

GOVERNMENT PRINTING OFFICE

STAFF REPORT ON  
FIELD SURVEY OF SELECTED PROJECTS  
IN VIET-NAM AND KOREA

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SUBCOMMITTEE FOR REVIEW OF THE  
MUTUAL SECURITY PROGRAMS



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SUBCOMMITTEE FOR REVIEW OF THE MUTUAL  
SECURITY PROGRAMS

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## FOREWORD

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The problem confronting the Congress in its consideration of the mutual security program this year is not "take it or leave it." I am convinced that foreign aid is essential to U.S. foreign policy and vital to our national security. Abandonment of the program would involve disaster not only to ourselves but to other nations in all parts of the world which depend on us for aid in defending their freedom and in improving the lives of their people.

It is up to the Committee on Foreign Affairs and the Congress to evaluate and correct, not to accept or reject.

This staff report points out a significant defect in the administration of the mutual security program. It should be emphasized that the shortcomings described in this document relate only to one segment of the mutual security program—project assistance. Project assistance constitutes only 16.1 percent of the economic assistance requested for fiscal year 1960 and only 9.5 percent of the total authorization request. I firmly believe that the Committee on Foreign Affairs has an obligation to the Congress to examine in detail the effectiveness of mutual security operations and, when deficiencies are encountered, to initiate corrective action.

A draft of this report was submitted to the International Cooperation Administration for review and comment. On May 12, 1959, the following statement was received from the Honorable L. J. Saccio, Acting Director, International Cooperation Administration:

\* \* \* Based on this review, ICA has now developed a change in procedure for installation on July 1 which we believe will not only further tighten our planning of project obligations but also expedite project implementation. Specifically, we will establish the general rule that project obligations not be undertaken unless planning has progressed to the stage that all detailed implementation orders are ready to be initiated at essentially the same time as the obligation. As you know, our current procedures set the general but not mandatory standard of initiation of implementation orders as within 6 months of obligation. The new procedure will bring these two steps approximately together in the great majority of future projects and will also include a quarterly reporting system which we will use to evaluate and control administration.

We do expect that there will be a number of cases in which urgent policy and related requirements or unforeseen events will arise which make either (1) urgent to execute an obligation in full compliance with section 517 but knowing that implementation cannot begin immediately, or (2) after obligation, make it not feasible to proceed immediately as had been planned. These exceptional cases will be carefully scrutinized and will be held to those cases of pressing necessity and will be either returned to normal procedures at the earliest opportunity or will be deobligated.

This significant revision by ICA, taken together with other ICA requirements, some of which have been set forth in this letter, should make it absolutely clear with respect to the programs in fiscal year 1960 and future years that it is not general ICA practice to set aside funds for specific projects long before the detailed plans and arrangements for carrying out such projects have been worked out. The general practice will be that the project implementation documents will be signed essentially simultaneously with the project agreements.

This basic proposal is the result of extensive studies conducted by the ICA Operations Review Committee, chaired by Dr. D. A. FitzGerald, Deputy Director/Operations, and of consultation with all our field missions. Our studies have benefited from the findings of the interim report of the committee of February 15, 1959, and the information in your draft report. The revised procedures should meet the problems raised in the first finding of the interim report and in your draft report while at the same time retaining the minimum essential flexibility required of a major tool of U.S. foreign policy. \* \* \*

It is my understanding that the revised procedure outlined by Mr. Saccio which will go into effect July 1, 1959, will correct the deficiency with respect to the premature obligation of funds cited in the interim report of the Subcommittee for Review of the Mutual Security Programs of last February and in the present report. Under the new ICA procedure, funds will not be obligated until planning, negotiation with the recipient government, and necessary preliminary action has progressed to the point that all the project implementation documents are ready for signature; and the implementing documents will be signed essentially simultaneously with the project agreement which obligates the funds. This action by the International Cooperation Administration, in my judgment, constitutes a major step in the improvement of the operation of the mutual security program.

I would like to point out that the interim report of the Subcommittee for Review of the Mutual Security Programs made three major criticisms of the operation of the economic assistance segment of the mutual security program. With the action set forth above to prevent the premature tying up of funds, the International Cooperation Administration has now initiated procedures designed to correct all three of the defects cited by the subcommittee.

On March 16, 1959, the International Cooperation Administration announced a reorganization of its administration of programing and technical services intended to correct the difficulties cited in the subcommittee report in this area. The establishment of the Office for Private Enterprise was also announced on March 16. The purpose of this office is to carry forward a variety of activities in order to overcome the difficulties encountered as a result of the lack of local commercial interest in promoting economic development, the third shortcoming cited in the subcommittee report.

The prompt and serious consideration given by the International Cooperation Administration to the reports of the subcommittee and the readiness of the agency to modify its procedures in an effort to improve its operations inspires confidence and gives evidence that the ICA is willing to recognize and correct its shortcomings.

THOMAS E. MORGAN,  
*Chairman, Committee on Foreign Affairs.*

APRIL 27, 1959.

To: Hon. Thomas E. Morgan, chairman, Subcommittee for Review  
of the Mutual Security Programs.  
From: Roy J. Bullock, senior staff consultant.  
Subject: Field survey of selected projects in Viet-Nam and Korea.

This document includes the reports of Mr. Robert A. Schremp and Mr. John M. Garrity, auditors, assigned by the General Accounting Office to the subcommittee, together with my own comment and conclusions as to the significance of their observations.

At your request, Mr. Schremp and Mr. Garrity were assigned by the General Accounting Office to the Subcommittee for Review of the Mutual Security Programs. They spent the month of March in Viet-Nam and Korea. Their work was carried out at your direction and they reported to you in your capacity as chairman of the subcommittee. The General Accounting Office is not responsible for the conduct of their investigation or for their report.

The reports submitted by Messrs. Schremp and Garrity are incorporated in full without editing and are clearly differentiated from the comments and conclusions, which appear in boldface.

# FIELD SURVEY OF SELECTED PROJECTS IN VIET-NAM AND KOREA

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## PURPOSE

When mutual security nonmilitary funds are used to build or to organize anything in a foreign country, as distinguished from the use of mutual security funds to pay for commodities or services supplied to beneficiary countries, it has become standard ICA practice to set aside funds already appropriated by the Congress and hold them for use in the contemplated operation for a considerable period (often 2 or 3 years) before detailed arrangements for beginning work on the project have been completed.

As a result of this practice, investigations by the Subcommittee for Review of the Mutual Security Programs of the Committee on Foreign Affairs, the General Accounting Office, and the Subcommittee on Foreign Operations and Monetary Affairs of the Committee on Government Operations have all cited a variety of instances in which funds appropriated for the mutual security program have been obligated for specific projects and carried forward for 2, 3, or more years before the engineering plans and the preliminary legislative and financial arrangements by the recipient government have been completed.

In the past, money appropriated by the Congress has been set aside and held for financing specific operations during the period that surveys were made, building sites selected, test borings taken, decisions reached and action initiated by the recipient government as to what agency would be responsible, where the local currency financing would come from and how the undertaking would be organized. In order to correct this situation, the Committee on Foreign Affairs in the last session of the Congress wrote into the Mutual Security Act, section 517, "Completion of Plans and Cost Estimates."

This section is intended to prevent the obligation and carrying forward of funds to finance operations until technical, financial, and engineering plans are complete, reasonably firm cost estimates are arrived at, and necessary legislation by the beneficiary country may be reasonably anticipated to be completed within a year.

In order to determine whether or not section 517 in its present form is adequate for dealing with the situation and to evaluate the effectiveness of the effort of International Cooperation Administration personnel to implement it, the General Accounting Office was requested to detail two of its auditors with overseas experience and familiarity with mutual security operations to conduct a survey within the limited time available of the situation in two countries: Korea and Viet-Nam.

## SELECTION OF COUNTRIES AND PROJECTS

The auditors assigned by the General Accounting Office reviewed the books of the International Cooperation Administration in Washington to determine in what countries there appeared to be a significant number of projects for which funds had been obligated but where there appeared to have been unusually slow progress in letting contracts or taking other action to carry the projects forward. As a result of this review, it was decided to examine in the field seven projects in Korea and six projects in Viet-Nam.

As of December 31, 1958, the ICA records in Washington indicated that \$34,882,000 had been obligated for the 7 selected projects in Korea but only \$6,214,000 had been subobligated for these projects, leaving an unsubligated balance of \$28,668,000. Subobligation is the step necessary to make funds available prior to signing a contract or entering into some other commitment for their ultimate expenditure. For Viet-Nam the obligations for the six selected projects as of December 31, 1958, were \$62,993,000, of which \$38,733,000 had been subobligated, leaving an unsubligated balance of \$24,260,000.

The funds for these projects had been obligated before the enactment of section 517, and the provisions of section 517 do not make necessary any change in their status or in the procedures for handling them.

## KOREA

## Medium Industries Development—Project No. 89-23-459

*Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1957-----	\$13,400	0	0
1958-----	2,000	\$275	\$7
1959-----	0	142	115
Feb. 28, 1959-----	15,400	417	122

*Purpose and nature*

The Republic of Korea suffered extensive war damage and was primarily a producer of foodstuffs and raw materials as compared with industrialized and Communist-dominated North Korea. The purpose of this project is to increase the productivity of industry in the Republic of Korea by rehabilitating and expanding existing manufacturing facilities and developing new industries. Anticipated savings in, or the earning of, foreign exchange is a prime consideration in the evaluation of the subprojects to be sponsored.

In addition to the dollar funds obligated above, local currency in the dollar equivalent of \$13,339,000 and \$2,400,000 was obli-

gated in fiscal years 1957 and 1958 respectively. The sources of these funds will be \$8,571,200 from counterpart, \$2,400,000 from the Republic of Korea, and \$4,767,800 from other sources.

ICA funds will be used to pay for machinery and equipment for the most part, with the management consultant firm of Smith, Hinchman & Grylls Associates, Inc., providing technical and managerial advice to the subproject sponsors. This is not one project, but rather 49 subprojects. The companies to be benefited cover a wide range of industry and will produce such diversified products as farm tools, pumps, agar-agar, fish liver oil, wire rods, fire brick, paint, leather, bismuth, pharmaceuticals, gears, and rubber tires, to mention a few. The project will be implemented through long-term loans to approved subproject sponsors who will provide about 25 percent of the required capital to finance the planned plant expansion. Dollar funds will be provided at the official rate of exchange (500 hwan to \$1). Interest will be charged at rates ranging from 8 to 12 percent per annum payable in hwan. Loans will be amortized over a period of 10 to 20 years and will be repayable in hwan. Payments received will be available for future loans. ICA participates in the evaluation and approval of the prospective borrowers.

#### *Progress*

Very little tangible progress toward implementation of the 49 subprojects had been made by February 28, 1959, but considerable progress in planning was reported by the ICA mission. The mission planned to request bids against specifications for subprojects as follows:

During February 1959 .....	1
During March 1959 .....	10
During April 1959 .....	27
During May 1959 .....	11

Equipment will be scheduled for arrival generally in the first half of calendar year 1960 and is expected to go into production as follows:

<i>Period</i>	<i>Sub-projects</i>
January to March 1960 .....	2
April to June 1960 .....	19
July to September 1960 .....	18
October to December 1960 .....	10

A variety of problems have been encountered in implementing this project. The original project agreement was signed on April 20, 1957, but it was not until December 1957 that an agreement was reached with Smith, Hinchman & Grylls for their services in providing specifications for the proposed subprojects. A further delay is indicated by the fact that the first task order for Smith, Hinchman & Grylls was not approved until April 23, 1958. Subsequently, in August 1958, two technicians arrived in Korea and started to perform on their assignments. It was not until December 1958 that ICA/Washington and the mission in Seoul reached substantial agreement as to the scope of Smith,

Hinchman & Grylls' services and the responsibilities they would assume. An official in the mission pointed to the fact that—

Approximately 9 months are required from the time the task order is originated, approved, funding established, personnel recruited and cleared in the United States and Korea, until the first task order report is rendered (by Smith, Hinchman & Grylls).

#### *Current observations*

This type of project is not new to ICA/Korea because somewhat similar undertakings were instituted in fiscal years 1954, 1955, and 1956. The experience encountered in the subprojects financed in those years indicates difficulties to be encountered in the future before the production and foreign exchange savings anticipated will be realized, if ever. Although a few of the completed subprojects are in production, there are several others which are not. Two limestone-crushing plants, a ball bearing plant, a bottle factory, and an asbestos plant are completed and barely operating. Machinery remains unused in storage; a tire factory operates at a fraction of capacity due to competition from black-market tires reported to have been stolen from the Army. A recent study, comparing estimated production with actual production of ICA-sponsored industry projects funded in fiscal years 1954, 1955, and 1956, shows a potential of \$72 million per annum and an actual of about \$18 million. The most common difficulties found in our review of completed subprojects were a lack of adequate working capital and an inability to operate profitably.

