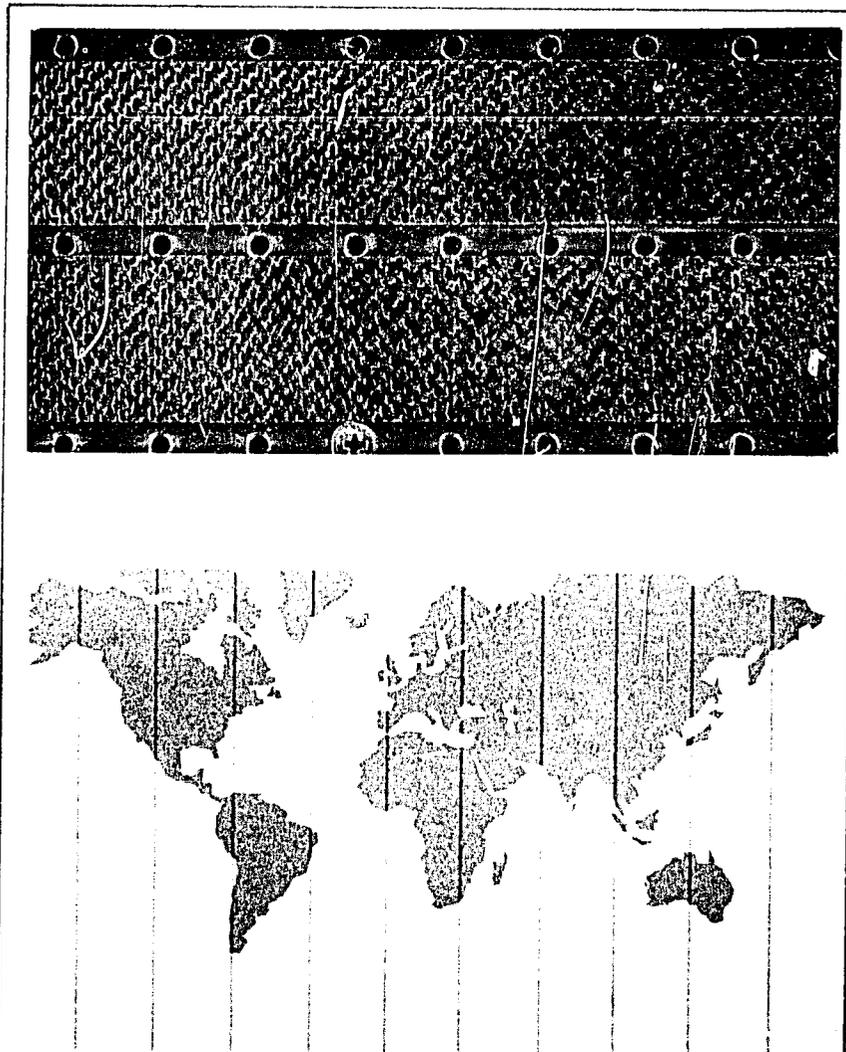


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



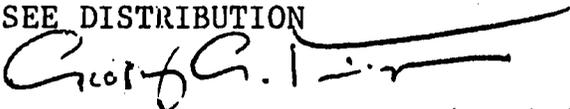
Regional Inspector General for Audit
MANILA

**DISBURSEMENT DELAYS
USAID/INDONESIA
USAID/PHILIPPINES
USAID/THAILAND**

**Memorandum Audit Report No. 2-498-81-8
February 27, 1981**

UNITED STATES GOVERNMENT

Memorandum

TO : SEE DISTRIBUTION

FROM : Geoffrey G. Fritzler, A/RIG/A/M

SUBJECT: Memorandum Audit Report No. 2-498-81-8
Disbursement Delays

DATE: February 27, 1981

BACKGROUND AND PERSPECTIVE

A part of AID's project planning and implementation management systems is the definition of a timeframe within which a projectized resource transfer is to occur. One of the key indicators for the rate of resource transfer is the rate of unit disbursement compared to the planned implementation or disbursement timeframe. The timeframe serves as a point of reference from which progress toward objectives may be observed. Deviations from plans are intended to focus AID management's attention on related causes and effects, and - if necessary - the need for adjusting objectives and targets as project events unfold.

The Agency has been criticized, sometimes, for its degree of responsiveness in dealing with project planning and implementation of the resource transfer process. That responsiveness may be better understood against the perspective of AID's broad mission.

The Agency's task is not merely one of designing sound infrastructure projects to fulfill known physical needs in a single, stable environment --- projects such as the coordination of irrigation canals or ditches; the building of a new road or a bridge; or the procurement of mechanical equipment suited to the harvesting of a particular crop.

