system in future quarters when they are applied to the obligation.

**Small appropriations (representing 7% of total A.I.D. availability)*
Foreign Service Retirement and Disability
Housing Guaranty
Peacekeeping Operations
Demobilization and Transition
American Schools and Hospitals Abroad
International Organizations and Programs
Sahel Development Program
Disaster Relief Assistance
Private Sector Revolving Fund

Comments From the Agency for International Development

Note: GAO's comments supplementing those in the report text appear at the end of this appendix.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

JUN 25 1993

Associate Administrator for Finance and Administration

Mr. Frank C. Conahan
Assistant Comptroller General
United States General
Accounting Office
441 G Street, N.W. - Room 5055
Washington, D.C. 20548

Dear Mr. Conahan:

I am pleased to provide the Agency for International Development's (A.I.D.) formal response to the draft GAO report entitled "FOREIGN ASSISTANCE: Accuracy of A.I.D. Statistics on Dollars Flowing Back to the U.S. Economy is Doubtful" (GAO/NSIAD-93-196, June, 1993).

See comment 1.

We are concerned that the draft report does not address meaningfully one of the three objectives in the report; namely, to "discuss the impact of the foreign assistance program on the U.S. economy." While A.I.D.'s direct impact on the U.S. economy is not large, A.I.D.'s success in promoting economic growth significantly affects U.S. exports to developing countries. There have been a number of analyses showing that faster-growing countries are better markets for U.S. exports. U.S. exports to the ten A.I.D.-assisted developing countries with the best economic policies have grown by 250 percent since 1985 from $2.9 billion to $10.2 billion. Thus, the measure of our economic impact in the U.S. is not the value of expenditures of appropriated funds spent for U.S.-source and origin goods and services. Rather it is the value of our program in contributing to a growing global market for the United States.

Another area of concern is the reliability of statistics A.I.D. gathers on the extent to which Agency expenditures result in American procurement and reflow to the United States. For a number of years, A.I.D. has been asked to identify the level of reflows to the United States from our expenditures. While the GAO report is correct in stating that there is "no statutory requirement for reporting reflow statistics," there is seldom a Congressional review of the A.I.D. program or budget that does not include questions

See p. 13.

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regarding the extent to which U.S. economic assistance funds are used to purchase U.S. goods and services. To respond to these inquiries, A.I.D. initially contracted with consulting firms to review its existing data and determine the extent of U.S. goods and services purchased. These surveys were done with the knowledge that detailed source/origin procurement data was not routinely collected. One resulting recommendation from these studies was that a data system be installed to more systematically collect data on the source and origin of goods and services purchased with A.I.D. funds. The development of the system commenced in July 1991 and the system was installed during the first quarter of FY 1992. It is the statistics produced by this system, the Buy American Reporting System (BARS), that are reviewed in the GAO report.

An objective of the GAO review was to evaluate the "accuracy and reliability" of A.I.D.'s reflow statistics. GAO's recommendation is that A.I.D. discontinue BARS, in part, because the accuracy is doubtful. As indicated in the GAO report, A.I.D. acknowledges that the accuracy of the A.I.D. reflow statistics cannot be verified. The data needed for "accurate" reporting of source and origin for the procurements of A.I.D. and its contractors/grantees is not collected and, thus, not available. With the exception of the Commodity Import Program, there are no legislative or contractual requirements for contractors or grantees to capture and report the source and origin of their procurements under A.I.D. agreements.

Moreover, and as noted in the GAO report, the Office of Management and Budget rejected A.I.D.'s request to collect this information from contractors or grantees. GAO's conclusion is that, even if collected, the accuracy and reliability of the data would not significantly improve. We agree.

See comment 2.

While A.I.D. concurs with GAO's statements about the accuracy of the data, we disagree that, because the data is not verifiable, it is unusable. The data produced by the BARS is based on the judgment of the project officers most closely associated with each project and their knowledge of the voucher details, the initial project budget, and the work of the contractors or grantees. Those judgments provide A.I.D. with the data we need -- a general picture of the percentage of A.I.D.'s procurement that is from the United States. The statistics for the first four quarters of FY 1992 have been fairly consistent, ranging from 56 percent to 62 percent, depending upon the actual disbursements for that quarter. It is of interest and importance to A.I.D. management whether the statistics indicate a low or high level of U.S. procurement. If very low, for example, it suggests to A.I.D. management that a review of compliance with the Agency's procurement policies should be made. It is not a significant benefit to A.I.D. to know whether percentages vary, for example, between 56 percent and 62 percent and why a

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fluctuation occurred. Even if needed, more exacting data, as indicated in the report, is not available for a precise calculation. For the purpose of monitoring compliance with procurement policy, A.I.D. finds the BARS data usable and statistically reliable.