We visited some of the companies selected to be benefited through loans and questioned in our own mind the financial capability of these people as evidenced by the buildings and equipment in use. At the same time we were encouraged by the ingenuity, energy, and courage we saw. A bombed-out steel plant was most impressive, not from the view of what it was, but because of what was being accomplished. A self-manufactured rolling mill was producing steel reinforcing rods by a combination of machinery and manual labor under a makeshift roof. Machine tools, which we judged to be more than 50 years old, had been set up, after digging them out of the rubble and cleaning off the rust. An air of purpose pervaded the place.

A farm tool manufacturing plant, operating with old and in some instances almost primitive equipment and methods, was producing shovels and hoes. We ordered one of the hoes because of the unusual shape that we were told pulls, rather than cuts, weeds. The products were crude but effective and cheap.

Again, at a leather tannery and manufacturing plant—old equipment but excellent products. A pharmaceutical plant, operating under licenses from U.S. firms, was neat, clean, and operating efficiently.

A factory, using corn from the United States as raw material, was manufacturing cornstarch, dextrose, corn oil, and glucose. The waste is sacked and used for animal feed. Although this operation appeared to be well run, it faces two major problems: where to sell the cornstarch, which has limited use in Korea, and where to get the corn. There are reportedly more than adequate corn processing plants in the United States.

*Status of plans*

There was barely even a minimum of plans and specifications for this project when it was conceived in fiscal year 1957. During the past 6 months the required plans and details have been in the process of preparation, but one may fairly observe that the obligation of funds preceded the planning normally to be expected by more than 1 year. However, at the time of our visit to the mission in March 1959, Smith, Hinchman & Grylls had produced specifications for more than half of the subprojects and expected to complete the balance in April.

**EVALUATION**

The importance of this project and its value to the Korean economy is obvious. It has been organized as a banking type operation for providing dollars to Korean industries to finance the importation of equipment necessary for their operations. As of March 1959, no dollars had yet been loaned to finance the procurement or importation of any equipment.

This raises a basic question as to why it was necessary or desirable to obligate \$13,400,000 of fiscal year 1957 funds before the organization for carrying out the project and the procedures for its implementation had been developed and before the services of an engineering firm had been engaged.

Even if it is conceded that a commitment of U.S. funds to the project was desirable in order to encourage the Koreans to commit their own currency and manpower to the project, it would appear that an obligation of \$2 million pending the working out of detailed arrangements might have been fully as effective as an incentive while permitting the use of the remaining \$11 million for other purposes.

**Straw Pulp Plant—Project No. 89-23-292***Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1956-----	\$1, 121	0	0
1957-----	1, 100	\$150	0
1958-----	0	0	\$18
1959-----	0	0	42
Feb. 28, 1959-----	2, 221	150	60

*Purpose and nature*

Conceived during fiscal year 1956, as a part of ICA's overall plan to increase Korea's self-sufficiency, this plant will be expected to produce pulp for the paper manufacturing industry in Korea. The anticipated product, straw pulp, will be manufactured from indigenous raw materials and reduce Korea's requirements for imported woodpulp, which are paid for with foreign exchange.

The dollar funds obligated were, for the greater part, for the purchase of commodities for the construction of the proposed plant. Only \$250,000 of the total of \$2,221,000 was allocated for contract services. In addition to dollar financing, ICA anticipated the use of counterpart funds equivalent to \$3,647,478 to be divided between commodity purchases, \$2,235,847, and other costs, \$1,411,631.

*Progress*

As of February 28, 1959, the only expenditures that had been made were for contract services. Those services had been performed by the management consultant firm of Smith, Hinchman Grylls Associates, Inc., and resulted in two reports related specifically to this project. The reports were received by ICA in February 1959 and were an evaluation of the feasibility of a straw pulp plant, specifications and plans for the type of plant to be constructed, and an estimate of the cost. A review of these reports by Tudor Engineering Co. noted that the plant design was restrictive in that a proprietary process was recommended.

The delays in implementation of this project are credited by agency officials to a difference of opinion within ICA as to the adequacy of a report prepared by Tudor Engineering Co. That report was issued on February 19, 1957, pursuant to a task order dated August 31, 1956, which required recommendations for the form and content of an invitation for a proposal covering engineering, procurement, and supervision of erection for a straw pulp manufacturing plant to be constructed by the Korea Pulp Industrial Co., Inc. On November 13, 1957, the agency had decided that a more exhaustive study of processes and plant types should be made and directed Smith, Hinchman & Grylls Associates, Inc., to make such a study. As mentioned above, the required reports were received by ICA during February 1959, about 15 months after the task order was issued.

*Present status*

We were informed by ICA/Washington on April 3, 1959, that there were no major objections to the plans as submitted by Smith, Hinchman & Grylls Associates, Inc., and that contract negotiations for construction might be initiated in the near future.

The initial obligation of funds for this project took place in June 1956. More than 2½ years after that date, it appears that the preliminary requirements for plans and specifications have now been met.

**EVALUATION**

Although funds to finance this project were obligated in 1956 and 1957, it has, in April 1959, merely reached the stage where "contract negotiations for construction may be initiated in the near future."

At the time fiscal year 1956 funds (\$1,121,000) and 1957 funds (\$1,100,000) were obligated for this project, the basis for the project apparently was: (1) Korea was importing paper for which foreign exchange had to be expended; (2) there apparently were processes in existence for converting rice straw into paper; (3) rice straw was available in Korea; (4) the Korean Government was agreeable to the undertaking. Decisions as to the processes to be used, the organization for carrying out the project, and the costs involved had not yet been reached.

The experience with this project raises the question as to whether any useful purpose was served in obligating \$2,221,000 while the project was still in the idea stage and whether it would not have been better merely to obligate \$150,000 for engineering services in 1956 and 1957, to be followed by an obligation of funds for construction costs when the project was sufficiently developed to know what funds would be necessary and when they would be required.

**Mine Development (Dai Han Coal Mines)—Project  
No. 89-21-468**

*Financial activity by fiscal years*

[In thousands]

Year	Obligated	Subobligated	Expended
1957-----	\$3, 247		
1958-----		\$777	
1959-----		156	\$35
Feb. 28, 1959-----	3, 247	1 933	35

<sup>1</sup> Actual contracts total \$279.

*Purpose and nature*

The purpose of this project is to increase coal production of the Kumchon and Changsung coal mines, to construct a coal cleaning plant at Cholum, to diamond drill areas of the two mines and to provide technical assistance for associated Government coal mines. Increasing coal production of the best known quality of South Korean coal as quickly as possible will alleviate serious conditions resulting from either a lack of coal or the use of inferior coal in power plants and industry. It is contemplated that by mining coal from this coal field (a) better coal can be used in power plants with increased efficiency at the plants (b) rail haulage will be more effective, since an estimated 20 percent of rock included in run-of-mine coal will be eliminated by the preparation plant prior to transport and (c) lower cost coal can be mined by the use of modern mining methods, machinery, and management.

ICA proposes to attain the goals outlined above by providing \$2,771,500 for equipment and \$475,500 for contract services including a mine management contract (\$300,000), technical services for associated Government mines (\$150,000), and one master diamond driller (\$25,500).

*Progress*

This project agreement was signed on June 27, 1957. Tangible progress to March 12, 1959, was small and included contracts for \$279,244 worth of equipment of which \$175,819 has been delivered at the port of Pusan.

Progress on this project has been delayed by a variety of causes due primarily to a lack of money. The Dai Han Coal Corp., that controls the mines to be benefited, is owned by the Republic of Korea. That Government regulates the price of coal, the accounting system and transportation, is a major customer, and through these controls has kept the company short of funds.

The coal company is required to make a deposit from its own resources representing 20 percent of the value of equipment to be procured with ICA funds when the equipment is ordered. The balance of moneys needed to pay for the equipment on delivery may be borrowed from counterpart funds. Additional funds from its own resources for installation are required on delivery. In June 1957, when this project agreement was signed, the company owed its employees 4 months' wages and was not financially capable of making the required 20 percent deposit. This shortage of funds probably delayed exploratory work that was a prerequisite to ordering equipment. The underlying unsatisfactory financial condition was corrected and in November 1958 the coal company was permitted the use of sufficient earnings of its own so that the ordering of equipment could proceed, in the opinion of the mission. The company still has difficulty in collecting bills from Republic of Korea agencies.

#### *Present status*

In effect the mission points to certain Republic of Korea laws or regulations that inhibited the preparation of proper plans, specifications, and cost estimates. Now that those restrictions have been relaxed, the project is being implemented.

During March 1959 the mission reported that purchase implementation orders (commodities), " \* \* \* are now in process of completion for \$1,100,000 for underground equipment, \$500,000 for auxiliary power equipment, and \$900,000 for coal preparation equipment \* \* \*" and expects that all applicable funds will be subobligated before the end of fiscal year 1959. Whether or not that expectation will be fulfilled depends upon the work of a consultant who will prepare a layout drawing for plant design for coal-cleaning equipment for the coal preparation plant. That man's work will depend in part on the findings of a series of tests to be made in the United States on samples of Korean coal. The consultant had not arrived in Korea in March 1959. In the event that the plans required are not forthcoming in a timely manner, the mission may use the \$900,000 earmarked for coal preparation equipment for thermal electric generating equipment instead.

#### *Plans and cost estimates*

We believe that further delays will be experienced due to the present lack of plans, specifications and knowledge of the characteristics of the coal to be mined. All of these details, as well as the Republic of Korea restrictions noted above, should have been considered and the related problems resolved before the obligation of funds. Obviously the agency's regulations were not given much consideration prior to the signing of the project agreement. Even now this project could not qualify as being in accordance with those regulations and the provisions of section 517 because, although steps to remedy that condition are in process, the plans have not been completed.

#### **EVALUATION**

It presumably is a good idea to invest money in increasing the Korean coal production. It apparently has been difficult to work out details as to just what money so invested should be spent for. In this case there is the further complication that the intended recipient of U.S. dollar assistance apparently has been

during most of the life of the project so short of funds as to be unable to do its share.

This raises a basic question as to whether U.S. funds should be obligated before financing arrangements for the project within the recipient country have been worked out, or if the initial obligation of U.S. funds is justified as an incentive to the foreign government to take necessary action, whether funds should be continued as obligated although adequate local financing is not forthcoming.

### Thermal Electric Generating Plant—Project No. 89-22-501

#### *Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1958-----	\$3, 539		-----
1959-----		\$1, 903	-----
Feb. 28, 1959-----	3, 539	1, 903	-----

#### *Purpose and nature*

This project has an aura of uncertainty because the location had not been definitely determined as of February 28, 1959, other than in "southwest Korea" which is a rather large territory. The proposed thermal electric generating plant is to have a capacity of 30,000 kilowatts and is to be designed to burn Korean anthracite coal and/or imported coal.

In June 1958, ICA estimated that the overall dollar cost of this project would amount to \$8,100,000 and that the Republic of Korea, or its citizens, would be required to invest the equivalent of \$1,800,000 at 500 hwan to the dollar. The fiscal year 1958 obligation committed ICA to the extent of \$3,539,282 and at the same time the Republic of Korea agreed to contribute the hwan equivalent of \$800,000. Although there is no formal agreement it appears that ICA has in effect set up an implied obligation of an additional \$4,500,000 if the plant is to be completed at the estimated cost of \$8,100,000.

#### *Progress*

The accounting records show that about \$1,900,000 of the \$3,539,282 was subobligated for contract services, but no contract had been entered into by February 28, 1959. On that date no contracts had been made, no purchase orders issued and no funds had been expended.

On February 12, 1958, ICA issued a task order to Smith, Hinchman & Grylls Associates, Inc., to select a site for a 30,000-kilowatt thermal electric generator plant to be located in southwest Korea. The resultant report was issued in October 1958 and accepted at the end of November 1958. In February 1959, lacking in details to support the amount, a project implementation order (technicians and contract services) was sent to ICA/Washington to cover the retention of an engineer-contractor. In March 1959 the mission decided that test borings at a proposed site for the plant were needed before an engineering contract could be determined.