The task is to assist more than 60 countries find ways, during the balance of this century, to solve hitherto intractable problems of underdevelopment which have shackled them from the beginning of time -- poverty, hunger, disease and ill-health, the pressure of population growth on resources inadequate to support basic human needs.

Removing these age-old, yet still universal, conditions requires

far reaching institutional and structural changes in the economic and social systems of the countries striving to solve them. These efforts take place under a host of obstacles and constraints in countries having few skilled technicians with whom AID's specialists work in designing and carrying out such exploratory projects. Yet success depends largely upon the participation of host country counterparts.

Invariably the administrative structures of the governmental or private agencies with which our staffs overseas collaborate in preparing and carrying out pilot development projects are weak, their procedures often cumbersome, and delegations of authority to act unduly limited or unclear. Basic technical or census data taken for granted in the United States, is frequently unreliable and sometimes not available. Yet lack of data may not be reason enough to put off seeking solutions to problems by undertaking a pilot project, and making course changes later as missing data is assembled. Many projects take place in remote rural areas where lack of acceptable transportation and communications make timely project implementation uncertain. Yet these are the very areas in which the need for development is often the greatest.

All these constraints, which themselves are manifestations of underdevelopment, combine to limit the ability of host countries -- and sometimes of the Agency and its intermediary agents -- to deliver their contributions to jointly planned and administered projects on schedule. These limitations are taken into account in devising projects, though it is not possible to anticipate and provide for every contingency.

AID draws on the expertise of a great many public and private, domestic and international organizations engaged in international development, as the Foreign Assistance Act enjoins AID to do. Among them are the several international agricultural research centers; the American university community; a multiplicity of private voluntary agencies; and other non-profit institutions and private firms, many having special, often critical contributions to make. It is necessary that the Agency exploit to the fullest these diverse resources and that AID's limited staff resources be applied primarily to planning and monitoring projects financed with AID funds.

Any assessment of the Agency's performance in implementing its projects should be made within a setting which takes account of the broad objective, the environmental constraints to be overcome

in meeting them, and the multiplicity and diversity of organizations engaged in the effort. The dimensions of this setting are graphically apparent in the multi-billion dollar portfolio of roughly 1,325 essentially unique development projects often carried out in conjunction with one or more 16 other contributing aid donors, in more than 60 host countries, whose governments should and must play a central role in managing their development programs.

SCOPE OF SURVEY

The purpose of our survey was to form an opinion of USAID management responsiveness to delays in the disbursement of funds and implementation of development projects. We examined the loan and grant portfolios of the USAID Missions to Indonesia, Philippines and Thailand, comparing the planned rate of implementation with current activity status. From an aging analysis of the portfolios, those units of accountability with little or no disbursement activity one year and older from the date of contractual commitment were selected for further review.

We reviewed project financial, technical and host country documentation available at the Missions and interviewed project personnel responsible for project management.

SURVEY FINDINGS AND RECOMMENDATIONS SUMMARY

On the basis of our survey, we concluded there exists no need to expand it into a more detailed audit. The results of our testing procedures and observations indicate that project implementation or disbursement delays are being addressed by USAID management and that the project implementation status is reported accurately. Project disbursement timeframes are revised as conditions dictate. While disbursement delays do occur, we found delays to be supported by management awareness of reasons for delay.

The identification of factors affecting implementation delays indicate a range of forces which are not easily resolvable by altered administrative procedures or practices.

Our survey resulted in two recommendations for AID/W. Refer to pages 7 and 8.

Host Government Administrative Profile

Most fundamental to the implementation problems we observe is our

own cultural bias, that is, the point from which we make our observations. It should not be forgotten that our systems of communication and administration vary greatly from the recipient of AID programs. These countries have been administering civil affairs for thousands of years and their objectives and methods are often quite different from ours.

Administration in East Asia is often a cult practice, with mystery and power overtones which frustrate Americans, but are essential here. Here bureaucracy exists, in part, to employ as many people as possible. In order to offset the morale reducing effect of divided jobs and underemployment, considerable authority is derived from the almost universal reluctance to share or assume responsibility. The power to withhold becomes the petty functionaries' major lever; the sense of power derived from not allowing something to proceed without a math check or a stamp is all the bureaucrat has.

