United States General Accounting Office

GAO

Report to the Honorable
Charles E. Schumer
House of Representatives

November 1986

THE PHILIPPINES

Distribution and Oversight of U.S. Development and Food Assistance

GAO/NSIAD-87-24

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-224047

November 7, 1986

The Honorable Charles E. Schumer
House of Representatives

Dear Mr. Schumer:

In response to your August 14, 1985, request, we reviewed U.S. development and food assistance provided to the Philippines during fiscal years 1980-85. We identified Philippine government and nongovernmental organizations involved in distributing U.S. assistance and calculated the amounts distributed by each. We also determined the populations targeted for assistance by these entities and assessed the potential for channeling greater amounts of aid through private organizations. In addition, we examined how well the Agency for International Development (AID) is managing the development and food aid programs in the Philippines and reviewed allegations received by AID concerning misuses of program funds. We were not, however, able to compare the administrative costs associated with government and nongovernmental projects because we were unable to obtain the necessary data. This report is based primarily on information obtained prior to the change in government in the Philippines and describes the policies and views of U.S. and Philippine officials at that time.

Between fiscal years 1980 and 1985, the U.S. government provided a total of $386.2 million in development and food assistance to the Philippines. Approximately 65 percent of that amount ($249 million) was distributed through Philippine government entities— various ministries, agencies, and government corporations tasked with implementing AID projects. The remaining 35 percent ($137.2 million) was distributed by nongovernmental organizations, principally U.S. and Philippine private and voluntary organizations (PVOs).

We found that programs implemented by both the Philippine government and the private sector have targeted the same general populations for assistance—the rural poor. PVOs, however, have focused on small-scale projects directly reaching specific, limited target groups, whereas AID projects implemented in conjunction with Philippine government agencies have tended to concentrate more broadly on improving the capability of government institutions to achieve development objectives. For example, one PVO project seeks to establish a cooperative marketing system for 500 fishermen, while the government-implemented Rainfed

Resources Development project seeks to improve the capacity of the government to manage renewable natural resources.

AID intends to maintain its commitment to using nongovernmental organizations to distribute assistance by continuing funding for individual PVO projects and developing a new project to engage private businesses in the implementation of local development projects. In fiscal years 1986 and 1987, AID plans to obligate a total of approximately $7.7 million for such activities, compared with $5.2 million obligated during the two preceding years.

Although such efforts on AID's part indicate at least the potential for increasing the level of assistance channeled through the private sector, a number of constraints could affect the Agency's ability to greatly or rapidly expand the use of nongovernmental entities, including (1) limits on PVO capacity to handle greater assistance and (2) an increased administrative burden on AID. For example, PVO shortcomings in the area of financial management could limit their ability to absorb additional funds. There are also limits on AID's own staff resources to effectively manage additional projects; each small-scale project requires staff to monitor and evaluate progress and results. Due to these constraints, AID should exercise caution in providing any sizable increases in aid distributed by private entities.

We also found that AID is generally managing the development and food assistance programs in the Philippines in accordance with established project accounting controls. We did, however, identify certain problems with AID's project oversight responsibilities, including inadequate monitoring of PVO projects and the continued existence of deficiencies in the food assistance program previously identified by the AID Inspector General. These latter problems included unresolved claims against the domestic transportation company for commodity losses and limited numbers of monitoring visits by AID staff.

Lastly, we found that the AID Inspector General has received relatively few allegations concerning misuse of AID funds. Three of the five allegations investigated between January 1984 and October 1985—involving alleged misuse of project vehicles, mismanagement of a PVO project, and diversion of food commodities—were closed with no action taken. The two remaining cases were still pending at the end of our fieldwork and also concerned the diversion of food commodities.

Our findings are discussed in more detail in appendix I. A list of specific PVO projects funded by AID is provided in appendix II.

We obtained comments on this report from AID's Bureaus for Asia and Near East and Food for Peace and Voluntary Assistance (apps. III and IV, respectively). The Asia and Near East Bureau stated that the report was generally constructive and useful and advised us of the need for one technical correction, which we have made. The Bureau for Food for Peace and Voluntary Assistance generally agreed with our assessment of the food assistance program and the problems AID has encountered in administering the program in the Philippines. The Bureau also emphasized the success of the program in providing food to malnourished children and advised that the mission has taken steps to improve its oversight, including efforts to resolve outstanding claims.

Our review focused on AID's Development Assistance and Public Law 480 (Food for Peace) programs. We did not review aid provided to the Philippines under the Economic Support Fund program; additional information on this program is contained in our May 1986 report, entitled The Philippines: Accountability and Control of U.S. Economic Assistance (GAO/NSIAD-86-108BR).

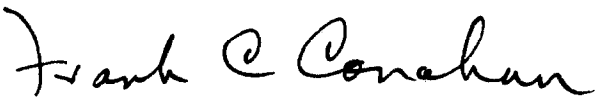
In conducting our review, we met in Washington, D.C., with AID and State Department officials, reviewed AID files and audit and evaluation reports, and interviewed representatives of various U.S. PVOs. In the Philippines, where we conducted fieldwork from December 1 to 19, 1985, and from January 19 to February 26, 1986, we interviewed AID mission and U.S. embassy officials and reviewed AID files. We also met with Philippine government and local PVO representatives to explore the roles of the government and the private sector in administering AID projects. In addition, we visited the sites of two PVO projects, one project implemented by the Philippine government, and various distribution points for AID's food assistance program.

Our ability to conduct audit work in the Philippines was constrained by the political situation that existed during our second trip in early 1986. On the advice of the State Department, we did not travel extensively outside Manila prior to the February 7 presidential election; field visits after the election were also curtailed owing to unrest in certain areas of the country. The growing political turbulence also precluded us from meeting with officials from certain government agencies.