*Present status*

ICA proposes to obligate the balance of about \$4,500,000, the estimated amount needed to complete the dollar funding, before the end of fiscal year 1959. The mission expects to receive a report from Smith, Hinchman & Grylls in the near future which will provide plans, specifications, and a cost estimate to support the obligation of fiscal year 1959 and 1958 funds. We expect the estimate, plans, and specifications will depend on the findings from the core drilling operation, which had not begun as of March 13, 1959.

Our review of this project found that funds were obligated on a most indefinite basis in the last few days of fiscal year 1958.

**EVALUATION**

As of March 13, 1959, this project had apparently not yet matured to the point where it would meet the requirements of section 517.

The following aspects of the project justify special consideration:

First, funds (\$3,539,000) were obligated in the last few days of fiscal year 1958.

Second, plans for the powerplant had not yet developed to the point where its location had been determined, except that it would be in southwest Korea.

Third, it was estimated that the total dollar cost of the project would be \$8,100,000. The ICA funds obligated were less than one-half of this amount and no arrangements were made for the remainder of the dollar financing.

Although other interpretations and explanations may be valid, it should be noted that these facts are consistent with the interpretation that the ICA action with respect to this project was primarily to prevent the lapse of funds at the end of the fiscal year.

This project represents a departure from the rather general ICA practice of obligating all funds estimated to be required for a project at the time the project agreement is entered into with the recipient government. In this case, the United States obligated less than one-half of the estimated dollar requirements.

**Rehabilitation and Construction of Overall Transmission and Distribution System—Project No. 89-22-221***Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1956	\$2, 841		
1957			
1958	1, 486	\$2, 661	
1959		28	\$79
Feb. 28, 1959	4, 327	2, 689	79

*Purpose and nature*

There are three principal powerline systems which transmit electrical energy throughout the Republic of Korea. The system network contains about 150 substations and was installed by the Japanese to serve minimum operating needs. Severe war damage and neglect has reduced the efficiency of the system to

the level of about 40 percent of original capacity. Surveys indicate that every substation is in need of repair. This project proposes to rehabilitate 10 of the 23 larger substations by repairing the buildings, which house control and operating equipment, and by purchasing new equipment. The program for expansion of electric power generating capacity in the Republic of Korea is so great that this project represents only a small fraction of the overall picture. The mission noted that power production for the 12 months ended September 30, 1958, was 1,453,452,000 kilowatt-hours or over 1 billion more than the highest preinvasion output.

Funds amounting to \$2,841,500 were obligated in fiscal year 1956 by ICA for commodities. Host-country contributions in 1956 were set at the dollar equivalent of \$1,880,000 and included \$1,006,000 for technical and other services, \$534,000 for commodities, and \$340,000 for other costs. In fiscal year 1958 an additional \$1,485,000 was obligated for commodities by ICA. Host-country financing in 1958 was agreed to at the dollar equivalent of \$1,700,000 and consists of \$700,000 for contract services, \$600,000 for commodities, and \$400,000 for other costs. ICA estimates that 1959 financing will amount to \$2 million from ICA funds and the equivalent of \$2,100,000 from Korea.

#### *Progress*

The specific commodities that are to be purchased against fiscal year 1956 funds have been selected by the mission to the extent of an estimated cost of \$2,668,850, but only about \$622,000 of that amount had been contracted on March 3, 1959. Specifications for equipment against fiscal year 1958 funds amount to only \$20,000. Actual receipts of equipment for this project on March 20, 1959, were valued at \$80,624. Now that the equipment has started to arrive, another problem has arisen. The recipient utility companies will have to obtain funds to pay a 20 to 25 percent down payment, plus a 30 percent commodity tax and a 5 percent import duty before the equipment will be released to them. These companies are short of working capital and reported to be delinquent in payment of coal bills.

A simple explanation of the reason for the delays in implementation of this project is that ICA did not know what was needed specifically. On February 1, 1957, the power companies which were to be benefited were requested by the mission to prepare specifications. From September 1957 through January 1959 the requested details have been received piecemeal by the mission. Subsequent reviews and disagreements by ICA/Washington regarding the specifications supplied have further delayed the procurement process.

A recent report by the mission states:

This project was initiated with 1956 funds, but active implementation of the project was delayed some 14 months during negotiations for an overall engineering contract. The second year of implementation was consumed in reviewing and editing specifications prepared by the three power companies based largely on existing Japanese-manufactured equipment wherein the specifications had to be changed to satisfy Regulation 1, and in explaining to ICA/Washington and the consulting engineering firm in Washington the needs for equipment in Korea which was in some cases not available from U.S. sources. \* \* \*

ICA is currently receiving assistance from the firm of Smith, Hinchman & Grylls Associates, Inc., and expects to expedite the writing of specifications against fiscal year 1958 funds. Additional funds of about \$2 million have been "programed" for fiscal year 1959 in anticipation of specifications yet to be prepared.

This project, which is only a small part of the overall electric power-generating program in Korea, points up the extensive planning necessary to implement this program. It is difficult and time consuming for the mission with its limited staff to determine specifically what is needed and, having reached a conclusion, to obtain ICA/Washington's approval. We believe that without the assistance of a management consultant firm the mission would not be able to comply with the present requirements of the Mutual Security Act, as these relate to plans, specifications, and cost estimates.

**VALUATION**

There can be little doubt of the importance and urgency of this project. The technical difficulties which have been encountered are readily understandable and presumably most of them unavoidable. The major issue here seems to be whether or not it is necessary or desirable to tie up U.S. funds before the technical problems involved in the project are nearer to solution than they were at the time these funds were obligated.

**Rehabilitation of Chongpyong Dam—Project No. 89-22-228**

*Financial activity by fiscal years*

[In thousands]

Year	Obligated	Subobligated	Expended
1956.....	\$2, 000		
1957.....			
1958.....	200	\$15	
1959.....			\$12
Feb. 28, 1959.....	2, 200	15	12

*Purposes and nature*

Constructed by Japanese engineers and contractors and completed during the year 1943, this hydroelectric project, the Chongpyong Dam, has been weakened by erosion. Several reports by various engineers, since 1948, have called attention to the need for repairs and maintenance if the dam is to be preserved and used. ICA recognized this need and obligated \$2 million by a project agreement that was signed on April 11, 1956. Subsequent events show that the basic plans were lacking in specific details. The mission estimated that Korea would be required to make a

contribution to the project amounting to the equivalent of \$1,080,000 in local currency. The dollar funding was expected to provide for contract services amounting to \$740,000 and the balance for commodities.

#### *Progress*

As of February 28, 1959, almost 3 years after the signing of the original project agreement, no tangible steps had been made toward the project goal. The management consultant firm of Smith, Hinchman & Grylls Associates, Inc., submitted a report in February 1959 which should make it possible for ICA and the Republic of Korea to receive and evaluate comparable proposals for the implementation of the engineering and material aspects of this project.

The delays which have stopped progress towards starting work on this dam appear to stem from an overall uncertainty both in Washington and at the mission as to just what was to be accomplished specifically. From April 11, 1956, when the project agreement was signed, until a task order was approved and given to Smith, Hinchman & Grylls on December 26, 1957, almost 2 years had elapsed. The files show no progress toward implementation during the first year and a lapse of an additional 8 months before the details of the task order to be given to Smith, Hinchman & Grylls were worked out to the mutual satisfaction of the contractor, ICA/Washington, and the mission. Having received the task order, Smith, Hinchman & Grylls were expected to submit a report in June 1958 but did not do so until February 1959.

#### *Present status*

With the Smith, Hinchman & Grylls report now in hand ICA expects to obligate additional funds which will bring the estimated dollar cost up to a total of \$5,985,000. The mission has scheduled June 30, 1959, as the date when a contract will be signed to implement the engineering and construction phases of this project.

If section 517 of the Mutual Security Act had been effective prior to July 1, 1958, the funds obligated during fiscal years 1956 and 1958 would not have qualified as legal obligations due to the obvious lack of plans, specifications and reasonable cost estimates. That condition has now been remedied, but we believe the agency's scheduled date for signing an engineering contract may be on the optimistic rather than realistic side.

#### **EVALUATION**

The record of this project indicates more than a year of delay between the signing of the project agreement (followed by the obligation of \$2 million) and the first tangible evidence of action by ICA to implement the project. Presumably the engineering problems connected with the rehabilitation of this dam are complex.

The basic issue appears to be whether or not it is desirable to obligate funds in such a case before plans have been developed and decisions reached as to precisely what should be done.

## Housing Construction Material—Project No. 89-83-448

*Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1957-----	\$2, 000		
1958-----	1, 947	\$1, 997	\$173
1959-----		<sup>1</sup> 1, 906	1, 703
Feb. 28, 1959-----	3, 947	3, 903	1, 876

<sup>1</sup> These funds were subobligated in January 1959; however, the implementing purchase contracts have not been signed.

*Purpose and nature*

The purpose of this project is to contribute toward achieving a permanent solution for the severe nationwide housing shortage. The original agreement of April 25, 1957, established as objectives assistance in meeting five major problems under a 6-year program:

1. The lack of basic housing construction materials.
2. The lack of a well organized home building industry.
3. The need for wider adoption of improved building methods and techniques.
4. The need for more adequate housing legislation.
5. The lack of credit capital for housing construction. The majority of Korean families have an extremely low per capita income and limited means of support.

The objectives also included the construction of 150,000 homes, having a foreign exchange cost of \$17,978,000.

The project was divided into two subprojects: one for low- and moderate-cost homes under a housing and home development fund program and the other for minimum cost homes under an aided self-help housing program.

Obligations were made available from the defense support appropriation and used for the importation of essential building materials. For fiscal year 1959, ICA has programmed \$1,750,000 for this project. A project agreement to obligate \$1,692,000 of these funds has been written and was under negotiation with the Korean Government at the time of our visit in March 1959.

In addition to dollar financing, the mission has authorized the use of counterpart funds equivalent to \$12.1 million (6.1 billion hwan). The Korean Government also pledged the equivalent of \$38.2 million (19.1 billion hwan) to the project.

*Progress*

Although the mission claims some accomplishments, projected goals are far greater than actual results. There were several delays encountered during the first year of the project and actual construction did not begin until late in fiscal year 1958. For the most part these delays were the result of poor planning before

the project agreement was signed. Such important features as (1) adequate home designs, (2) which Government agency should receive applications for housing and home development fund loans, and (3) the organizational pattern, operational procedures, and technical staff required for the housing and home development fund, were not determined before the agreement was signed. This type of home financing is new in Korea, and it was necessary to develop and train a suitable organization before loan applications could be processed. The same conditions existed to a large extent in the aided self-help housing program.

Local currency counterpart funds and 4.1 billion hwan from Korean funds were for use in establishing the housing and home development fund loan program. The Korean Government has not contributed all that it has pledged, and the mission has estimated that Korea has only contributed 400 million hwan to the housing and home development fund. The balance was used to finance its own housing program, differing from that which ICA is financing. This had little or no effect during the first year of the program but at present it is limiting the number of homes that can be financed under the housing and home development fund loan program. The mission has requested better participation from the Korean Government, but without success.

#### *Present status*

Revised mission plans call for 6,000 housing and home development fund homes and at least 1,200 aided self-help housing homes to be completed by December 31, 1959. This means that about 520 housing and home development fund and 400 aided self-help housing homes will have to be built each month for the remainder of the year. Judging from past construction progress, it appears improbable that the goal will be attained or that the 150,000 homes to be built under the overall 6-year program will be constructed. The mission believes that it will reach this goal, but that more time will be needed.

Judged by progress to date, it would have been better to have had a project covering all the preparatory work under objectives 2 through 5, including proper training, before concluding an agreement for construction. The mission agrees that this would have been more desirable, but because of critical housing needs a construction program had to be started, and even though construction has lagged, accomplishments are being made.

While in Seoul we visited some of the homes being built under both subprojects. In our opinion, the housing and home development fund homes are very attractive and quite modern, judged by Korean standards, and appear to be well constructed. Unfortunately, comparatively few homes have been completed. On the other hand, we were not favorably impressed with the aided self-help housing homes. At the time of our visit, construction had been stopped for several months, and the project was dormant because of a disagreement over who would pay the transportation cost for construction materials from the storage area to the construction site. There is more difficulty involved in moving materials the last few kilometers than in transporting them overseas to Korea. We saw one aided self-help housing site where some

homes have been completed but many more were either half built or not started. The predominant portion of materials for this site were provided by voluntary relief agencies or locally purchased. The mission had made available a few hundred dollars worth of lumber. At both housing sites there was a lack of sanitary facilities. The technician in charge informed us that these will be provided under other mission projects.

