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BRINGING ACCOUNTABILITY TO FOREIGN AID

Until more effective program controls are imposed, foreign assistance resources will continue to be vulnerable to misuse and diversion.

IN 1988, the United States will give 75 countries almost $7 billion in economic, humanitarian, and food aid to further an array of foreign policy objectives. These aid programs will help address basic needs for food, clean water, shelter, education, and health care among poor populations in nearly every region of the world. They will also help ensure the continued access of American military personnel to bases and other facilities abroad, encourage the peace process in the Middle East,

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foster the growth of democracy in some countries, and prevent the economic collapse of others. But however laudable the policy goals, many Americans question whether foreign aid is money well spent. After all, the federal budget deficit has brought calls to constrain domestic spending. In times like these, programs that send taxpayer dollars overseas can expect hard scrutiny.

The numerous revelations of misuse, diversion, waste, and fraud in foreign aid programs have not done much to bolster the limited constituency these programs enjoy. In 1986, for example, as administration officials argued for additional aid to the Nicaraguan Contras, GAO testified that the State Department could not guarantee that the aid that had already been approved for the Contras had actually reached them. That same year brought the saga of deposed Philippine President Ferdinand Marcos, who, while drawing an annual salary of about $5,700, had accumulated Swiss bank accounts and real estate holdings conservatively estimated at $5 billion.[1] Haiti's Jean-Claude "Baby Doc" Duvalier also made the news, fleeing to a French chateau with the estimated $400 million that he and his father Francois had milked from the Haitian people over 25 years.[2] Theirs was quite a feat, considering that four out of five Haitians earn about $150 a year.[3]

According to the Agency for International Development (AID), the primary administrator of foreign economic assistance, the United States provided over $2.5 billion in economic and military aid to the Philippines during the Marcos regime and over $400 million to Haiti under the Duvaliers. It was never proven that American aid had wound up in the pockets of these men. But neither could it be demonstrated that all of the aid had reached its intended beneficiaries. In both cases, reliable foreign aid accountability systems simply did not exist.

Over the past several years, a series of GAO inquiries into the administration of foreign aid programs has shown a strong reluctance on the part of AID to impose effective accountability requirements on recipients. AID administrators have taken some actions to improve accountability, but, even today, these continue to be small-scale, peripheral efforts that do not get to the heart of the matter. Neither the foreign policy establishment in general nor AID in particular has made accountability a guiding principle in administering foreign assistance programs.

Obstacles to effective accountability

The foreign environment

Foreign aid involves the transfer of American resources to other sovereign nations — nations that often possess neither the inclination nor the administrative capability to control and account for it properly. So the foreign environment in which each program operates is a major influence in the quest for accountability.

For one thing, most foreign aid recipients are underdeveloped nations suffering from a lack of infrastructure (such things as communications, transportation systems, and utilities) and financial and administrative skills adequate to manage aid resources effectively. Many recipients are also experiencing political and economic instability and, in the most serious cases, internal military conflicts that severely hamper the logistical systems and monitoring devices designed to ensure that aid reaches those who need it. Afghanistan, Ethiopia, and El Salvador are recent examples of countries facing these sorts of problems. In 1985, for instance, AID reported that, due to logistical problems created by the war, project officers in El Salvador were unable to make the minimum number of site visits they believed were necessary for effective program oversight.

Limits on AID's resources

AID itself faces limitations on its capacity to monitor and manage foreign aid programs. An overseas staff of 2,740 (including about 1,300 foreign nationals) must oversee 2,100 active projects. In Zaire, where program oversight has always been a problem, 14 AID project officers monitor activities spread over 905,000 square miles. To visit some projects, these officials must spend 3 to 5 days—provided the trains run as scheduled, which often is not the case—traveling 1,000 miles from Kinshasa to the Shaba province. In India, AID must contract with private charitable organizations to monitor $84 million in food aid distributed from thousands of locations.

It is no coincidence that, increasingly, foreign aid is conveyed in the form of cash, partially to lessen the administrative burden of monitoring project activities on foreign soil. In some countries, of course, such as Israel and Turkey, AID has virtually no presence at all. American aid to these countries consists of cash — very much for foreign policy reasons having little to do with accountability.

The "policy takes priority" argument

The latter examples point to another factor in the quest for accountability in foreign aid programs: Sometimes, aid administrators are reluctant to press too hard on accountability issues for fear of jeopardizing other important political and security interests. They make the case that the *quid pro quo* — foreign aid for peace in the Middle East or foreign aid in return for access to military bases elsewhere—is the issue of primary concern to the United States. Accountability, they maintain, may sometimes have to take second billing.