We conducted the review in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Department of State, Agency for International Development, and appropriate congressional committees; we will make copies available to others upon request.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

Contents

Letter 1

Appendix I Distribution and Oversight of U.S. Development and Food Assistance to the Philippines 8
- Nature and Size of AID's Program in the Philippines 8
- Organizations Used to Distribute U.S. Assistance and Amounts Distributed by Each 9
- Populations Targeted for Assistance by GOP and PVOs 14
- Project Administrative Costs 16
- Increasing Assistance to the Private Sector 16
- AID Oversight of DA and Public Law 480 Programs 20
- AID IG Audits and Investigations Into Alleged Misuses of Assistance 25
- Conclusions 26

Appendix II AID-Funded PVO Projects in the Philippines 28

Appendix III Comments From AID's Bureau for Asia and Near East 30

Appendix IV Comments From AID's Bureau for Food for Peace and Voluntary Assistance 31

Tables
- Table I.1: U.S. Economic Assistance to the Philippines 9
- Table I.2: Distribution of Development and Food Assistance to the Philippines 13
- Table I.3: Advantages and Disadvantages of Using PVOs 17

Table I.4: Private Sector Funding 18

Figure

Figure I.1: Percent of U.S. Assistance Distributed by the GOP and Private Sector 14

Abbreviations

AID	Agency for International Development
CARE	Cooperative for American Relief Everywhere
CRS	Catholic Relief Services
DA	Development Assistance
ESF	Economic Support Fund
GAO	General Accounting Office
GOP	Government of the Philippines
IG	Inspector General
NEDA	National Economic and Development Authority
PVO	Private and voluntary organization

Distribution and Oversight of U.S. Development and Food Assistance to the Philippines

During fiscal years 1980-85, the U.S. government provided an estimated $386.2 million in development and food assistance to the Philippines, representing approximately 51 percent of all U.S. economic assistance to that country. These funds have been used to support a variety of bilateral development projects as well as the purchase of food commodities for distribution to needy Filipinos. The U.S. Agency for International Development (AID) administers the assistance program and uses both the Philippine government and the private sector to distribute assistance.

Nature and Size of AID's Program in the Philippines

Development Assistance (DA) and food aid constitute two of the principal forms of economic assistance that the United States has traditionally provided to the Philippines.[1] In general, the DA program is intended to emphasize long-term development objectives; it is allocated by functional categories, such as population planning and agriculture, rural development, and nutrition. In the Philippines, AID has focused its DA program on agriculture and rural development, through such bilateral projects as rainfed agriculture and small farmer irrigation systems. AID has also funded projects in population planning and health care.

Under the Public Law 480 Food for Peace program, the United States also provides agricultural commodities to the Philippines through either low-interest loans or grants (Titles I and II of Public Law 480, respectively). Title I, reinstituted for the Philippines in fiscal year 1985 after an absence of several years, provides concessional credits on a year-by-year basis for purchases of U.S. agricultural commodities; local currency proceeds from their sale are to be used for activities benefiting the poor, such as loans for fertilizer. Under Title I, the government of the Philippines (GOP) has also agreed to undertake policy reforms aimed at deregulating the importation and trading of food grains and related agricultural commodities. Title II, a longer term program, provides donated food for malnourished children through maternal and child health care and school feeding activities; it also provides emergency food aid as necessary.

[1]Economic Support Fund (ESF) assistance is the third major category of U.S. economic assistance to the Philippines; it is a form of aid intended to promote economic or political stability in countries of special interest to the United States.

The amounts of bilateral Development Assistance and Public Law 480 aid as well as assistance provided to the Philippines under AID's centrally funded programs[2] for fiscal years 1980-85 are shown in table I.1.

Table I.1: U.S. Economic Assistance to the Philippines[a]

Dollars in Millions

	Fiscal year						
	1980	**1981**	**1982**	**1983**	**1984**	**1985**	**Total**
DA	$39.7	$38.5	$39.4	$36.8	$32.1	$34.4	**$220.9**
Public Law 480:							
Title I	0.0	0.0	0.0	0.0	0.0	40.0	**40.0**
Title II	18.8	24.0	12.6	10.7	17.1	12.1	**95.3**
Centrally funded[b]	3.8	4.9	4.2	5.3	4.1	7.7	**30.0**
ESF	20.0	30.0	50.0	50.0	50.0	140.0	**340.0**
Other[c]	4.8	5.0	5.1	5.3	7.1	2.9	**30.2**
Total	**$87.1**	**$102.4**	**$111.3**	**$108.1**	**$110.4**	**$237.1**	**$756.4**

[a]Obligations except as otherwise noted

[b]Expenditure data; obligations not available

[c]Includes Peace Corps funding and $2.2 million in disaster relief for fiscal year 1984

The DA program for fiscal year 1986 is estimated at approximately $40.6 million, with funding for Public Law 480 Titles I and II programmed at $35 million and $10 million, respectively.[3] As of August 1986, the proposed fiscal year 1987 assistance program for the Philippines included $23 million for DA, $15 to $20 million for Title I, and $16.5 million for Title II.

Organizations Used to Distribute U.S. Assistance and Amounts Distributed by Each

AID uses both Philippine government and nongovernmental organizations to implement DA projects and to distribute food aid. Government involvement ranges from active participation and counterpart funding of specific development projects to more general coordination of private and voluntary organization (PVO) activities. PVOs implement a variety of small-scale development projects, manage the Title II program, and distribute food commodities.

[2]Programs managed and funded by AID headquarters that enable AID to fund activities on a global basis, including support for private sector projects.

[3]The $40.6 million includes both new obligational authority and reobligations of funds deobligated from prior fiscal years. According to an AID official, the size of the fiscal year 1986 DA and Public Law 480 programs is not expected to be affected by proposed increases in ESF and military aid to the Philippines.

Role of the GOP

The National Economic and Development Authority (NEDA) is the GOP agency responsible for national development planning. It serves as the coordinating agency for external assistance and as an implementing agency for some individual projects.

In most cases, however, other GOP ministries, agencies, and government corporations act as implementing agencies for AID projects. The documentation developed for each project spells out the responsibilities of the implementing agencies and the financial contributions of the U.S. and Philippine governments. For example, a number of Philippine entities, including the Ministries of Agriculture and Natural Resources, share implementing responsibilities for AID's Rainfed Resources Development project (to improve land and water resource management), with NEDA serving as coordinator.

Under the Title I program, the GOP's National Food Authority receives, stores, and ultimately sells U.S. agricultural commodities. NEDA, on behalf of the GOP, also has responsibility for ensuring that the local currency proceeds are used for activities benefiting the poor, including such activities as small infrastructure projects, loans for fertilizer and marketing, and price stabilization measures.