After inspecting the homesites, reviewing the planned construction program, and comparing them against the general housing conditions in Seoul, we were left with the thought that the program has been stressed in the wrong area. We questioned why greater emphasis had not been placed on the aided self-help housing program for the underprivileged and less on the housing and home development fund program for the middle class. The mission believes that housing is inadequate for the middle class and must be provided. Further, the housing and home development fund program is expected to stimulate the Korean economy and is therefore aimed properly. This reasoning is probably correct, but it ignores the like stimulus, economic and psychological, that would be provided through housing for the lower income group.

The building program under both subprojects has fallen short of intended goals. The status of these programs as of March 24, 1959, was as follows:

Homes to be built under project for—	Program		Date to be completed
	HHDF	ASHH	
1957-----	<sup>1</sup> 2, 000	<sup>2</sup> 2, 700	June 30, 1958.
1958-----	3, 900	8, 500	Dec. 31, 1959.
Total-----	5, 900	11, 200	Not determined.
1959 (programed)-----	2, 905	4, 054	
Total-----	8, 805	15, 254	
Construction approved-----	4, 256	4, 264	
Construction completed-----	936	-----	
Under construction-----	903	664	

<sup>1</sup> The original number of homes to be built under the housing and home development fund program (HHDF) for 1957 was 4,000. A recent project amendment has reduced this number to 2,000, and materials to build an additional 1,200 aided self-help housing homes (ASHH) were transferred to that program.

<sup>2</sup> At the time the project agreement was signed, the number to be built was not determined.

*Current plans and estimates*

In the project agreements signed for fiscal years 1957-58, the mission included funds to purchase more materials than were needed to build the number of homes specified under the program.

Fiscal year	Houses programmed (HHDF only) <sup>1</sup>	Unit cost of materials <sup>2</sup>	Commodity obligations	Actual cost of materials	Excess funds
1957-----	4,000	<sup>3</sup> \$500	<i>Thousands</i> \$1,998	<i>Thousands</i> \$1,876	<i>Thousands</i> \$122
1958-----	3,900	485	1,950	1,892	58
Total--	-----	-----	3,948	3,768	180

<sup>1</sup> When the fiscal year 1957-58 agreements were signed housing materials were to be imported only for the housing and home development fund (HHDF) program.

<sup>2</sup> Represents the imported materials cost for each house.

<sup>3</sup> Estimated.

The excess funds were for additional materials in case of a boom in the construction program. However, the boom has not materialized, and the funds remain unused. The mission stated that it planned to desubobligate the \$122,000 excess for 1957. Even with this reduction the mission will have a substantial quantity of excess materials on hand. The recent amendment to the project agreement has reduced the 1957 program by 800 homes.

A review of the specifications supporting the fiscal year 1959 project showed an excess reserve of \$129,100. The mission stated that these funds were being used to try and persuade the Korean Government to advance larger sums of local currency funds. The mission's theory is that if it could demonstrate its willingness to provide more dollars than were needed to build a specific number of homes, the Korean Government would make available more hwan than it had in the past. We questioned the reasoning behind and the legality of such a practice under section 517. The mission informed us that it will make a legal determination as to the validity of this reserve.

When the 1957 project agreement was signed, adequate housing plans or specifications had not been prepared. The estimated cost of imported building materials was based on previous studies done by the United Nations Korean Reconstruction Agency. During fiscal year 1958 designs and specifications for various types of homes were drawn up and a cost figure for imported materials was obtained. The same figure is being used to support the fiscal year 1959 project cost. Except for built-in reserve funds, it appears as though support has been developed to comply with the provisions of section 517.

## EVALUATION

Among the seven projects in Korea studied by the auditors, this is unique in that it was possible actually to visit the site and observe work being carried on. All the other projects examined existed only on paper.

This project is noteworthy also in that funds were obligated for it in excess of the amount required to finance the construction planned. This was done allegedly so that additional materials could be bought if the Korean Government decided to expand the housing program.

The ICA legislation authorizes accounting and contracting procedures which are different from those for Government operations in the United States. It is questionable, however, whether the obligation of funds in such a way for such a purpose can be regarded as a justifiable departure from accepted fiscal practice

## VIET-NAM

## Industrial Development Center—Project No. 30-23-170

*Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1957	\$6, 540		
1958		\$1, 930	\$1, 500
1959		4, 503	
Feb. 28, 1959	6, 540	6, 433	1, 500

*Purpose and nature*

The purpose of this project is to increase the manufacturing potential and natural resources of Viet-Nam and thereby reduce that country's dependence on imported goods. This aim is to be achieved through the creation of an Industrial Development Center that will promote the establishment of new private enterprises and the expansion of existing enterprises for additional industrial production. The principal functions of the center are to (1) provide technical and managerial assistance to Vietnamese industry in the selection, planning, engineering, and management of new and existing enterprises, and (2) facilitate, and in some circumstances, make loans to finance new or expanding enterprises. The center is to be specifically responsible for developing guarantee plans, commercial bank participation programs, joint financing arrangements, a "capital market" and any other device which promises to augment the availability of private capital for investment in industrial undertakings. The center could also make its services available, with the exception of loans, to government agencies, educational institutions and technical, professional, and business societies.

This project was approved by ICA on June 20, 1957, and the funds were obligated by a project agreement signed on June 29, 1957. The agreement provided that ICA would contribute \$6,540,000, of which \$6 million was for loans for unspecified supplies and equipment required as capital investment for existing and new industries, and \$540,000 was for unspecified contract

services to be determined as the center was organized and its program developed and for technical aids and training materials.

In addition to the dollar contribution, the agreement provided for the use of piaster funds from counterpart (local currency acquired from the sale of ICA-financed imports and from cash grants) in the dollar equivalent of \$3,460,000 (121,100,000 piasters at the rate of 35 to 1). The equivalent of \$2,850,000 was to be used for local currency loans and the equivalent of \$610,000 was to be used for operating expenses of the center.

The Government of Viet-Nam was to provide suitable office space, office equipment, supplies, public utilities, and the services of typists and clerks. The estimated cost of its contribution was 3,500,000 piasters, or the equivalent of \$100,000. In future years, it was planned to have the center's piaster budget assumed by the Viet-Nam Government.

ICA estimated that the financing of this project in future years would be \$2 million by ICA and 35 million piasters, equal to \$1 million, by Viet-Nam. The estimated completion date was June 30, 1959, later revised to June 30, 1961.

ICA proposes to participate in the evaluation and approval of loan applications with the assistance of the firm of Day & Zimmerman, Inc., engineers of Philadelphia, Pa. Generally speaking, ICA will provide dollar exchange and piasters to approved loan applicants through loans to the Industrial Development Center, which will in turn make time deposits and guarantees with the Vietnamese banks. In addition, ICA will finance the dollar costs of Day & Zimmerman, Inc., for its contract as consultants to the Industrial Development Center.

### *Progress*

The financial status of the dollar funds for this project, according to the mission, on February 28, 1959, was \$6,540,000 obligated, \$6,433,000 subobligated, \$1,500,000 disbursed and \$107,000 unsubobligated. These amounts can be extremely misleading in view of the facts. The mission advised us that no balance sheet or operating statement for the Industrial Development Center was available on February 28, 1959, nor at any other date. We were given a copy of a schedule submitted by the Director of the Industrial Development Center that showed the amounts of funds allotted and disbursed for loans during the period from February 20, 1958, through December 31, 1958. A summary of this schedule shows:

Amount of loans		Drafts (withdrawals) made as of Feb. 20
Government VN funds	ICA allotted funds	
VN\$39, 500, 000 ----- -----	----- VN\$4, 000, 000 US\$ 507, 435	VN\$18, 500, 000 VN\$2, 829, 040 -----

NOTE: VN\$=Vietnamese piasters.  
US\$=U.S. dollars.

The significance of this schedule is that during a period of 8 months of operation the Industrial Development Center had not disbursed a single dollar and had allotted only about one-third of the available \$1,500,000 transferred to the Industrial Development Center in June 1958. We were unable to determine a sound basis for the subobligation of the additional \$1,500,000 during January 1959, but we were informed by the mission on March 10, 1959, that the only dollar advance to the Industrial Development Center had been made in June 1958 and amounted to \$1,500,000.

Delays in implementation have been caused by certain basic conditions. There apparently was no mutual understanding between Viet-Nam and ICA as to where and how the Industrial Development Center was to operate. The Viet-Nam Government is strongly inclined toward Government participation in and control of industry while ICA has consistently insisted on promoting private control of business. This issue was still unresolved as late as February 1959. Reportedly there is a serious lack of industrial experience, a banking tradition of short-term commercial loans secured by liquid assets as collateral, high money rates, and a strong tendency toward investment in real estate and hoarding. Viet-Nam was traditionally a source of raw materials and a market for France. The procedures for the loan fund operations were not formulated by the mission until January 1958. ICA approved these procedures on April 18, 1958, and Viet-Nam signed the implementing agreement on June 17, 1958. Delays in approval are ascribed to differences of opinion within ICA/Washington and between Washington and the mission.

#### *Present status*

Accomplishments as of February 28, 1959, were mainly intangible. Forms for operating, accounting and credit procedures had been prepared, and a public relations program, with related advertising and publicity material, had been organized but none of this material had been used. We climbed stairs to the offices supplied by Viet-Nam for the staff of Day & Zimmerman, Inc., on the second floor rear of a building. The offices were inadequate and unimpressive but the mission assured us that the Viet-Nam Government was considering more suitable quarters.

Although Day & Zimmerman had men in Viet-Nam in the fall of 1957 and completed a survey of industrial resources by March 1958, no contract for the advisory services considered to be required had been made on February 28, 1959. The mission requested that Day & Zimmerman be retained as early as March 1958, and the required waiver of ICA regulations was granted by Washington on July 2, 1958. Day & Zimmerman have been operating under a letter of intent since November 14, 1958, and the first two members of the staff assigned to Viet-Nam arrived there on November 30, 1958. Additional personnel were expected to arrive during the spring of 1959.

During March 1959 ICA was reconsidering its position of financing only private industry in view of Viet-Nam's repeated requests that Industrial Development Center funds be used for Government or Government-controlled enterprises.

This project, lacking in definite plans, is a type of development loan fund. Presumably this kind of undertaking will be financed by the Development Loan Fund in the future and will not be subject to the provisions of section 517 of the Mutual Security Act. The record to date indicates that if plans, specifications, and agreement had preceded the obligation of funds, the obligation would not yet have been made or the development of plans, specifications, and agreement would have moved forward more rapidly.

#### EVALUATION

This appears to be a case in which funds were obligated on the basis of an agreement between the United States and Viet-Nam that a project of this nature would be a good idea although plans for the project or an organization for carrying it out had not yet been developed.

It is difficult to see why it should be necessary for the International Cooperation Administration to have on hand and ready for use so large a sum for so long a period. Funds for operation of a financing operation of this kind presumably could be provided from time to time as necessary in order to replenish the capital of the Industrial Development Center.

### Medical and Allied Education—Project No. 30-54-150

#### *Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1957-----	\$2, 535	0	0
1958-----	4	\$884	\$3
1959-----	0	20	23
Feb. 28, 1959-----	2, 539	904	26

#### *Purpose and nature*

An important detail in the background of this project is that the President of Viet-Nam was reported to be particularly interested in the establishment of an integrated medical center constructed in accordance with U.S. standards and staffed by medical instructors from the United States. Pursuant to the President's interest, two doctors from the United States made a survey during 1956 and issued a report on "Medical Education in Viet-Nam." The report concluded that a new modern medical education center, including a basic science building and a teaching hospital, are urgently needed. Subsequently, on June 28, 1957, this project agreement was signed to develop adequate institutions and facilities for the education and training of professional medical, nursing, and allied health services personnel. These goals were to be accomplished by the establishment in Saigon of a medical center consisting of a basic medical science teaching facility and subsequently a 500-bed teaching hospital, and by a program for developing in increased numbers a qualified teaching staff. The three main areas of activity in this project are the

medical center, staff development, and nursing education, but we will confine our review to the medical center portion because that will require the major capital investment.

### *Progress*

Subobligations for commodities represented orders for medical supplies and equipment, teaching aids, office equipment, and other items valued at about \$60,000. No contract for services has been entered into; \$844,000 shown as subobligated represents the estimated cost of a prospective contract for design, engineering, and construction supervision.