See comment 3.

See comment 4.

The GAO also recommends that A.I.D. discontinue BARS because A.I.D. management does not use the data for decision-making and because there is no statutory requirement for providing the information. However, federal agencies must frequently provide information to Congress, contractors, grantees, and the general public regarding the agencies' programs. Probably a very small percentage of those reports are statutorily required and not all are used for management decision-making. A valid reason for providing a report can be because constituents need to better understand an agency's program, or in this case, wish to have a general idea of the impact of that program.

See comment 5.

A further reason for the GAO's recommendation is cost. The GAO report states that the cost of BARS is approximately $485,000 per year, and that there are alternatives that may be less costly. The report stops short of identifying those alternatives and providing evidence that the information could, in fact, be collected in a less costly fashion. In the past fifteen months, two unsolicited proposals have been submitted to A.I.D. proposing reviews of selected countries or programs for the purpose of identifying reflow statistics. The first proposal was budgeted at $410,000 for a review of eight of A.I.D.'s largest countries. The second proposal estimated $25,000 per country, with the number of countries to be determined. For approximately $400,000, the second proposer could cover 16 countries. For the $485,000 cost of BARS, data is gathered systematically from 130 countries. While the proposals imply that their statistics would be more accurate because they would review the contractor or grantee records, some degree of accuracy is forfeited when using samples. In addition, the GAO report states that even if we obtained this type of information, the accuracy of the reflow statistics would not increase. It is our assertion that the data from the BARS system is more comprehensive than the alternative proposals, less costly than sporadic use of contractors, and as accurate as needed for both A.I.D. management and Congressional concerns.

The gathering of this data, through any method, does have a cost. However, during this period of redefining the role of foreign assistance and A.I.D.'s participation in the foreign assistance program, the constituents of Members of Congress are likely to continue to want an answer to the question, "How much of what is being spent comes back in procurement to the U.S.?" The answer must be calculated in some fashion and, to date, no alternative that is more comprehensive, more accurate, and less costly has been proposed. The Agency is willing and would be

pleased to work with Congress to identify the scope, frequency, and precision of data that will respond to their needs and those of their constituents. Until such time as a viable option that meets the needs of all parties is identified, the Agency will continue the current BARS system.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

Richard A. Ames

Richard A. Ames
Chief Financial Officer

The following are GAO's comments to the Agency for International Development's letter dated June 25, 1993.

GAO Comments

1. AID correctly pointed out that we did not fully address one objective as stated in our draft report: "to discuss the impact of the foreign assistance program on the U.S. economy." We acknowledge that the objective as stated in our draft report was overly broad and beyond the scope of this review, and we have modified our final report to more precisely state our review objectives. Nonetheless, while AID may be correct that its success in promoting economic growth in developing countries may have significant effects on the overall level of U.S. exports to them, the analyses AID cited does not document a direct linkage between the U.S. foreign aid program to any specific country and increased U.S. exports to that country. Additionally, the growth in exports by the 10 countries cited by AID as having the best policy performance was no greater for the United States than it was for Japan or the rest of the world. Thus, AID's assistance does not seem to have conferred any special export benefits to the United States in those countries.

2. Consistency of data over several reporting periods is not an indication of accuracy. The estimates can be consistently wrong. Moreover, AID's 1991 reflow study concluded that using AID officials' estimates could overstate U.S. reflows by as much as 15 percent, depending on the complexity of the project, the officials' knowledge of true origin, and the time spent reviewing the payment documentation.

3. AID officials acknowledged that no statistical tests had been conducted that would lead to a conclusion of statistical reliability.

4. Based on AID's comments, we modified our recommendation. However, if AID continues to report BARS data to the Congress, we believe the limitations on the quality of the data should be prominently noted.

5. Until AID and interested congressional members concur on reflow information needs, a cost-effectiveness analysis between BARS and alternative approaches cannot be done. Moreover, it cannot be assumed that although BARS is conducted "in-house," any alternative would require outside consultants.