Title II commodities are distributed under a 1956 agreement between the GOP and the U.S. government which provides for the duty-free entry of commodities and GOP payment of all storage and transportation costs within the Philippines. The Ministry of Health and the Ministry of Education, Culture and Sports, in cooperation with CARE, oversee the identification of Title II program recipients and distribution of food to mothers and children participating in CARE's maternal and child health and school feeding programs. The Ministry of Social Services and Development, with Catholic Relief Services (CRS), sponsors similar programs that provide food commodities to designated recipients.

Role of the Private Sector

PVOs (1) implement AID mission-managed grant projects (termed "PVO Co-Financing"), (2) participate in a centrally managed matching grant program, (3) manage the Title II program, and (4) participate in DA projects implemented by GOP agencies. In the past, AID has not relied heavily on other private sector entities (e.g., private enterprises) to distribute U.S. assistance, although the AID mission has begun to explore ways to expand use of the private sector.

Under the PVO Co-Financing program,[4] the AID mission awards grants to qualified U.S. and Philippine PVOs to "improve the socio-economic status of selected poor groups through participatory development programs and innovative small-scale or pilot activities which are proposed, developed, and implemented by PVOs." To be eligible for a grant, a PVO must first be registered with AID and generally must also finance at least 25 percent of the total cost of a project. The Co-Financing program has provided grants for such projects as

- developing community water systems;
- establishing rehabilitation services for the rural blind; and
- developing a charcoal industry based on coconut shell waste to provide additional income for the rural poor and a source of inexpensive energy.

During fiscal years 1980-85, 49 Co-Financing grants (14 completed and 35 ongoing) were made to 12 U.S. and 16 Philippine PVOs. AID obligated approximately $11.9 million for this program; individual grants ranged from $24,941 to $604,347. We estimated that Philippine PVOs received some 56 percent and U.S. PVOs the remaining 44 percent of funds obligated for Co-Financing projects.

AID also provides funds to the Philippines through its centrally managed and funded programs. These include grants to private organizations, such as those engaged in population planning, and a matching grant program sponsoring PVO activities. Under the latter program, PVOs receive funding for programs designed to be implemented in a number of countries. These grants provide AID funds for up to 50 percent of program costs. Below are examples of such projects undertaken in the Philippines.

- Helen Keller International received a 3-year grant in fiscal year 1985 to integrate eye care and basic rehabilitation services into the rural health and social service systems by providing training, technical assistance, and equipment.
- Goodwill Industries of America was awarded a 3-year grant in fiscal year 1983 to provide technical assistance and small grants to indigenous PVOs working to develop income-generating activities for the handicapped.

[4]The PVO Co-Financing program consists of two discrete umbrella projects—PVO Co-Financing I, begun in fiscal year 1980, and PVO Co-Financing II, initiated in fiscal year 1984. These two projects are classed under AID's DA program.

To be eligible for this program an organization must be registered with AID as a U.S. PVO, receive at least 20 percent of its total annual support for its international programs from non-U.S. government sources, and demonstrate its effectiveness in sectors for which it is seeking support. Since fiscal year 1980, approximately $4.8 million in assistance has been provided to the Philippines through this program, and 13 U.S. PVOs were implementing projects there as of October 1985.

PVOs also play a key role in the Title II program. CARE and CRS have overall responsibility for distributing the food aid. They are accountable to AID for program design, development, and operations, including proper use of food commodities from the time of arrival in the Philippines to distribution to end-use recipients.

Lastly, PVOs have been active to some extent in specific DA projects. One example is the Local Resource Management project; NEDA is the implementing agency for this AID project, and a number of PVOs are assisting in carrying out project activities in various provinces.

Assistance Distributed by GOP and Private Sector

Table I.2 shows the amounts of U.S. Development Assistance, Public Law 480, and centrally funded assistance distributed by the GOP and nongovernmental organizations for fiscal years 1980-85.

Table I.2: Distribution of Development and Food Assistance to the Philippines[a]

Dollars in Millions

	Fiscal year						
	1980	**1981**	**1982**	**1983**	**1984**	**1985**	**Total**
By/through GOP							
DA	$38.3	$37.1	$37.5	$34.8	$30.3	$31.0	**$209.0**
Title I	0.0	0.0	0.0	0.0	0.0	40.0	**40.0**
Subtotal	**38.3**	**37.1**	**37.5**	**34.8**	**30.3**	**71.0**	**249.0**
Percent of total	61.5%	55.0%	66.7%	65.9%	56.8%	75.4%	**64.5%**
By/through nongovernmental organizations							
DA (PVO Co-Financing)	1.4	1.4	1.9	2.0	1.8	3.4	**11.9**
Centrally funded[b]	3.8	4.9	4.2	5.3	4.1	7.7	**30.0**
Title II	18.8	24.0	12.6	10.7	17.1	12.1	**95.3**
Subtotal	**24.0**	**30.3**	**18.7**	**18.0**	**23.0**	**23.2**	**137.2**
Percent of total	38.5%	45.0%	33.3%	34.1%	43.2%	24.6%	**35.5%**
Total	**$62.3**	**$67.4**	**$56.2**	**$52.8**	**$53.3**	**$94.2**	**$386.2**

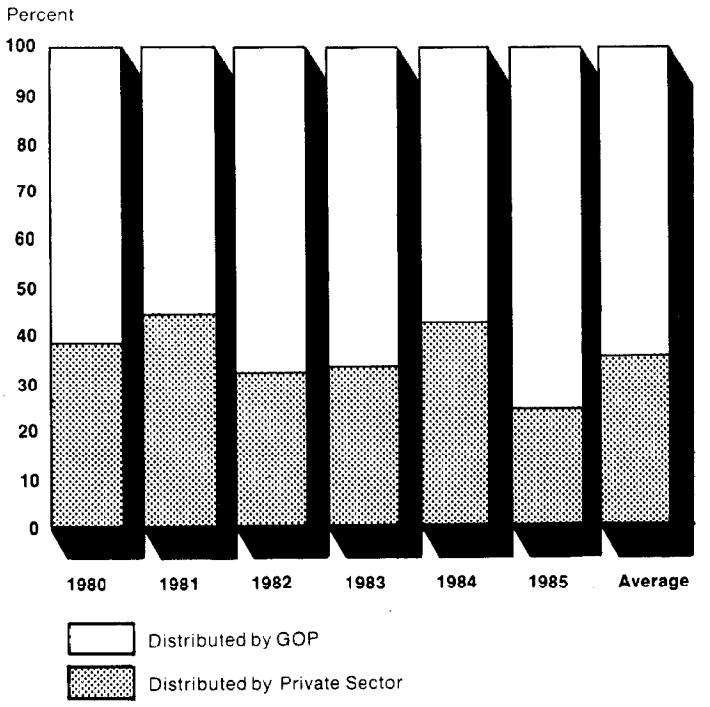
[a]Obligations, except for the centrally funded project figures, which represent expenditures