ICA originally proposed to provide U.S. dollars to the extent of \$1,530,000, for a basic science building and later an additional estimated amount of \$6,500,000<sup>1</sup> for a university hospital and utilities, the funds would be used to purchase building materials and supplies as well as equipment for the medical center. The mission had programed only an additional \$150,000 for technicians and participants in fiscal year 1959 on February 28, 1959, and we must conclude that the nature of ICA's participation in this project remains somewhat uncertain.

This project has not been delayed, since delay implies that it is on its way, because a beginning of implementation has started only recently. At the time of the signing of the project agreement, there were no plans, no specifications, and no site; although we were told that cost estimates had been prepared, the related workpapers were not in the files. The first step toward implementation was accomplished in August 1958, when a team of three specialists arrived in Saigon. In October 1958 the team issued its report to serve the purpose of stating the—

\* \* \* requirements for the planning of a medical center in sufficient detail for a firm of architects and engineers in the United States to have a clear picture of what may be required \* \* \*

In March 1959 ICA/Washington decided that the report was adequate for the stated purpose, and is currently screening prospective architect-engineer contractors.

ICA encountered difficulty in obtaining the services of what it considered qualified people to prepare the report received in October 1958. Prior to February 1958 attempts were made to obtain the required services through recruitment, and only after that date was it decided to use temporary employees or consultants. Following that decision, further difficulty was encountered in obtaining a qualified medical educator for the team.

### *Current observations*

Presently (April 1959), ICA/Washington is screening a list of about 180 architect-engineer firms as a preliminary step to selecting one of the firms for negotiations leading to a contract for the design, engineering, and possible supervision of construction of the physical facilities which will make up the proposed medical center. The ICA mission in Saigon and the Government of Viet-Nam have agreed on what appeared to us to be a suitable site in the city of Cholon, which adjoins Saigon, the capital of Viet-Nam. We visited the site and observed that core-drilling operations will be

<sup>1</sup> Figure revised in accordance with agency comments.

required before engineering and design work can begin, because of the reported alluvial nature of the terrain. We found no provision for such exploratory work.

#### *Plans and cost estimates*

We find the history of this project embarrassing to the prestige of the United States. At least 3 years ago the Government of Viet-Nam expressed its active interest in a project of this nature, and to date ICA has not even implemented the planning. The embarrassment we feel might have been avoided if the provisions of section 517 of the Mutual Security Act had been law prior to June 30, 1957.

#### EVALUATION

Fiscal year 1957 funds (\$2,535,000) have been obligated and continued available for this project, although as of April 1959, the International Cooperation Administration had just reached the point where it was going through the procedure of contracting for design and engineering services relating to the planning of the project.

The record in this project raises a question as to whether the entering into an agreement in 1957, so long before it was possible really to get the project underway, has had a favorable effect on relations between Viet-Nam and the United States. There is a possibility that the delays and the lack of tangible evidence of progress may have created among the officials of Viet-Nam who were particularly interested in the project the impression that the United States was either indifferent or incompetent.

### Highways and Bridges—Project No. 30-31-021

#### *Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1955-----	\$370	\$370	-----
1956-----	4,910	4,910	-----
1957-----	12,677	3,485	\$1,309
1958-----	14,836	18,760	8,242
1959-----	8,801	4,195	11,891
Feb. 28, 1959-----	41,594	31,720	21,442

All obligations are from the appropriation for defense support and have been made available for materials and equipment (\$26.8 million), and contract services (\$14.8 million). Included in contract-service cost are funds for the procurement of certain equipment by the contractors.

For fiscal year 1959 ICA programed a total of \$15.3 million for this project. The \$6.5 million still to be obligated is awaiting the completion of bridge designs and specifications. The mission is hopeful that the designs and specifications will be completed by June 30, 1959.

In addition to dollar financing, ICA has agreed to release from the counterpart account the equivalent of \$30.3 million (1.1

billion piasters) for internal costs. Through February 28, 1959, the mission had released \$78.7 million piasters of which \$22 million was reported as expended. The Vietnam Government has also agreed to contribute the equivalent of \$3.9 million (137.4 million piasters).

#### *Purpose of project*

This project provides for the construction of new highways and repair and rehabilitation of roads and bridges destroyed or damaged during World War II and the Indochina conflict. Work is being done by the Capitol Engineering Corp. of Pennsylvania and Johnson, Drake & Piper of Viet-Nam, Inc., a Panamanian corporation.

#### *Summary of progress*

Due to the lack of detailed plans and specifications and a major change in plans, the project has not progressed as well as would be expected. At the time of our visit to Viet-Nam the project was under full implementation. We traveled over about 100 miles of a road being constructed by Viet-Nam and about 30 miles on one under construction by Johnson, Drake & Piper. A great deal remained to be done on the Viet-Nam road in the way of grading, drainage, and surfacing. It was the longest and roughest detour we ever rode on. Johnson, Drake & Piper is constructing a modern road about 30 feet wide of crushed stone topped with fine sand or dirt. This road, when completed, will run for about 100 miles. We noted that on a hot, dry day every time a vehicle passed over the road, some of the surface blew away. We questioned why a hard-top surface was not being laid and we were told that was not considered necessary in the jungle. However, before leaving the mission in Saigon we were informed that provisions were being made for a black-top surface to preserve the road.

The mission feels that this project is very important from both a military and economic standpoint. It points to the fact that on those roads under construction freight hauling and passenger transportation rates have decreased substantially (about 50 percent) with further reductions anticipated and the time saved in moving military supplies has increased considerably.

#### *Project staff*

The funding for this one project is about four times as large as that for any of the other fields of project assistance in Viet-Nam. Mission responsibility for the control of this project is assigned to the Chief of the Transportation, Power, and Communication Division. At the time of our visit in March 1959, he was supported by two highway technicians working on this project and was expecting the arrival of a third. Even though Capitol Engineering is responsible for design and construction supervision, more mission technicians should be assigned to this project and a separate division might be considered for proper control.

*Previous project reviews*

A report by the General Accounting Office on the Vietnamese aid program discusses the background and activities under this project.<sup>2</sup> GAO reported that project plans had gradually expanded and ICA contemplated spending some \$45 million through the then estimated completion of the project in 1960. The report stated, "The funding of the project has been on a piecemeal basis because of frequent changes in operating and financial plans."

The Committee on Government Operations, House of Representatives, issued a report entitled "Foreign Aid Construction Projects,"<sup>3</sup> based on a study made by its International Operations Subcommittee. Many interesting facts concerning the planning and implementation of this project are discussed in this report. The report noted that the project had bogged down over issues that might have been avoided with more careful planning. The committee particularly pointed to this project as an example of a construction project which was processed before an engineering firm had been selected and plans for construction completed.

*Project cost increased with change in plan*

As pointed out by the Committee on Government Operations, the highway-building project in Viet-Nam is perhaps better described as a program than a project. The estimated dollar cost of the project has increased from year to year as construction plans changed. The fiscal year 1956 project proposal and approval document estimated ICA's total dollar cost at \$14.7 million. The construction program specifically related to the rehabilitation of two sections of the main coastal highway (RT-1) and to other unidentified roads. In the fiscal year 1957 project proposal and approval, estimated cost rose to \$45.3 million for the same scope of construction on about 1,000 kilometers of road. However, during fiscal year 1957 the mission was prevailed upon by the Viet-Nam Government to change the planning for the highway program. In preparing the 1958 project proposal and approval the concept was changed and emphasis was placed on the construction of two highways from the coast inland to the relatively unsettled plateau region that borders Cambodia. A small portion of work was still to be done on the coastal route. The signing of the formal construction contract was delayed until the final changes were resolved. When the fiscal year 1958 project proposal and approval was approved, dollar cost estimates had increased to \$59.7 million. The mission stated that a special feature of the project was that each unit or section of construction is undertaken on a priority basis only after financing is assured for its completion. This implies that the planning started after funds were made available and the amount needed for contract services, the purchase of materials, and construction equipment was then determined.

<sup>2</sup> Report (B-133001) on the economic and technical assistance program for Viet-Nam dated May 22, 1958, pp. 72-75.

<sup>3</sup> H. Rept. No. 2012 dated June 26, 1958, pp. 31-34.

SURVEY OF SELECTED PROJECTS IN VIET-NAM AND KOREA

ICA's program presentation for fiscal year 1959 stated that no reliable cost estimates were then available beyond fiscal year 1959. The mission's most recent statement, December 1958, shows actual cost through fiscal year 1958 and estimates for the future as follows:

[In thousands]

Period	Dollar cost	Local currency (dollar equivalents)	
		Counterpart funds	Country funds
June 30, 1958, actual	\$33,087	\$23,161	\$1,000
Fiscal year 1959 estimated	15,318	11,500	1,000
Fiscal year 1960 estimated	16,510	10,596	1,000
Fiscal year 1961 estimated	-----	7,015	-----
Subsequent years	24,000	-----	-----
<b>Total</b>	<b>88,915</b>	<b>52,272</b>	<b>3,000</b>

The cost of this project to the United States will undoubtedly be higher than the \$88.9 million estimated above since it is necessary to finance commercial imports to generate the local currency to the counterpart account.

The substantial increases in estimated cost may be attributable in part to the lack of a clearly defined scope of operation. The mission has stated that major improvements are required on the entire road network of Viet-Nam and that future work plans depend entirely on the financing which can be made available for the program. Schedules for new construction beyond 1959 were still uncertain at the time of our visit to the mission in March 1959.

*Purchase of surplus equipment*

Depending upon the amount of project funds made available during the fiscal year, the mission provides a certain amount for the purchase of construction equipment. From these funds it has been purchasing a large quantity of surplus equipment. In anticipation of the usual delays encountered in the processing of implementation orders through ICA channels, a portion of the amounts authorized under such orders (about \$2 million on February 28, 1959), is withheld from contracting for procurement of equipment. Then when surplus equipment is located, inspected, and found to be satisfactory, the mission simply issues a purchase contract against an existing implementation order and acquires the units desired. The usual procedure of issuing and getting approval of a separate implementation order for surplus equipment is thereby eliminated. We were told that if the required implementing procedures are followed, surplus equipment, which becomes available at about 10 percent of its original cost, is sold before the mission can acquire it.

Considerable quantities of surplus equipment have been acquired by this procedure. Because of the variety and age of the

equipment a large inventory of spare parts must be maintained, currently valued at about \$1.5 million.

### Section 517

Obligations incurred through fiscal year 1958 were based upon the amount of funds available to meet highway needs. Plans and specifications were prepared after the obligations were incurred. Lacking in supporting details, these obligations would not have met the provisions of section 517. However, for fiscal year 1959, detailed plans and specifications are being prepared before funds are obligated.

### EVALUATION

It is noteworthy that this project has progressed to the point that roads actually are being built. ICA procedures have been modified. Funds are no longer obligated prior to the drawing up of plans; rather, plans are drawn up prior to the obligation of funds.

### Railway System—Project 30-33-095

#### *Financial activity by fiscal years*

[In thousands]

Year	Obligated	Subobligated	Expended
1957.....	\$4,392		
1958.....		\$4,392	
1959.....		—375	\$3,049
Feb. 28, 1959.....	4,392	4,017	3,049

#### *Purpose and nature*

The railway project originated in May 1955 when the mission and the Viet-Nam Government concluded an agreement for the advance of local currency from the counterpart account for priority rehabilitation work. The project was augmented in June 1956 when a supplementary "grant-in-aid" agreement was signed under which ICA transferred surplus locomotives and freight cars to the railroad.

In June 1957, ICA entered into a project agreement to provide dollar assistance for the rehabilitation of the Viet-Nam railway system from Tuy-Hoa to the 17th parallel. The agreement was amended in October 1958, to augment the rehabilitation program by including an extension from Saigon to Tourane. The project calls for reconstruction of bridges and culverts and the relaying of rails and ties where needed so that a continuous rail line will run from Saigon to the northern border. Obligations were for commodity imports (\$4,363,486) and the services of four railway consultants (\$28,500). For fiscal year 1959 ICA has programed an additional \$45,000 for this project. These funds were not obligated as of February 28, 1959.

In addition to dollar financing ICA made available the equivalent of \$14,286 (500,000 piasters) in counterpart funds. The

## SURVEY OF SELECTED PROJECTS IN VIET-NAM AND KOREA

Government of Viet-Nam agreed to contribute 15 million piasters for commodities and labor during the first year of the project and a total of approximately 80 million piasters for the 3 years the project was to be underway.