The issue of aid to the Nicaraguan Contras is a case in point. In August 1985, the Congress authorized $27 million in humanitarian aid to the Nicaraguan Contras, on the condition that the President establish procedures to ensure that the funds would not be diverted for lethal purposes. But the State Department's Nicaraguan Humanitarian Assistance Office (NHAO), providing aid to an organization opposed to the official Nicaraguan government, had to rely on the support of other countries in the region. Unfortunately, these other countries refused to allow NHAO to set up an office on their soil, denied NHAO the use of Central American facilities and support in procuring materials to aid the Contras, and would not establish local bank accounts through which NHAO could pay suppliers directly. When GAO was asked by the Congress to review compliance with the legislative requirement, it found that NHAO could not attest to the validity of receipts, was unable to check the eligibility of suppliers, and had difficulty establishing the reasonableness of prices.[4] More importantly, NHAO could not verify that the authorized goods and services had actually reached the Contras. Bank records showed that only a small amount of funds could be traced to specific regional suppliers. In addition, they showed that some large payments had been made to the armed forces of one country in the region. In short, the legislative requirement that procedures be put in place to guarantee the appropriate use of the $27 million in aid had not been met.

The administration had a strong sense of urgency concerning the fate of the Contras, and set a priority on moving the $27 million in aid quickly. NHAO had to use a supply network that was already in place in the region, one that succeeded in moving the aid but did not meet accountability standards. At the same time, the National Security Council was operating a secret supply network of lethal and nonlethal aid to the Contras and did not want exposure through stringent review of NHAO's program. NHAO acquiesced both to these obstacles and to the on-the-ground impediments to accountability, and declared that GAO was unreasonable to apply conventional government auditing standards to its operations. In effect, NHAO was saying that in the face of extraordinary policy pressures, such as those encountered in the Contra situation, the standards for accountability might have to be relaxed.

The sovereignty of recipients

One recognizes, of course, that recipients of foreign assistance are usually foreign governments that may not only lack the capacity to adopt "Western-style" accountability systems, but also the political will to provide an accounting of U.S. aid. Some foreign governments simply do not place the same importance on accounting for the money they spend as do governmental entities in the United States. Liberia is an example.[5] AID officials, in explaining the serious deficiencies in accounting for American assistance over the past several years, told GAO that Liberian authorities typically accepted U.S. conditions and then failed to meet them. Other foreign aid recipients, recognizing the political and security objectives that underlie American aid, may make good-faith efforts to maintain accountability, but ultimately ask, "Will the U.S. *really* cut off our aid if we can't provide financial accounting?" The American answer ought to be, "Perhaps not. But over the long term it will be impossible to maintain public support for your aid if you don't."

Efforts to improve foreign aid accountability

Long-term difficulties notwithstanding, some encouraging actions have been taken to improve program controls and enhance the capabilities of foreign governments to account for the aid they receive. What these actions demonstrate is that better accountability is possible. But more needs to be done.

Program controls

In 1987 a major change was instituted in the way recipients account for cash assistance. Since 1983, GAO and AID's Inspector General had called for better reporting to ensure that cash transfers made under the Economic Support Fund program truly were used to assist the recipients' economies. At that time, it was impossible in many cases to uncover the uses to which cash transfers had been put, simply because the funds were deposited directly to the recipients' bank accounts and commingled with funds from other sources. Nothing was done to rectify the problem until the Congress looked into the Ferdinand Marcos affair and found it impossible to tell if American aid had been diverted to his account. As a result, legislation was passed to require all cash-transfer recipients to maintain their grants in separate accounts so that AID could trace the funds to their ultimate disposition. While the new requirement provides a better means of tracing U.S. cash transfers—about $2.7 billion in 1987—it does not eliminate the potential for recipients to spend freed-up funds in inappropriate ways.

AID itself has taken actions to improve its control and oversight over foreign aid resources. For example, the agency has shifted some headquarters staff to the field and hired additional foreign nationals to monitor projects, maintain financial records, verify prices, and conduct inspections to ensure that commodities reach their intended beneficiaries. Increasingly, field staff have been delegated authority in areas of control and accountability; they are closer to the actual implementation of aid programs and can make more informed decisions regarding the extent to which program resources need to be monitored. In some cases, local accounting firms have been engaged to bolster AID's audit and evaluation capacity; in the same vein, the Congress recently authorized a staff increase in the agency's Office of the Inspector General. In compliance with the Federal Managers' Financial Integrity Act of 1982, AID performs annual assessments of its internal control systems; as a result of these assessments, the agency has acted to correct weaknesses in procurement practices, cash and property management, and host-government reporting on the uses of local currency funds associated with some aid programs.