[b]Includes the PVO matching grant program as well as other centrally managed programs

Of the total $386.2 million, approximately 65 percent ($249 million) was distributed by or through the GOP, while the remaining 35 percent ($137.2 million) was distributed via the private sector.[5] These percentages fluctuated from year to year, based on the composition and size of the annual program. For example, the introduction of a Title I (government-to-government loan) program in fiscal year 1985 caused a shift in the relative proportion of aid channeled through the GOP—up to 75.4 percent compared with 56.8 percent the previous year. Figure I.1 shows the proportion of assistance directed to the government and private sector for fiscal years 1980 through 1985.

[5]These figures were calculated based on the entities (government or nongovernment) that constituted a project's borrower or grantee rather than the payment mechanisms used by AID. Thus, funds loaned to the GOP would be classed as aid distributed by or through the government despite the fact that a portion of these funds might be paid directly by AID to a private contractor to implement project activities.

Figure I.1: Percent of U.S. Assistance Distributed by the GOP and Private Sector (fiscal years 1980-85)



In some cases, assistance first allocated to the GOP or private sector is subsequently channeled to or distributed by a different entity. For example, AID's Local Resource Management project provides loan and grant funds to the GOP implementing agency—NEDA. NEDA in turn has entered into grant agreements with Philippine PVOs for various project activities. In such cases, project funds are still categorized in figure I.1 as assistance distributed by the GOP because the government is the initial borrower/grantee.

Populations Targeted for Assistance by GOP and PVOs

Since fiscal year 1980, PVOs have implemented 49 projects under the AID mission's PVO Co-Financing program. (See app. II for a detailed list of these projects.) GOP agencies have participated in a variety of bilateral DA projects—17 were active as of the end of calendar year 1985. Based on our review of these projects, we found that, although GOP and PVO projects generally have similar target populations, there are differences in the strategies used to reach project beneficiaries.

AID's overall DA strategy for the Philippines has focused on the rural poor—comprising major poverty groups such as the landless, small farmers in upland areas, and artisanal fishermen. To implement that strategy, the mission has concentrated on DA projects in rural enterprises; rainfed resources; community resource mobilization; and fertility and infant mortality reduction. PVO activities also have been directed to reaching the poor; the overall objective of the mission's Co-Financing program is to "increase the involvement of the private sector in improving conditions and opportunities of the rural poor."

Our review of projects implemented by PVOs under the Co-Financing program showed that about 75 percent of the 49 projects could be categorized as directly targeting the poor. For example, one objective cited for a Philippine YMCA project on rural employment is to increase the family incomes of 500 fishermen by setting up a cooperative marketing system and opening new markets.

Other PVO projects focus on specialized groups (e.g., Amerasian children) and institution building. For example, the Philippine Business for Social Progress, a local PVO, has instituted a project to train other Philippine PVOs to plan, implement, and evaluate projects.

In contrast, AID's bilateral DA projects usually have a broader scope and higher cost than PVO projects, which tend to be small and directed at discrete numbers of direct beneficiaries. Our review of the mission's 17 active DA projects showed that 9 of them concentrated on institution building as a primary means of achieving AID program goals. For example, the mission's Rainfed Resources Development project is designed to:

"assist the Government of the Republic of the Philippines (GRP) in developing institutional capacities and policy frameworks to support a community based approach to land and water resource management in settled upland forest, rainfed agricultural areas, and coastal zones."

Direct project beneficiaries are limited to farmers and fishermen participating in project pilot activities; ultimately a much larger target group is expected to benefit through the design and implementation of a broader resource management program.This distinction between DA and PVO projects is by no means unique to the Philippines. As we noted in our May 1982 report,[6] PVO and AID projects focus on the same development

[6]Changes Needed to Forge An Effective Relationship Between AID and Voluntary Agencies (GAO/ID-82-25).

problems but use different approaches. PVOs, for example, tend to work at the local level with small-scale projects, while AID projects are typically much larger and undertaken through intermediaries (e.g., national institutions) removed from direct project beneficiaries. Both approaches serve legitimate development objectives and have a place in AID's program.

Project Administrative Costs

We were not able to compare the relative administrative costs of GOP and PVO projects because we could not obtain the necessary GOP project data. AID officials told us that they do not keep such data and that it was not likely that meaningful, project-specific data could be obtained from the Philippine government. We were likewise advised by a knowledgeable Philippine government official that such data were not readily available.

However, we were able to obtain data on PVO administrative costs contained in a 1982 AID-sponsored evaluation of the PVO Co-Financing program. These data showed that administrative costs constituted approximately 21 percent of total PVO project costs. U.S. PVO costs were 26 percent, while Philippine PVO costs were 13 percent, a circumstance that the study ascribed to the U.S. PVOs' higher headquarters costs.

An AID official also pointed out that AID normally does not fund overhead costs associated with its bilateral DA projects; these are generally the responsibility of the host government, although there have been exceptions. Conversely, AID does routinely— although not always— fund the indirect costs associated with PVO projects. Our analysis of PVO projects showed that indirect costs borne by AID ranged from 0 to at least 31 percent of AID's total project contribution. In the view of one AID official, AID thus sometimes pays a high institutional price for using PVOs in exchange for the advantages they can bring to development projects, such as their ability to implement projects relatively quickly.

Increasing Assistance to the Private Sector

Whether AID should channel more of its assistance to the Philippines through nongovernmental organizations depends on a number of variables, including the relative strengths and weaknesses of PVOs, the U.S. government's own commitment to utilizing the private sector, and constraints that may limit the extent to which assistance can or should be increased.