### *Progress*

Plans and specifications supporting the dollar obligation were prepared by the Viet-Nam railway in May 1956, a year before the project agreement was signed, but only a few items were checked by the mission. Judging from subsequent development, we question the adequacy of the planning. A set of specifications for steel rails were prepared by the American Railway Engineering Association and forwarded to the Viet-Nam Central Purchasing Authority in May 1957. This was done to facilitate the purchase of equipment once the project agreement was signed.

When the agreement became effective, implementation bogged down and it took over a year to get purchase contracts signed. In September 1957, detailed equipment specifications and invitations to bid were prepared in French by the Viet-Nam railway system. The mission prepared a rough translation and requested Day & Zimmermann, Inc., of Philadelphia, to determine the suitability of the specifications and invitations for purposes of international bidding. In October 1957, Day & Zimmermann reported that the specifications had been prepared 10 years prior, or in 1947, when the last previous order for rails, fastenings, and steel ties was placed by the Viet-Nam railroad. In December 1957, the mission had a better translation prepared and found that the specifications did not conform with ICA's small business regulations. It was necessary for the mission to prepare more exact specifications so that U.S. manufacturers would be able to participate in the bidding. Agreement on the specifications was finally reached with the Viet-Nam railway system, and the mission issued a subobligating implementation order on January 14, 1958, for the full amount of commodities to be financed (\$4,363,000). The Viet-Nam Central Purchasing Authority began immediately to solicit bids, but in March 1958 the mission requested that the opening of the bids be delayed until May 16, 1958, to allow American manufacturers ample opportunity to submit bids. On May 12, 1958, the mission notified ICA/Washington that the low bid for steel was from a European supplier and the lowest U.S. bid was considerably higher.

*Purchase of additional materials.*—The original implementation order for materials was amended on October 6, 1958, and reduced to \$3,366,600. The mission stated that the reduction was made because all the materials needed to rehabilitate the rail line specified under the original agreement had been purchased for less than the amount estimated. However, because the mission did not check the cost estimates, the vast difference between estimated and actual cost, and the necessity to revise the specifications, we question the adequacy of the original plans.

The project agreement was amended to use the remaining funds (\$966,400) to finance additional rehabilitation work on the line between Saigon and Tourane. A subobligating implementation order to purchase an additional \$622,000 of materials was issued

on February 26, 1959. The mission expects to subobligate the balance of \$344,400 before June 30, 1959.

*Loan agreement not promptly signed.*—The project agreement of June 15, 1957, specified that the commodities would be financed under terms of repayment in local currency to the counterpart or a special account. The agreement stated that—

ICA will finance the procurement of commodities only after a loan agreement between the cooperating country and the Regie (railway system) has been submitted to and approved by USOM.

A loan agreement was not concluded and approved by the mission until some 18 months after the project agreement was signed, by which time the implementation order had been issued, purchase contracts let, and the commodities had begun to arrive.

*Present status*

As of February 28, 1959, very little rehabilitation work had been done under this project, although the Government of Viet-Nam is reported to have carried on a certain amount of such work financed with counterpart funds. The original estimated completion date for the project was July 1, 1959. In April 1958, the date was extended to July 1, 1960, and in January 1959, it was again extended to some time in 1962. The mission believes that sufficient capital equipment has now arrived to permit the main program of rehabilitation to begin, and that the project will be completed by November or December 1960. At the time of our visit, in March 1959, the mission had no plans for additional financing of this project.

**EVALUATION**

In this case plans and specifications were on hand in 1956 before funds were obligated for the project. These plans and specifications were subsequently found to be inadequate.

This experience indicates a limitation on the effectiveness of legislation for dealing with the problem of premature obligation of funds. The mere requirement that comprehensive plans and cost estimates be prepared prior to the obligation of funds serves no useful purpose unless the plans and estimates are competently and conscientiously prepared.

**Telecommunication Projects**

There are four projects involved in the telecommunications program. One was designated specifically for Viet-Nam. That project, for the rehabilitation of the Cholon exchange in Saigon, cost about \$206,000 and has been completed and turned over to the Viet-Nam Government. The other three projects concern a regional program for Viet-Nam, Laos, and Thailand, as follows:

<i>Project</i>	<i>Obligated Feb. 28, 1959</i>
Telecommunication development-----	\$1, 295, 124
Regional telecommunication-engineering-----	1, 458, 600
Regional telecommunication-system-----	24, 400, 000
<b>Total</b> -----	<b>27, 153, 724</b>

Each of the projects will be discussed separately.

## Telecommunication development—Project 30-22-087

*Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1955.....	\$400	\$100	-----
1956.....	375	-----	-----
1957.....	520	-----	-----
1958.....	-----	8	\$3
1959.....	-----	-----	-----
Feb. 28, 1959.....	1, 295	108	3

*Purpose of project*

The purpose of this project is to provide Viet-Nam with a microwave telecommunication system to connect the important areas of the country for economic and military purposes. Obligations were made available for \$1,165,124 of equipment and \$130,000 for contract services. The \$100,000 subobligated in 1955 was for contract services, but no contract has been negotiated.

In addition to the dollar financing, the mission has authorized the release of 7,024,108 piasters, equivalent to about \$200,000, from the counterpart account. The Viet-Nam Government has also agreed to contribute 1,810,000 piasters.

*Progress*

Funds were obligated for this project on April 28, 1955, on the basis of a telecommunication survey made in 1951. After approving the project, ICA/Washington felt that, in view of the elapsed time and certain advanced technical developments, a different system might be preferable and suggested an overall regional survey. The mission concurred in this proposal and made preparations to participate on a regional basis. This project then became inactive and mission efforts were concentrated on the regional telecommunication engineering project. However, the mission continued to obligate funds for this project in fiscal years 1956 and 1957 without detailed plans as to when the money would be used. The mission informed us that this was done on the basis that implementation might take place at any time. This view overlooks the fact that the regional engineering project had hardly started and was encountering many difficulties. Lacking plans and obligating during June of both those years indicates the stockpiling of funds.

*Present status*

The funds for this project are now to be used in carrying out Viet-Nam's portion of the regional telecommunication system project (51-22-029). As a part of that project, it is still awaiting plans for implementation (see p. 32).

## Regional Telecommunication-Engineering—Project 51-22-002

*Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1957—Thailand-----	\$1, 852	\$1, 852	\$40
Laos-----	29		
1958—Thailand-----	-422	-422	662
Laos-----			
1959—Thailand-----			407
Laos-----			
Dec. 31, 1958 <sup>1</sup> ---	1, 459	1, 430	<sup>2</sup> 1, 109

<sup>1</sup> Financial information on projects is reported quarterly and, as we did not visit these missions, this is the latest information available.

<sup>2</sup> Includes report of expenditures in transit from Washington to mission not yet entered on books.

*Purpose of project*

Project agreements to provide telecommunication engineering services were signed with Laos on June 28, 1956; Viet-Nam on July 20, 1956; and Thailand on August 8, 1956. Under these agreements, detailed engineering designs and specifications were to be prepared for a modern telecommunications system that would join the three countries and serve both civil and military purposes.

Obligations for Thailand were from reprogrammed 1956 Asian economic development funds and for Laos from the 1957 defense support appropriation. In addition to dollar obligations, the three missions made available counterpart funds equivalent to \$689,176 and the host governments pledged the equivalent of \$58,000.

*Progress*

Delays of what may be more than 2 years were due to the reported inadequate work performed by the selected contractor. The cause of the inadequate performance is indicated as the lack of a clear understanding of what was to be accomplished. The first batch of proposals from prospective contractors ranged between a low of \$70,000 and a high of \$5 million. Three of the bidders were invited to Washington and given new invitations for bid proposals. Again there were substantial variances percentage-wise, the low bidder showing an estimated overall cost of \$1,370,165 and the high bidder \$2,065,007.

In the performance of the contract, the selected bidder was 5 months late in submitting his economic feasibility report and the plan report was not completed until March 1958, more than a year after the contract was signed. The fundamental plan proposed by the contractor was reported to be inadequate and not based on sound judgment. Subsequently, Tudor Engineering

Co. prepared a program that was accepted by ICA and the three host governments and which was the basis for the regional telecommunications system project.

*Present status*

ICA classifies this as a completed project and is presently negotiating a cancellation settlement with the contractor. The contract cancellation became effective on June 29, 1958, and resulted from an appraisal of the work that had been performed. No payments have been made to the contractor since November 1958. Additional charges are in dispute, and ICA may reduce the obligation shown above by about \$300,000. The project has not been completed because the contractor did not finish his assignment and the work that remains will be financed under the project for the regional telecommunications system project discussed below.

**Regional Telecommunication-System—Project 51-22-029**

*Financial activity by fiscal year*

[In thousands]

Year	Obligated	Subobligated	Expended
1958—Viet-Nam-----	\$6, 800	-----	-----
Thailand-----	17, 000	-----	-----
Laos-----	2, 600	-----	-----
1959—Viet-Nam-----	-2, 000	-----	-----
Thailand-----	-----	\$17, 000	-----
Laos-----	-----	-----	-----
Total-----	24, 400	17, 000	-----

*Purpose of project*

This project is a continuation and expansion of the regional engineering project (51-22-002) that was canceled. A modern and effective telecommunication system in and between the countries of Viet-Nam, Thailand, and Laos is provided for, based on the Tudor report.

Project agreements were signed with the three countries in June 1958, and obligated \$26.4 million. ICA made available \$21.9 million by reprogramming from the 1956 President's Asian Economic Development Fund. The remaining balance of \$4.5 million was transferred from military assistance funds of the Department of Defense to ICA. The project agreement with Viet-Nam was amended on January 24, 1959, and the funds de-obligated were transferred to the commercial import program to generate the local currency needed to carry out the program in Viet-Nam.

The Tudor report supporting these obligations gave only a general proposal for implementation, with an estimated cost for each country. Detailed specifications and designs must still be

prepared by the contractor to be selected to carry out the project. Considering the difficulties encountered in the regional engineering project, the agency should have had the details worked out before obligating these funds.

#### *Present status*

Nine months have passed since the project agreements were signed and active implementation has not started. The project was delayed in the beginning because of a difference of opinion between the mission and Washington over the administrative methods to be used in carrying out the project. The mission wanted more control over project direction to eliminate some of the difficulties encountered in project 51-22-002 (Regional Telecommunication Engineering). These differences have now been settled and each mission director has been given control over operations in his country. The director from Thailand has been given overall responsibility for coordinating the project.

T.V. Associates of Indiana have tentatively been selected to implement the project. They were given a letter of intent in December 1958, and have done some preliminary work. As of March 31, 1959, a formal contract has not been signed. The company has refused to send its main field force to the area until the contract is finalized.

#### *Section 517*

None of these projects would have met the basic requirements of section 517. However, the requirements of section 517 do not apply to the Asian Economic Development Fund or to military assistance funds.

#### EVALUATION

The obligation of funds in June 1956 and 1957 for this project for which planning had hardly begun should be noted, as well as the judgment of the auditors assigned to the committee that this action constituted "stockpiling of funds."

It appears to be significant that the obligation of funds for the regional telecommunications system involves the use of funds appropriated for the President's fund for Asian economic development. This fund was authorized in 1955 and \$100 million was appropriated. In 1956 this authorization was repealed, but unobligated balances of the fund have been reappropriated each year. The authorization included this provision:

"In utilizing the fund the President shall give preference to projects or programs that will clearly contribute to promoting greater economic strength in the area as a whole or among a group or groups of countries of the area."

This limitation apparently has made it difficult for the ICA to use the money made available under this authorization. The current estimate is that \$2,147,000 of the Asian Economic Development Fund will remain unobligated next June 30. Consequently, any project of a regional nature which could be financed from this appropriation is attractive to the ICA and the ICA has an incentive to obligate funds even though the lack of planning is recognized.

#### Civil Police Administration—Project No. 30-79-120

A study of this project was made by the auditors, but their report is not included because it involves the use of information which the Executive Branch requires to be classified.

#### IMPLEMENTATION OF SECTION 517

Section 517 of the Mutual Security Act—"Completion of Plans and Cost Estimates"—went into effect on June 30, 1958. On July 4, 1958, the International Cooperation Administration, Washington, and

instructions to its overseas missions concerning its implementation. These instructions included the text of the section, together with emphasis on the need for strict compliance and with discussion of the action to be taken in fitting the fiscal 1960 program to the new requirements. From the point of view of the Committee on Foreign Affairs the effectiveness of these instructions in inaugurating a new approach and a new procedure was somewhat diminished by the inclusion in the instructions of statements that—

note 517 represents legislative adoption of basic ICA principles of operation \* \* \* and

517 reemphasizes existing agency obligation rules and documentation procedures \* \* \*. Full compliance with these rules and procedures should assure compliance with 517 \* \* \*.