Foreign financial management capabilities

Over the years, GAO and AID's Inspector General often have cited the weak financial management capabilities of African governments as a major obstacle to program accountability. Although AID brought some developing country officials to the United States for its Participant Training Program, the program was too modest to translate into perceptible improvements. The turning point came in the late 1970s, when AID's Inspector General reported that financial controls over American and other external assistance to countries in the Sahel (Burkina Faso, Cape Verde, Chad, Gambia, Mali, Mauritania, Niger, and Senegal) were so lax that millions in aid had been wasted, misused, or diverted for illicit purposes. The Congress responded by requiring AID to certify, as a condition on further aid to the Sahel, that nations in the region would install adequate accounting and control systems. The requirement led to the $5 million Sahel Regional Financial Management Project, which has provided financial management training to scores of African officials involved in administering aid programs. AID plans to implement a similar program in Latin America. Yet despite these efforts, a recent Price Waterhouse report concluded that AID still places too low a priority on improving financial management in developing countries and needs to do much more if accountability is to improve.[6]

For 10 years, GAO has sponsored the International Auditor Fellowship Program, through which individuals from the national audit offices of developing nations have been invited to Washington for an intensive 3½-month training program. The goal is to improve the auditing skills of these individuals, who can train others when they return home. One outgrowth of the program is an international effort, spearheaded by GAO and Canada's Office of the Auditor General, to improve the training of government auditors in developing nations.

Further improvements are possible

These efforts are well and good, but the foreign policy establishment and aid administrators continue to allow the obvious obstacles to accountability to defeat them. They must reorient their thinking from reaction to innovation—from reacting to problems after they become evident to building in controls from the start. Responding to revelations of possible foreign aid diversions — and usually having to do so under pressure from the Congress—is not the best way to design accountability systems. And once foreign aid has been misused, it is rarely recovered.

If better accountability is to be achieved, foreign aid administrators need to affirm that a higher priority on program controls is both cost effective and in the best interests of their programs and of the recipient nations. Too often, officials have cited the obstacles instead of seeking a path around them. And some continue to consider the call for effective controls as potentially undermining important policy objectives: in short, an intrusion into the foreign policy-making process. This argument was, and in some cases still is, that U.S. interests might be better served by permitting accountability to slide. The argument may be valid in unusual cases when circumstances make it unrealistic to insist on ideal standards of accountability. But in general, achieving more effective program accountability will strengthen rather than weaken the ability of aid officials to pursue their policy goals.

Those responsible for U.S. foreign aid programs have an important stake in assuring the American people that the foreign aid dollar is well spent. Foreign aid programs have done much to benefit developing countries and advance American policy goals. But these are times when painful budget choices confront the nation, and foreign aid does not enjoy great support even in the best of times. Those who make foreign policy and who administer foreign-aid programs should insist that the acceptance of American aid be accompanied by an adequate accounting. They must work to make foreign aid recipients understand that their programs rest on the support of American voters. It would be short-sighted for those directly involved in foreign assistance programs to continue to take a reactive position toward ensuring accountability over limited foreign aid resources. Congressional prodding, press accounts of misuse, and reports by GAO and AID's Inspector General have spurred improvements. But the real impetus must come from the foreign policy establishment and foreign aid administrators themselves, who must place a higher priority on implementing controls, and realize that effective accountability requirements are compatible with overall American foreign policy objectives. •

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1. George Gedda, "Plunderers & Pilferers," *Foreign Service Journal* (October 1986), p. 21.

2. Gedda, p. 21.

3. *Congressional Presentation, Fiscal Year 1988*, Annex III, Agency for International Development, p. 234.

4. *Central America: Problems in Controlling Funds for the Nicaraguan Resistance* (GAO/NSIAD-87-35, Dec. 5, 1986).

5. *Liberia: Need to Improve Accountability and Control Over U.S. Assistance* (GAO/NSIAD-87-173, July 16, 1987).

6. *Report on Improving Host Country Financial Management,* Price Waterhouse (Washington, D.C: August 1987).