Pros and Cons of Using PVOs

Table I.3 outlines some advantages and disadvantages of using PVOs to implement development projects that we compiled from various sources, including AID and PVO officials, a 1982 evaluation of PVO Co-Financing, and our earlier PVO report.

Table I.3: Advantages and Disadvantages of Using PVOs

Advantages	Disadvantages
—Can undertake pilot projects that provide opportunities for experimentation and larger follow-on projects.	—May be less technically capable of undertaking major development projects.
—Can start projects relatively quickly and can deliver resources more rapidly than government.	—May sometimes lack financial or managerial expertise.
—Can reach remote areas beyond the political or economic reach of the government.	—Projects are staff intensive relative to larger bilateral projects.
—Traditionally seek to involve beneficiaries in project development and implementation.	—May sometimes have difficulties implementing projects outside their specialized areas of expertise.
—Promote volunteerism and thus facilitate organization of people to meet needs the government cannot or will not undertake.	—Have encountered difficulties in designing self-sustaining projects.

AID's Commitment to Using the Private Sector

Since at least fiscal year 1980, AID has used nongovernmental organizations to implement both DA and Public Law 480 food programs in the Philippines. Use of the private sector, however, has generally been limited to PVOs, with at least one exception—a loan to a private bank to help finance private business activities.

AID has indicated that it remains committed to using private organizations in the Philippines, as evidenced by plans to continue the PVO Co-Financing program and begin a new project—Enterprise in Community Development—to channel assistance directly to the Philippine business community. Table I.4 shows proposed funding for these projects in fiscal years 1986 and 1987, compared with funds provided during the preceding two fiscal years.

Table I.4: Private Sector Funding

Dollars in Millions

	Project funding		
Fiscal year	**PVO Co-Financing**	**Enterprise in Community Development**	**Total**
1984[a]	$1.8	$0.0	**$1.8**
1985[a]	3.4	0.0	**3.4**
Subtotal	**5.2**	**0.0**	**5.2**
1986[b]	4.2	0.5	**4.7**
1987[b]	2.0	1.0	**3.0**
Subtotal	**6.2**	**1.5**	**7.7**
Total	**$11.4**	**$1.5**	**$12.9**

[a]Actual obligations

[b]Proposed obligations

As shown in table I.4, direct private sector assistance for fiscal years 1986 and 1987 is estimated at $7.7 million, compared with $5.2 million in fiscal years 1984 and 1985. According to an AID official, the $2.0 million in fiscal year 1987 funds for PVO Co-Financing represents the first year allocation of a tentatively programed $10.0 million, 5-year (1987-91) extension of the PVO Co-Financing program. A final decision on the program extension will be made based on the results of a scheduled project evaluation and consideration of AID audit findings.[7]

The proposed Enterprise in Community Development project would provide funds directly to business firms for community-based development activities, such as small-scale infrastructure and maintenance projects. The project will be implemented using a mechanism similar to that employed under the PVO Co-Financing program, by providing small grants directly to businesses on a co-financing basis upon receipt and approval of proposed projects. The mission hopes to provide a total of $4.5 million over the 5-year life of the project, beginning with $500,000 in start-up funds in fiscal year 1986 and an additional $1.0 million in fiscal year 1987.

A third proposed project—Private Enterprise Promotion—is intended to enhance the institutional environment for the growth of private enterprises, but is still in the very preliminary planning stages. AID had hoped

[7]The AID Inspector General (IG) completed the fieldwork for a review of Co-Financing programs in the Philippines, Thailand, and Indonesia in 1985, which included an examination of AID procedures for selecting and monitoring PVO projects and site visits to specific projects. As of September 1986, AID IG staff were in the process of completing a report of their findings.

to obligate a total of $5 million in fiscal year 1986 funds for this project, but the project has been deferred until fiscal year 1987.

Constraints to Increased Use of Private Sector to Distribute Aid

Although AID is committed to channeling assistance through the private sector, there are constraints that affect the extent to which assistance can be rapidly or greatly increased, as outlined below.

- Absorptive capacity: Not all PVOs necessarily have the capacity to handle much greater amounts of assistance, according to both AID and PVO officials. For example, PVOs often lack financial management expertise. Consequently, funneling a greater amount of assistance through these PVOs could exacerbate this condition and result in implementation problems.
- Administrative requirements: As noted by the AID mission, increased use of nongovernmental organizations to distribute assistance would place an added administrative burden on AID. Each small-scale project requires staff to monitor and evaluate the project's progress and achievements.
- GOP resource limits: Philippine government budget difficulties may reduce the funds available to support PVO activities. Lack of GOP funds to pay for internal transportation costs, for example, has caused reductions in the level of Public Law 480 assistance distributed by PVOs.

Moreover, efforts to channel more assistance directly through the private sector will not necessarily eliminate Philippine government involvement. PVOs must register with the government to conduct operations in the Philippines and, under the PVO Co-Financing project as now structured, must also obtain NEDA's approval for each planned project. The AID mission is seeking to change this by eliminating the need for NEDA approval of projects below a certain amount and by curtailing NEDA's role in reviewing proposals developed under the Enterprise in Community Development project. At the time of our visit in February 1986, however, NEDA remained opposed to efforts to reduce its involvement.

AID has recognized that these constraints, if not overcome, could limit its ability to effectively expand use of the private sector to implement AID projects. As noted earlier, AID headquarters has indicated it will consider audit findings (in part critical of AID's monitoring of PVO projects) in reaching a final decision on extending the PVO Co-Financing program. The AID mission has also cautioned that administrative constraints

impose limits on the number of manageable activities under the Enterprise in Community Development project and has emphasized that it should be designed to be the least staff-intensive possible.

AID Oversight of DA and Public Law 480 Programs

The AID mission in Manila is responsible for overseeing the DA and Public Law 480 food aid programs in the Philippines. Various Philippine government agencies and PVOs implement DA projects and distribute the food, but mission staff members review and approve the projects and programs, monitor progress, and evaluate results.

We reviewed various aspects of AID's program management— including financial controls, project monitoring, and project documentation requirements—and found that the AID mission is generally adhering to established project accounting controls. However, our review also disclosed some problems in AID's monitoring of PVO projects and the continued existence of problems identified by the AID IG in the Title II program.