We are far more time conscious, concerned that our contracts have distinct timeframes, and our plans often fit those frames with close tolerances which are altogether unrealistic for these areas. In East Asia, time is a continuum; an intention achieves the importance of an accomplishment. The fact that a project has been agreed to and is in some stage of progress is satisfactory, and there is as much trouble understanding our anxiety about schedules as we have about apparent indifference. With limited resources, the technocrat's cultural disdain for manual involvement, and no real access or experience with western concepts of finish, the AID recipient may be astonished and resentful, that we want more than simple attendance of his traditional work output.

In order to initiate almost any action at times, it is first necessary to shift the inertia by obtaining an authoritative signature. If the activity is difficult, risky or radical, signatures may be needed at every step. Sometimes, particularly in heavily bureaucratized institutions, the functionaries are a power into themselves, and through book actions and cumulative lags they can frustrate even a President's or Director's intentions. This occurs mainly because top administrators do not effectively communicate their broad intentions downward, nor are the functionaries persuaded that new approaches or systems are anything but disruptive to their routine. Virtually all programs face this vertical communication gap.

Overall, it must be remembered, we are far more goal-oriented than our hosts. It can be argued that because AID recipients

asked for our technology and style, they must force themselves to accept behavioural changes. As can be observed by the implementation status of AID projects such accommodation is happening very slowly, not always in synchrony with our program terms.

Identification of Implementation Delays

Disbursement Activity of Bilateral Development Assistance

We aged the loan and grant portfolio of the USAID Missions to Indonesia, Philippines and Thailand from the date of each contractual agreement through September 30, 1980. From this universe each loan and grant, identified as a unit of accountability, with no disbursement activity one (1) year or longer from the agreement signature date and those units less than twenty-five percent (25%) disbursed were selected for review. Under these criteria, the following population was identified for review:

<u>Country</u>	<u>Total Active Units</u>	<u>No. of Units Meeting Selection Criteria</u>	<u>%</u>
Indonesia	70	7	10%
Philippines	41	12	29
Thailand	<u>24</u>	<u>6</u>	<u>25</u>
Totals	135	25	19%

A definition of the more common technical government accounting terms as provided by the National Committee on Government Accounting (NCOGA), Webster's and/or USAID/Indonesia (USA ID/I), may be helpful:

Accrual Accounting (NCOGA)

The recognition of revenue in the fiscal period when earned, regardless of the period of collection, and the recognition of expenditure at the time the liabilities therefore are incurred, regardless, of the period of payment.

Obligation (NCOGA)

The recognition by a governmental unit of a liability to another party.

Disbursement (Webster's)

The act of paying out funds.

Accrued Expenditures (USAID/I) ... include an estimate of the monetary value of all goods and services received, regardless of actual payment (or even receipt) of bill, invoice or statement. Expenditures on an actual basis, rather than cash (payment) basis, are a better measure of a project's progress towards meeting its goal.

Undelivered Goods and Services (USAID/I)

The difference between cumulative obligations less cumulative accrued expenditures.

Earmarked (or Sub-obligated, or Reserved) Funds (USAID/I)

An interim step between an obligation and an accrued expenditure is frequently evidenced by a Disbursing Authorization (DA). These DAs are issued in the form of:

1. Letters of Commitment to U.S. banks, or directly to contractors and suppliers;
2. AID/Washington direct reimbursement authorization to the borrower/grantee;
3. Letter orders for Section 608 excess property;
4. Project Implementation Orders and Project Implementation Letters;
5. Participating Agency Service Agreements.

To an observer who judges progress exclusively on the basis of actual disbursements, the mere process of "earmarking", or sub-obligating, or even accruing expenditures, may convey a sense of pessimism. For that reason conclusions may be reached, for want of consensus, concerning the meaning of technical terms involved. While the majority of managers is sufficiently conversant with the respective terminologies, the possibility of misunderstanding exists. To minimize the opportunity for misjudgement, it may be worthwhile to encourage a greater degree of standardization of terms and reporting formats, so that all project progress reports may

be interpreted consistently, regardless of source. At the same time, consideration might be given to the merit of including a mechanism into such a standardized reporting format whereby any project showing below-par activity after a given period of time, say a year, when explanations and remedial efforts planned and in progress can be added to support the numerical values.

Recommendation No. 1

Office of Financial Management, AID/
Washington, design a project progress reporting format which clearly distinguishes between disbursements, earmarkings (sub-obligations) and accrued expenditures. This format should also include a provision for commenting on serious delays (say one year and more) together with an indication of what remedial steps have been initiated.

AID observes the accrual concept basis of accounting where expenditures are recorded as incurred, as opposed to the cash basis under which only actual cash disbursements are recorded.