On August 29, 1958, the instructions of July 4, 1958, were amended. Compliance with section 517 was made the responsibility of the director of each ICA foreign mission. No procedure or documentation to be followed in establishing compliance with section 517 was set forth. The signature of an ICA mission director to standard obligating documents or to a request that Washington sign obligating documents was established as determining compliance. Mission directors were made responsible for developing necessary internal controls to insure compliance.

Although compliance with section 517 has been discussed in various conferences between ICA, Washington officials and chiefs of overseas missions, no further instructions have been sent to the field outlining procedures to be followed.

#### *Observation of section 517 compliance in Viet-Nam and Korea*

The following statement, concerning compliance with section 517, was submitted by the auditors:

In Viet-Nam no formal instructions have been given to the mission staff re compliance. The Director has informally delegated the responsibility for compliance vested in him to the program office and the sections directly related to projects contemplated. For example a prospective project is outlined and a pro forma project proposal and approval is prepared by that section of the mission which will supervise the project if it becomes a project agreement. The program office and in certain instances the mission's legal counsel reviews the document and either approves it or returns it to the author.

In Korea, reasonably formal guidelines have been printed with the procedure being much the same as in Viet-Nam. The Director in Korea depends on his staff for compliance and appears to rely on a certificate signed by a responsible official in the mission rather than on a specific review of the documentation which would show that section 517 has been complied with.

#### *Other projects reviewed in connection with section 517*

The major obligation in fiscal year 1959 for Korea is about \$4 million for the purchase of diesel locomotives. We queried the personnel responsible for the drafting of the project agreement and were impressed that the agreement fitted logically into an overall plan for the dieselization of the Korean railroads. How-

ever, the details of this plan, we were informed, are scattered among several locations some of which are not under ICA control. As to plans and specifications, those have been established in previous purchase orders for this continuing project.

We suggested that plans, specifications and cost data supporting the obligations should be readily accessible for review. The mission agreed with our suggestion and proposed to gather the related documents into a supporting file for the project agreement.

In Korea, in connection with projects for powerplants, which will require substantial contributions of local currency in addition to ICA financing, we questioned whether such contributions or investment would be available since the power companies receiving the ICA assistance appeared to be operating at a loss and were insolvent as indicated by the nonpayment of coal bills.

In our review of section 517 implementation for other projects in Korea we noted certain conditions which we felt were not proper.

*Project 271—Improvement of Government fiscal management and statistics.*—A total of \$302,000 of fiscal year 1959 funds had been obligated at the time of our visit. There was a certification that section 517 had been complied with. However, documentation of the certification could support only \$95,000 for contract services, which didn't need support in the first place. There was no support for \$227,000 of business machine equipment to be purchased. The technician who will make the final decision on the type of equipment to be purchased has not yet arrived in the mission.

The mission officials believe that they know what equipment is needed, but not the exact type.

*Project 451—Disease control.*—The fiscal year 1959 project agreement was signed on January 7, 1959, for \$275,000 for financing commodities. The certification in support of the agreement was dated December 28, 1958. However, the support for the certification was not received from the Korean Minister of Health and Social Affairs until January 16, 1959, and calls for commodities in the amount of \$303,800.

*Project 281—Fisheries development.*—Mission program office files indicated that certification under section 517 was approved in the amount of \$480,000 for fiscal year 1959 funds and a total cost of \$5,580,000 by fiscal year 1964. The original copy of the certification and the backup information were not in the control file given to us for review. The mission staff stated that an error had been made some place and the certification would be checked out. Only \$88,000 for technician costs had been obligated.

*Project 448—Housing construction materials.*—The certification on project agreement for fiscal year 1959 had not been signed by March 25, 1959. The mission has programed \$1,750,000 for this project, of which \$1,692,000 is for construction materials. Our review of the support for the certification disclosed that a built-in reserve totaling about \$129,000 had been made for extra materials. This was pointed out to the acting mission director, who said that a legal determination will be made to see if this procedure is in compliance with section 517.

In both Viet-Nam and Korea we were assured that section 517 was good legislation which would be wholeheartedly supported. This wholehearted support may however be evidenced by differing interpretations of the section. In Korea, in the industry section of the mission, plans and specifications are being prepared for existing industrial projects by Smith, Hinchman & Grylls Associates, Inc., a U.S. management consultant firm, and in Viet-Nam presumably similar services may be performed by another consulting firm, Day & Zimmerman of Philadelphia, Pa.

Experience in Korea shows that considerable time elapses between the initiation of a task order to provide a study and the resultant report. We believe this time factor may make it practically impossible for ICA to comply properly with section 517 as it relates to fiscal year 1959 funds. In Korea, the mission hoped that additional time might be granted for the obligation of fiscal year 1959 funds, say until September 30, 1959.

### VALUATION

The effectiveness of ICA compliance with section 517 could be judged more satisfactorily if uniform procedures setting forth the action to be taken and the documentation required in each mission had been established. Under existing conditions, the standards to be met before funds are obligated may be expected to vary from country to country depending upon the judgment of the personnel of the ICA mission.

On the basis of this investigation, the action by ICA since section 517 became effective might reasonably be interpreted as being more concerned with disturbing established ICA procedures as little as possible rather than with making a new approach in order to correct a situation with which the Congress had indicated its dissatisfaction.

### CONCLUSIONS

1. In the projects surveyed the International Cooperation Administration has, in a majority of instances, apparently tied up funds on the basis of an agreement with the foreign government that a particular undertaking was a good idea but on which the planning and certain other preliminary arrangements had not yet advanced to the point where prompt implementation was possible.

2. A basic issue is raised concerning the circumstances under which the Congress should be expected to authorize and appropriate funds. A strong argument can be made that U.S. funds should be allocated to individual countries only to finance activities which are regarded as essential to our foreign policy and for which the need is urgent. The setting aside of funds to finance the completion of projects not yet "ready to go" suggests that there are not enough important projects "ready to go" to utilize the money available.

A change in basic ICA procedure which would not permit the obligation of funds on the basis of an agreement with a foreign government for an undertaking which is still in the "idea" stage would increase the austerity of the program.

3. Although it may be conceded that the ability to make a firm obligation of a substantial sum in dollars to finance a project has an important bargaining and incentive value in dealing with a government having little money, few technicians and administrators, and which is preoccupied with its immediate problems, it should be recognized that if such a government agrees to a project, the value of which it does not fully appreciate and the implications of which it does not fully understand, progress in completing the undertaking will inevit-

ably be slow; misunderstandings and frustrations will presumably be inevitable. If the attention of a government is so focused on the opportunity to have several million U.S. dollars spent for the country's benefit that the problems and costs of its implementation are not given adequate attention, such a procedure may facilitate the signing of agreements but may not be the most economical or effective way to promote economic development.

4. The complexity of the problems encountered in financing economic development and the possibility of waste if pressure is applied to speed up the process are fully recognized. The objective is not to speed up the use of funds appropriated by the Congress; rather it is to avoid voting funds before arrangements for their use are sufficiently complete that a reasonable judgment can be formed as to how much money will be required and before the availability of funds for obligation is essential to the carrying forward of the operation.

## ICA COMMENTS ON INDIVIDUAL PROJECTS AND ON IMPLEMENTATION OF SECTION 517

A draft of this report was submitted to the International Cooperation Administration for comment. The ICA comments do not appear to invalidate the analysis or conclusions set forth in the original version of the report, but rather serve to illuminate and emphasize the basic issues involved. For that reason, the ICA comments are presented as submitted and, except for those instances noted by footnotes, the text of the report has not been revised.

### KOREA

It should be pointed out that the GAO Team selected for review less than 10 of the approximately 350 projects initiated under the ICA program in Korea. It should also be pointed out that the burden of the team's criticisms is not directed against the economic feasibility of the projects scrutinized, but against the delays encountered in the subobligation of funds required to get them underway. In view of the technological and institutional difficulties involved in the implementation of many of these projects, it is not surprising that the mission, in a relatively few instances, encountered delays in subobligating funds. As these facts suggest, the record of the mission in subobligating funds for approved projects is, on balance, a commendable one.

Moreover, it might be mentioned that those projects selected by the GAO team for review were commenced prior to the enactment of section 517 of the Mutual Security Act, except for portions financed with fiscal year 1959 funds. The Office of the Economic Coordinator/Korea's practice is to follow the rule that funds for projects will not be obligated or subobligated without prior determination of their specific goals and approximate completion dates. All projects are designed with a view to accomplishing their objectives and permitting the termination of U.S. assistance at the earliest possible time.

However, it is inherent in the situation that some projects will move faster than others. This is particularly true of projects in the private enterprise sector. Here applicants, notwithstanding careful screening, are occasionally found to lack the right combination of managerial, technological and capital resources to act promptly. But because of the rigorous checking process, there may be considerable lapse of time between the obligation and subobligation of project funds. This period of time should not be interpreted as an unnecessary lag in implementing the project.

**Medium Industries Development—Project No. 89-23-459**

(See pp. 2-5)

The statement is made that funds in the amount of \$13.4 million were obligated for medium-size industrial plants before plans for project implementation were sufficiently developed. On the surface this criticism may appear to be justified. However, it fails to make adequate allowance for the lapse of time which the application of sound programing principles and techniques requires between the obligation and subobligation of project funds.

The Combined Economic Board decided to obligate the funds in question on the recommendation of its industrial development committee. This committee had made a careful study of the needs of the private enterprise segment of the economy, and reached the conclusion that an investment of \$13 million or more was indicated. It submitted a full report of its findings to the Board, together with detailed plans for its implementation.

Implementation of the committee's recommendations involved:

1. An invitation to prospective project sponsors to submit their project applications.
2. Review and selection of project sponsors on basis of agreed economic and financial criteria.
3. Establishment of the necessary mechanism in the Korean Reconstruction Bank, including the development of loan criteria, credit investigations, etc.
4. Studies of the economic and technical feasibility of individual projects.
5. Initiation of project implementation, including finalization of loan and construction contracts, etc.

Each of these steps required from 2 to 6 months to complete. Thus, to cite a single example, it required the joint Republic of Korea-Office of the Economic Coordinator Project Award Committee 4 months or longer, meeting 2 afternoons a week, to review and screen the hundred or more project applications received.

Considering the time required for careful analysis of the economic and technical merits of each project, as well as for the selection and investigation of the managerial and credit worthiness of sponsors, the time involved in implementing this project does not appear to be unduly long. Thus, as of March 31, 1959, the Korean Government and the ICA had approved subprojects totaling \$7.5 million and subobligations for technical services and equipment amounting to \$2.6 million. Subobligations for the remaining approved projects are expected to be completed before June 30, 1959. The Korean Government has also approved 19 projects totaling \$5.9 million. Applications are currently under review for additional funds provided in late 1958.

**Straw Pulp Plant—Project No. 89-23-292**

(See pp. 5-6)

Although the comments in the evaluation concerning this project are not without justification, it should be pointed out that as of the original date of funding, the project was considered to be technically and economically feasible. As evidence of this, ICA proceeded promptly to draw up a scope of work covering the engineering, procurement, and supervision of construction of the plant. Some months later differences between ICA/ Washington and Office of the Economic Coordinator developed over the type of basic manufacturing process to be employed and the method of procurement, thus contributing to the delay in awarding the construction contract. A recently completed Smith, Hinchman & Grylls report is expected to settle these differences, after which a construction contract should be let promptly.

**Mine Development (Dai Han Coal Mines)—Project No. 89-21-468**

(See pp. 7-9)

The Dai Han Coal Mines project is a subproject under an overall Coal Mine Development project (89-21-489), which includes the Hambaek Coalfield (89-21-290-291) and the Hwasun Kunsong Coalfields (89-21-470).

Re paragraph 2 of the section "Present Status," it would be more nearly correct to say that, while \$900,000 is dependent on the outcome of the consultant's layout of the coal-cleaning plant, the remaining subobligated balance of \$1.6 million will progress rapidly for procurement action.

Under "Plans and cost estimates," further delays should not be experienced, inasmuch as plans and specifications for various types of coal equipment have been under development over a long period of time. The characteristics of Korean coal are generally known and tests have been conducted by various U.S. firms since the inception of the aid program.