Management of the DA Program

AID has responsibility for overseeing DA project activities from the planning and approval stages to funding, implementation and final evaluation. AID exercises this responsibility through specific accounting and project management controls.

The project accounting controls used by the AID mission consist of a hierarchy of review and documentation requirements that must be met before project funds can be obligated and expended. Depending on the project, these can include a loan or grant agreement between AID and the GOP and project implementation letters that specify the appropriate payment procedures.

AID employs a variety of project disbursement mechanisms, including direct payments to contractors, reimbursements to the GOP for project expenditures, and cash advances to specific implementing agencies. AID is responsible for reviewing necessary documentation before payment is authorized and for determining that claims for payment do not exceed available funds. We reviewed aspects of the mission's payment procedures and verified their use based on spot checks of vouchers presented for payment.

AID project management controls also include procedures for monitoring project progress, including status reports, periodic site visits, and evaluations. To test these controls, we reviewed in detail one specific project—Local Resource Management. We chose this project, which is intended to improve local government planning, because it has been in progress for over 3 years and because it involves several PVOs.

We examined project files, met with AID and GOP staff, and visited a project site and found that AID is generally managing the project in accordance with requirements. AID files contained appropriate documentation, including project agreements and implementation letters; showed evidence of site visits to check accounting records and monitor project progress; and documented the convening of a mid-point evaluation to assess the status of the project.

This does not, however, mean that this project has encountered no difficulties. As noted in AID records, the project did not proceed as scheduled during its first year owing to a lack of GOP funding;[8] delays were also encountered in negotiating contracts for project services—for example, a GOP grant agreement with a PVO to act as a project consultant. The project officer also identified specific problems (including selection of inappropriate small-scale projects in one province) that he believed could have been averted had mission (and GOP) staff monitored project activities more closely.

PVO Co-Financing

The AID mission in Manila has responsibility for managing the PVO Co-Financing program, which, as noted earlier, is a specific component of the DA program that allows AID to provide grants directly to PVOs. Mission responsibilities under PVO Co-Financing include contacting PVOs, assisting them in developing project proposals, reviewing and approving specific proposals, and monitoring and evaluating PVO performance and project implementation.

To assess PVO project implementation and AID monitoring, we selected four PVO projects for detailed review. Generally, we found that intended beneficiaries were being reached and that the mission was taking steps to strengthen PVO capabilities. For example, a local PVO—Philippine Business for Social Progress—was provided a grant to implement a project

[8]Local Resource Management is only one of a number of projects that have experienced delays because of a lack of GOP budgetary resources, a chronic problem caused by the worsening economic situation in the Philippines and a corresponding lack of funds to support the GOP costs of AID projects.

to train and provide technical assistance to other PVOs. The mission has also engaged a private firm to provide financial management training to local PVOs.

We did, however, identify specific problems with AID's oversight of the program. These included ineffective monitoring of projects and poor recordkeeping. In one case, a farmers' training center project, we found that neither of the two site visit reports on file gave any indication that accounting or other project records had been checked. We visited this project site and found records that indicated inaccuracies in the method of calculating the PVO counterpart contribution.

PVO progress reports are another mechanism for monitoring projects. AID regulations require that grantees prepare and submit periodic reports of progress in implementing projects, and mission guidance directs that these reports be submitted quarterly. Our review disclosed, however, that PVO project progress reports, as well as other required documents, were not always in AID's files.

We also believe that the usefulness of the reports contained in the files was often diminished by their late submission. For example, a PVO implementing a legal education and human rights project submitted a progress report covering January to December 1983 to AID on March 20, 1984. The grant agreement specifically required quarterly rather than yearly reports; thus, any problems which could have occurred throughout 1983 might not necessarily have come to the attention of AID until March 1984, thereby diminishing this report's value in monitoring the project.

Based on its 1985 examination of PVO Co-Financing programs (which included a review of six Philippine projects), the AID IG concluded that, in general, the mission staff made a sufficient number of site visits but did not always examine all the necessary data. Information on PVO counterpart contributions was not requested, and accounting records were not always systematically sampled to ensure that grant expenditures were properly documented and recorded. The IG attributed these problems to a lack of adequate guidance and has proposed that AID develop and issue standard guidelines to be used during site visits.

The AID IG also found that PVO progress reports were not providing necessary information. According to the IG, these reports did not compare actual progress to targets for the reporting period and they often failed to indicate actual or potential problem areas.

Public Law 480 Programs

The AID mission in the Philippines oversees both the Title I and Title II programs, and its responsibilities include accounting for the proceeds from Title I commodity sales, monitoring GOP progress in achieving the required agricultural policy reforms, and overseeing CARE and CRS implementation of the Title II program. This latter responsibility requires AID to monitor, advise, and assist CARE and CRS in administering Title II programs.

Title I

The Title I program was only recently reinstituted for the Philippines and, as of the end of January 1986, the GOP's National Food Authority had not reported any sales of U.S.-provided agricultural commodities. Therefore, we could not evaluate AID's oversight of the GOP's use of local currency generated from commodity sales.

We did review AID's monitoring of the GOP's efforts to implement the reforms required under Title I, and overall we believe the mission is fulfilling its responsibilities. The mission had reviewed GOP progress in undertaking the various policy measures, including the lifting of price controls on milled rice and deregulation of wheat imports, and had discussed with the GOP the need to make more measurable progress. Moreover, although the GOP has made only limited progress in implementing the required economic changes, it had agreed to start an important divestment study mandated in the Title I agreement, according to an AID official. This study is intended to guide the Authority's divestment of its non-grain stabilization and trading activities to other government entities or to the private sector.

A third Title I responsibility of the AID mission is to collect "currency use payments" (defined as advance payments of interest and principal). At the time of our visit, the GOP had made none of the required payments despite repeated AID requests for payment and was $1.2 million in arrears as of mid-February 1986. The GOP had advised AID that it was not yet required to make the payments under the terms of the agreement. In response, AID informed the GOP that the payments were in fact due when requested. AID ultimately did succeed in collecting the past-due payments, according to AID headquarters.

Title II

Two U.S. PVOs—CARE and CRS—distribute the food and maintain day-to-day oversight of the Title II program. The AID mission in Manila reviews

and approves CRS and CARE program plans and then oversees their implementation by reviewing various program reports and evaluations and by making site inspections.