The financial summary of active AID projects in Indonesia, Philippines and Thailand as of September 30, 1980 (Exhibit A) indicates a disbursement pipeline on hand of 5.3 years, using the FY 80 expenditure rate as representative of all years. Those units of accountability which met the selection criteria for the focus of the survey are, by AID standards, long term projects planned for a four (4) to five (5) year implementation timeframe. A comparison of the disbursement pipeline to the implementation timeframe of these units surveyed support the survey conclusion that a project rarely exceeds a 12-18 months retardation of original disbursement or implementation targets.

This rate of disbursement compares favorably with that of a multilateral lending institution which in a recent performance audit commented on the fact that a major project loan was several years behind schedule, a rate of implementation retardation several times as high the average AID project.

The identification of implementation delays are as varied as the projects themselves, and do not suggest simplistic, single effort solutions. Some of the factors identified

as impediments to disbursement and implementation are:

1. AID is often in the forefront in building social and institutional consciousness in traditional societies;
2. Costs associated with energy have claimed resources initially planned to finance development objectives;
3. Host government institutional structure and procedures are not always in place;
4. AID is inclined to plan optimistically and at times distort the sense of proportion or leverage of AID inputs which are proportionally quite small on some projects and in terms of national resources.

Sixty three (63) percent of the projects meeting the survey selection criteria for disbursement delay are in the area of agriculture production or infrastructure. A common variance from planned implementation in the agriculture sector is a longer-than-provided for disbursement pattern on the part of host governments. This suggests further that some programming in the agricultural and infrastructure sectors may exceed host governments' absorption potential. In order to avoid an overcommitment of AID resources, under such circumstances, it may be worthwhile to examine more closely the impact of future projects on host government absorption capacity.

Recommendation No. 2

Bureau for Program and Policy Coordination, (PPC) AID/Washington, introduce an intensified host government absorption test into future major project plans, particularly in those sectors believed to have reached, or are about to reach a temporary saturation point.

Our review indicates that the USAIDs are aware of those projects which require additional management attention and are working toward solutions. Projects which required adjustments had been revised to reflect current realities

of timeframe implementation and resource transfer.

In our opinion, the solutions to implementation delays require flexibility in approach and responsiveness of management. Variance in planned versus actual performance is to be expected in any development activity.

USAID/Indonesia, Philippines, Thailand
 Summary of Active Projects Financial Report
 Fiscal Year Ended September 30, 1980
 (000)

<u>Category of Funding</u>	<u>9/30/79</u>		<u>FY 80 Activity</u>				
	<u>Total Obligated</u>	<u>Accrued Expenditure</u>	<u>Obligations Actual</u>	<u>Accrued Expenditure</u>			<u>Pipeline</u>
				<u>Planned</u>	<u>Actual</u>	<u>Target Achieved (%)</u>	
<u>Indonesia</u>							
Loans	370,202	130,553	54,600	77,776 ^{2/}	38,895	71 ^{2/}	255,464
Grants	80,107	47,319	28,095		15,937		44,946
<u>Philippines</u>							
Loans & Grants	199,577	80,813	59,458	75,196	34,295	46	143,927
<u>Thailand</u>							
Loans	27,300	5,193	-0-	NA ^{1/}	1,662	NA ^{1/}	20,445
Grants	28,048	14,714	12,038	NA ^{1/}	4,002	NA ^{1/}	21,370

^{1/} NA-not available

^{2/} Planned expenditure number and target achieved (%) are combined for loans and grants.

REPORT RECIPIENTS

USAID/Indonesia	5
USAID/Philippines	5
USAID/Thailand	5

Director

AID/W

Deputy Administrator	1
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Bureau for Asia:

Assistant Administrator	1
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Deputy Assistant Administrator (Audit Liaison Officer)	1
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Office of the Indonesia and South Pacific/ Asian Affairs (ASIA/ISPA)	1
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Office of the Philippines & Thailand Affairs	1
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Bureau for Program Policy Coordination (PPC)	5
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Bureau of Development Support:

Office of Development Information and Utilization (DS/DIU)	4
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Office of the Auditor General:

Auditor General (IG)	1
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Executive Management Staff (IG/EMS)	12
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Plans, Policy & Programs (IG/PPP)	1
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Area Auditor General:

IG/W	1
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IG/Africa (East)	1
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IG/Egypt	1
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IG/Near East	1
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IG/Latin America	1
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Office of the Legislative Affairs (LEG)	1
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Office of Financial Management (FM)	5
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Office of the General Counsel (GC)	1
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OTHER

Inspector General, Inspections and Investigations (IG/II/Manila)	1
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