Overall, the Title II program has had some success in fulfilling its objectives. A 1985 AID-funded assessment of the program, citing an earlier study, noted that although malnutrition is a persistent problem in the Philippines, the U.S.-sponsored food program had been effective in reaching the most vulnerable groups and in reducing the proportion of malnourished children. Moreover, an AID IG 1983 audit of the Title II program[9] found that it was "generally fulfilling its mission in accordance with law and regulation" and in AID IG's judgment "the great majority of the commodities reached intended recipients," although program improvements were warranted.

Although the scope of our review did not entail a detailed audit of CARE and CRS Title II programs, we did examine the overall adequacy of program controls, including inventory records and procedures for receipt and distribution of commodities. We reviewed controls over the food commodities from their receipt in-country to their final distribution to the recipients and found them adequate to assure program integrity. Further, we tested these controls at several field locations as well as the central warehouse in Manila and found that the food consignees were adhering to program controls, with a few minor exceptions.

We identified several administrative weaknesses in AID's oversight of the program, however. For example, such basic program information as written agreements between the PVOs and GOP ministries, reports of on-site monitoring visits, CRS's 1984 internal review, and procedures for mission followup on corrective actions taken by the PVOs were either lacking or not readily available at the AID mission.

We also found that AID mission staff made only five on-site monitoring visits to CRS and CARE's regular Title II distribution centers and warehouses during fiscal year 1985.[10] An AID mission official attributed the low number of monitoring visits to the limited amount of travel funds available last year. The issue of infrequent on-site monitoring was earlier raised during the AID IG's 1983 audit; the IG noted that mission staff had made "only 13 trips" in fiscal year 1982. In responding to the IG

[9]AID Inspector General Audit Report on Public Law Title II Program in the Philippines, No. 2-492-83-08, July 29, 1983.

[10]According to an AID official, some 1,800 storage/distribution sites could be visited.

findings, the mission agreed to make more site visits and to implement procedures for monitoring corrective actions taken by the PVOs. These corrective steps had not been taken and, according to an AID mission official, the mission does not have a formal system to verify that the PVOs have taken corrective actions.

In commenting on this report, AID's Bureau for Food for Peace and Voluntary Assistance also noted that the limited number of site visits during fiscal year 1985 was due in part to the absence of a full-time Food for Peace Officer at the mission. According to AID, this position is to be reinstated, which should improve the mission's monitoring capability.

Our review of CRS and CARE Title II operations also disclosed the continued existence of other problems already identified in the prior IG audit, specifically (1) minor deficiencies in recordkeeping at the distribution centers we visited, (2) a significant backlog of outstanding but unresolved claims against the domestic transportation company for commodity losses, and (3) CRS continuing to deduct questionable expenses from the proceeds generated from the sale of unfit commodities. The last program deficiency increases Title II program costs and the unresolved claims issue is, at the very least, depriving the U.S. government of the use of its funds. The remaining problem—deficient recordkeeping by the consignees—reduces control over Public Law 480 commodities.

AID IG Audits and Investigations Into Alleged Misuses of Assistance

In evaluating AID's oversight of development and food assistance, we also reviewed eight AID IG reports issued between 1981 and 1985. Seven of these reports focused on DA and food aid program management and implementation issues. For example, a 1984 report on a land reform and irrigation development project in Southern Luzon disclosed several implementation problems, including the need for the AID mission and the implementing GOP ministry to develop a plan of action to assure the economic viability of the project. In a second report, the IG questioned the sustainability of certain rural water systems constructed under an AID-sponsored project because of inadequate maintenance and repair.

The remaining IG audit report found that over $305,000 in disaster assistance was used for unauthorized purposes and that false vouchers totaling over $108,000 were submitted to AID for payment by the GOP. According to IG officials, the audit was prompted by an allegation that funds were being misused. As a consequence of the audit, the GOP fully

reimbursed AID for all improper expenditures and the case was closed. AID IG officials told us that the findings regarding the false vouchers were turned over to the Philippine National Bureau of Investigation for appropriate action.

AID IG officials further told us that they receive relatively few such allegations and that when allegations are received, it is difficult to prove fraud or abuse. Nevertheless, five allegations of misuse or diversion of U.S. assistance were investigated between January 1984 and October 1985. An undisclosed number of additional investigations were ongoing during our fieldwork, but IG investigators were precluded from discussing these cases for fear of jeopardizing their outcome.

We reviewed the case files for the five investigations and found that three were closed with no action taken. These cases concerned the alleged improper use of project vehicles and books, mismanagement of a PVO project (funded by AID at approximately $324,000), and diversion of Title II nonfat dry milk. The remaining two cases were pending further investigation at the time of our fieldwork and both involved the diversion of Title II commodities. In one case, involving the hijacking of 1,203 bags (60,150 pounds) of nonfat dry milk, the Philippine police have made arrests.

Conclusions

PVOs have been active in AID's development and food assistance programs in the Philippines since at least fiscal year 1980. We calculate that approximately 35 percent of program funds were distributed by nongovernmental organizations between fiscal years 1980 and 1985, with the remaining 65 percent distributed by GOP agencies.

AID intends to continue its commitment to using the private sector. Two current proposals—to extend the PVO Co-Financing program and to begin a new project to direct funds to the Philippine business sector—will, if implemented as planned, expand AID's involvement with and assistance to nongovernmental organizations in the Philippines.

AID's efforts indicate at least the potential to increase the amount of assistance channeled through private organizations in the Philippines. PVOs have certain advantages, such as their ability to reach remote areas less accessible to government and their skill in directly targeting poor segments of the population.

Nonetheless, caution is in order. Not all PVOs have the capability to handle greater volumes of assistance. For example, some lack expertise in financial management; although AID has taken steps to improve the capabilities of these PVOs, this remains an area that could limit the amount of assistance PVOs can effectively handle. Our review, and that of the AID Inspector General, also disclosed weaknesses in AID's monitoring of PVO projects. Rapid or large increases in assistance—with a concurrent increase in the number of projects—could exacerbate this situation and strain AID's ability to effectively manage PVO or other private sector project activities. Given these constraints, AID should exercise caution in contemplating any substantial increases in assistance channeled through private organizations.

AID-Funded PVO Projects in the Philippines

U.S. PVOs	Project
Adventist Development and Relief Agency	Small Scale Fishermen-Supported Tuna Export Industry
Agricultural Development Council	Agricultural Policy Analysis
Catholic Relief Services	Organization and Development of Farmers' Cooperatives
	Community Resources Development Program
	Management Capabilities of Farmers of Nueva Ecija
CARE	Development Assistance Program for Negros Occidental
Helen Keller International	Rehabilitation of the Rural Blind
Institute of Cultural Affairs	Expanded Community Development Project
International Human Assistance Programs, Inc.	Integrated Honey Bee Project
	Coconut Shell Charcoal Manufacture Project
	Sorsogon Crop Diversification Project
Pearl S. Buck Foundation	Filipino Amerasian Educational Project
Salesian Society, Inc.	Rehabilitation Program for Jail Inmates
Save the Children Federation	Community Based Integrated Barangay Development Project
The Asia Foundation	Integrated Forest Development Program
	Silliman University Marine Conservation Program
	Philippine Legal Outreach Program
	Agricultural Education Redirection Program at Notre Dame College of Kidapawan
	Cebu-Mactan Level One Water Resources
	Law and Social Justice Project
	National Conservation Strategy Project
	Woodfuel Assessment and Rural Energy Development
Young Men's Christian Association of the Philippines	Rural Employment Program

Local PVOs	Project
Dansalan College Foundation, Inc.	Integrated Development for Low Income Muslims
Development of People's Foundation, Inc.	Building Community Capability for Directing Community-Based Development
	Integrated Bilaan-T'Boli Agrotechnology Program
Foundation for Educational Evolution and Development, Inc.	Ugnayan Farmers' Training Center
	First Farmers Human Resource Development Foundation, Inc.
Igorot Community Assistance Program	Crop and Livestock Improvement and Marketing Project
	Land Tenure Program for the Cultural Minorities of Northern Luzon
Innovators for Rural Development	Mini-processing Plant for Coconuts
Kalahan Educational Foundation, Inc.	Forest Fruit Development and Processing Support
	Integrated Reforestation
Medical Ambassadors of the Philippines	Primary Health Project
Notre Dame Education Association	Business Resource Center
Project Compassion	Integrated Marine Agro-Forestry Project
Philippine Business for Social Progress	Capiz Barangay High Schools Agricultural Development Program
	Building Competence in Development Management
	Negros Occidental Development Assistance Program
	Upgrading Credit Cooperatives to Serve as Development Institutions
Population Center Foundation	Health Resource Distribution Program
Ramon Aboitiz Foundation, Inc.	Pilot Central Visayas [Water Information Center]
	Integrated Farms Development and Productivity Program in Cebu Province
Santa Cruz Mission	Ecological Family Farm
	Community Education Project
Sariling Sikap, Inc.	Integrated Development Outreach Program
Tulay sa Pag-Unlad	Small Enterprise Development
Xavier Science Foundation, Inc.	Goat Dispersal Project
	Manticao Industrial Tree Plantation and Settlement Project

Comments From AID's Bureau for Asia and Near East

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

25 SEP 1986

MEMORANDUM

TO: Mr. Frank C. Conahan, Director
National Security and International Affairs Division

FROM: AA/ANE, Charles W. Greenleaf, Jr.

SUBJECT: GAO Draft Report, "The Philippines: Distribution and Oversight of U.S. Development and Food Assistance" (Code 472090)

The Asia and Near East Bureau has no comment to add to what is generally a very constructive and useful report. We do note, however, that on page 7, in Table I.1: U.S. Economic Assistance to the Philippines, the DA figure for FY 1984 should be $32.1 instead of $34.3.

cc: IG/PPO, Mr. E. John Eckman

Comments From AID's Bureau for Food for Peace and Voluntary Assistance

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

Mr. Frank C. Conahan
Assistant Comptroller General
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Conahan:

In response to your request to M. Peter McPherson, enclosed are comments pertaining to the Agency's P.L. 480 activities contained in the GAO draft report, dated August 28, 1986, entitled "The Philippines: Distribution and Oversight of U.S. Development and Food Assistance" (Code 472090).

We appreciate the opportunity to review the draft report and are prepared to discuss the enclosed comments with members of your staff upon request.

Sincerely yours,

Julia Chang Bloch
Assistant Administrator
Bureau for Food for Peace
and Voluntary Assistance

Enclosure: a/s

Agency for International Development
Comments on the General Accounting Office (GAO)
Draft Report Entitled, "The Philippines: Distribution and Oversight of U.S. Development and Food Assistance" (Code 472090)

We appreciate the opportunity to review and comment on the GAO's draft report. Our comments address the findings and conclusions pertaining to that part of the report involving Public Law 480 activities. In general, we believe that the draft report reflects not only the success of the program in fulfilling its objectives, but accurately points out the problems and difficulties the Agency experiences in administering the P.L. 480 food aid programs in the Philippines.

PL 480, Title I

We accept and agree with the draft report's conclusions (pages 26-27) that overall, the Mission is fulfilling its responsibilities in implementing the reforms required under the Title I agreement. This includes the collection of past-due (CUP) payments.

PL 480, Title II

While we are aware that the management and oversight of the Title II program in the Philippines implemented by CRS and CARE need to be improved, overall the program has been successful in providing food to the malnourished children through the maternal and child health, school feeding and emergency programs in the rural areas of the Philippines. The Mission advises that steps have been taken to improve its oversight responsibilities of these programs. This action includes assisting the voluntary agencies in strengthening program management deficiencies in recordkeeping; resolving and settling outstanding claims; and to review CRS's questionable expenses from the proceeds that are generated from the sale of unfit commodities. The report notes only limited on-site monitoring visits by AID during FY 85. This was due in part to the absense of a full-time Food for Peace Officer, who departed post midway through the fiscal year (1985) and was not replaced. We now understand that the Food for Peace Officer's position, which was eliminated, is to be reinstated and we hope that this will substantially improve food aid management and program monitoring capability. AID/W-FVA/FFP is actively engaged with the USAID Mission and the voluntary agencies in a dialogue to improve the oversight and administration of these programs.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

Address Correction Requested

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100