The statement in paragraph 1 of the "Evaluation" section regarding the difficulty in working out details—

as to just what money so invested should be spent for contracts now in operation and for equipment now being used for core drilling.

Re the comment in paragraph 2 of the "Evaluation" section, ICA is in agreement about host-country financing. ICA fiscal procedures require the host country to make provision for local currency financing at the time U.S. dollars are obligated. It may be assumed, therefore, that the host-country contribution will be available when required.

**Thermal Electric Generating Plant—Project No. 89-22-501**

(See pp. 9-10)

The three new thermal plants previously constructed with ICA funds provided most of the cost and engineering data needed for the proposed new 30,000 kilowatt generating plant in southwest Korea. The decision to proceed with partial financing of this project in the amount of \$3,539,000 for engineering services and standard-type construction material in fiscal year 1958 was made to permit engineering work and construction to get under way promptly. The agreement obligating these funds stated:

In the event aid program funds are not available in future years to carry this project to completion, the Government of the Republic of Korea undertakes the completion of the project as herein described with its own funds.

Thus, despite the \$4,560,000 programmed for fiscal year 1959 to complete the project, partial financing did not appear to be inappropriate.

The selection of Kunsan as the most favorable plant site was made after a thorough investigation of other possible sites by Smith, Hinchman & Grylls Associates, Inc., under a task order. Drilling for exact location of the plant is expected to be completed before the end of the fiscal year 1959. As of March 31, 1959, a total of \$1.9 million had been subobligated for the first phase of a turn-key contract to cover construction, supervision of plant operations, and training.

**Rehabilitation and Construction of Overall Transmission and Distribution System—Project No. 89-22-221**

(See pp. 10-12)

This project has not been implemented as rapidly as had been planned, due to technical delays encountered in the development of detailed procurement schedules and time required for the manufacture and delivery of the equipment ordered. These difficulties have been largely resolved and as of March 31, 1959, approximately \$2.7 million had been subobligated for commodities and procurement was actively underway. Documents for the subobligation of additional funds are currently under review. The lag in implementation was taken into account in the reduced funding planned for fiscal year 1959 and proposed for fiscal year 1960.

**Rehabilitation of Chongpyong Dam—Project No. 89-22-228**

(See pp. 12-13)

The statement in paragraph 2 of the section "Progress," that "The delays \* \* \* have stopped progress, etc." is at variance with the fact that Burns & Roe, Inc., under a Department of Army contract, submitted a report in 1954 on the serious erosion of the spillway apron of Chongpyong Dam. The Office of the Economic Coordinator, on the basis of this finding, proceeded to increase the scope of the investigation with fiscal year 1956 funds. Im-

plementation of the project was delayed because (1) of the necessity to make extensive repairs to the Hwachon hydroelectric plant 40 miles upstream, and (2) advisory services for preimplementation engineering did not become available from the Ebaseco consortium as expected, thereby delaying implementation until February 1957 when the Smith, Hinchman & Grylls contract was signed.

Paragraph 2 of the section "Present Status" having to do with "lack of planning, specifications and reasonable cost estimates" should be corrected in the light of the explanation contained in the previous paragraph. The increased costs referred to resulted from more recent estimates made by Smith, Hinchman & Grylls based on increases in labor and materials costs.

### **Housing Construction Material—Project No. 89-83-448**

(See pp. 14-18)

The comments of the field investigating staff are at variance with the program information currently available in ICA/Washington. For example, we have not been informed that the Korean Government has failed to provide the agreed hwan support, or that excess or reserve funds were provided in anticipation "of a boom in the construction program." According to our information, far more applications were received by the Housing Home Development Fund than could be accommodated with available funds.

We concur with the mission, that the program should be initially concentrated on low- and moderate-cost housing prior to giving emphasis on minimal housing (aided self-help). This follows the practice of the U.S. Federal Housing Administration, which operated on the premise that the building industry as a whole could best be stimulated by starting in the low- and moderate-income levels where some savings existed. Time has proven this to be sound practice.

### **Other Projects Reviewed in Connection With Section 517**

(See pp. 34-35)

Concerning local currency for powerplant projects, the Combined Economic Board has set up rigid funding rules for Government corporations, quasi-public enterprises, and private enterprise projects, including a minimum 25 percent deposit of total cash requirements. The Korean Reconstruction Bank, however, may advance counterpart loans to Government corporations and quasi-public enterprises without collateral, provided such advances are approved by the Combined Economic Board. It should not be inferred, therefore, that local currency is not available for powerplant projects. As to the solvency of the Korea Electric Power Co., its profit and loss statement for the period July 1-December 31, 1958, shows a profit of 153,426,559.33 hwan.

The following comments are offered on the specific projects mentioned on page 34. It is to be observed that three of these four projects were not included within the scope of the original

## SURVEY OF SELECTED PROJECTS IN VIET-NAM AND KOREA

### No. 1. *Improvement of Government Fiscal Management and Statistics (Project No. 89-75-271)*

The implication that the mission failed to comply with section 517 is misleading. The technician responsible for making the final decision on the type of equipment to be procured was in Korea on March 16 1959, the time referred to. The mission had planned to initiate procurement immediately following his recommendation to enable the contractor (Survey and Research Corp.) to make arrangements for taking a Republic of Korea census in fiscal year 1960.

### No. 2. *Disease Control (Project No. 89-51-451)*

Noncompliance with section 517 is not evident. As far as can be determined \$275,000 is the correct amount programed for these drugs and medical supplies. Therefore, certification of compliance with section 517, as of December 28, 1958, was entirely valid, notwithstanding the later revision proposed by the Minister of Health. The Combined Economic Board has approved the proposed revision.

### No. 3. *Fisheries Development (Project No. 89-18-281)*

The statement made is at least partially wrong. Section 517 certification could not have applied to funding through fiscal year 1964 since only fiscal year 1959 funds are currently available for obligation purposes.

### No. 4. *Housing Construction Material (Project No. 89-83-448)*

The facts as stated are at variance with information available to ICA. This matter has been covered above (p. 14).

## VIET-NAM

The GAO investigators reviewed 6 of the more than 135 projects that have been initiated in Viet-Nam. Presumably they were selected either because of their dollar value (i.e., the highway project) or because of delays encountered in getting them underway. In no case does the GAO team criticize the desirability or necessity of the project.

Considering the fact that assistance direct to Viet-Nam began only 4 years ago, and, more important, that the newly independent Government had little experience and few trained administrators, it is not surprising that some technical and institutional difficulties resulted in delays in subobligating funds and implementing projects. In fact, it is more surprising that so much progress has been made in Viet-Nam.

All of the projects selected for review were commenced prior to the enactment of section 517 of the Mutual Security Act. However, they were not initiated without reasonable assurance that they could be implemented expeditiously and fund obligations were based on the best available estimates of requirements. The frustration of some of those estimates is due to various factors which are described in subsequent comments on the individual projects.

**Industrial Development Center—Project No. 30-23-170**

(See pp. 18-21)

The GAO team's principal criticism is that funds were made available before they were actually needed by the Industrial Development Center for its loan operations.

The obligation of more than \$6 million for this project followed months of discussion with Vietnamese Government officials with respect to the need for a mechanism to provide technical advice and financial assistance for industrial development in Viet-Nam. Previous to 1957, priority attention had, of necessity, been directed toward restoring agricultural production. While the Government recognized the economic importance of overcoming the almost complete lack of industry, it had no plan for meeting that need.

In order to give impetus to the program and to demonstrate U.S. support, a capital fund was created to finance the foreign exchange costs of industrial equipment and of contract advisory services. Counterpart funds were also made available, primarily for local currency loans.

We believe that the provision of fiscal year 1957 funds was essential to the establishment of the Industrial Development Center and the development of the Industrial Development Center loan operation. If the funds had not been made available, it would have been extremely difficult, if not impossible, to have the Vietnamese Government direct sufficient attention to the problem of helping private industry. Because of the shortage of administrators and other trained personnel, the Government customarily concentrated on most immediate matters. A mere assurance of U.S. support for an industry program after establishment of the necessary institutional framework would probably have lowered the priority of activity in this field.

However, the Industrial Development Center was more than just an idea at the time the funds were obligated. Under another project a project implementation order—technicians and contract services—for a general industrial survey had been issued before the Industrial Development Center funds were obligated. The scope of work outlined in the issued document provided for assistance in establishing the Industrial Development Center, the specific organization and functions of which were to be determined on the basis of the contractor's detailed studies and further negotiations with the Government of Viet-Nam.

We agree that the Industrial Development Center capital can be replenished from time to time, as necessary, but believe that the provision of the initial capital fund was prerequisite to the establishment of the Industrial Development Center and the development of loan criteria.

In the interests of accuracy and completeness, we offer the following specific comments:

(a) ICA proposes to participate in the evaluation and approval of loan applications involving more than \$100,000 in foreign exchange.

(b) At the investigators' request, we queried the USOM about the subobligation of \$4,500,000 and were informed that the subproject agreement on the loan operation was the basis of the subobligation. This information was received about April 11, 1959, and was called to the attention of the investigators.

(c) By the middle of April, eight members of Day & Zimmermann's permanent staff had arrived in Saigon.

(d) The Government's emphasis has been on the need for Government participation in new enterprises because of the lack of sufficient private Vietnamese capital. However, its emphasis is on ownership not control—i.e., it advocates mixed ownership with private management.

### Medical and Allied Education—Project No. 30-54-150

(See pp. 21-23)

The comments made in the evaluation paragraphs are valid but are based on hindsight which was not available to ICA at the time of fund obligation. We believe the GAO team has given recognition to the importance of this project and to the many unforeseen difficulties that have delayed its implementation.

We find the funding explanation given in the third paragraph on page 22 to be not only confusing but, in one instance, inaccurate. It is true that "In the original project agreement, ICA proposed to provide U.S. dollars to the extent of \$1,530,000 for a basic science building." However, the "additional estimated amount of \$5,393,500 for a university hospital and utilities" cannot be found in any program documents that we have on file. Although such a figure appears in the October 1958 report of the survey team, it does not have validity as a programmed contribution.

Also in the third paragraph on page 22, the conclusion that ICA's participation in the project remains somewhat uncertain is a nonsequitur to the provision of \$150,000 in fiscal year 1959. That \$150,000 is intended to cover the salaries of U.S. technicians and the cost of participant training. The architectural-engineering contract is now being negotiated and will be financed from prior year funds. It is unlikely that fiscal year 1959 funds could be obligated for construction, under the terms of section 517.

The following specific comments are offered in the interest of presenting more accurate or complete information as of the date of the report:

(a) On April 10, 1959, ICA/Washington selected an architectural-engineering firm with which to negotiate a contract.

(b) Under the scope of work of the proposed architectural-engineering contract, ICA is directing the selected firm to determine the availability and suitability of information as to the foundation conditions and the extent of further testing that is needed. Such exploratory work could not be done before selection of a contractor.

(c) The effective date of section 517 is June 30, 1958.

(d) The GAO team confined its review to the medical center portion of this project. Presumably, therefore, in discussing the

availability of fiscal year 1957 funds, it wishes to consider only the funds for the center. If that is so, the figure \$2,434,000 should be substituted for \$2,535,000, which appears in the first paragraph under evaluation.

### Railway System—Project 30-33-095

(See pp. 27-29)

We protest the implication that plans and estimates were not competently and conscientiously prepared. As explained in the report, they were prepared by the Vietnamese Railway in 1956 and subsequently specifications for steel rails were prepared by the American Railway Engineering Association. Delays were encountered because of the necessity of translation and revision of specifications to permit compliance with section 201.13 of ICA Regulation 1, requiring specifications in terms of U.S. standards. Therefore, while implementation of this project has been delayed for technical reasons, there is no evidence of lack of competence or carefulness in the preparation of the estimates.

### Highways and Bridges—Project No. 30-31-021

(See pp. 23-27)

It is perhaps surprising that, in a project as large as this one, only one substantial criticism is made. With that one, we disagree. From the mission's statement that each section of construction was undertaken only after financing was assured, the investigators deduced that planning started after funds were made available. This is not a logical deduction. The mission's statement concerns the relationship of construction to fund availability. But, before funds are provided, planning is done and cost estimates are made.

It is true that the estimated total cost of this project has increased each year. However, the increase is due not only to changes in construction priorities but also to such factors as the development by the contract engineers of detailed cost estimates and the rising prices of construction equipment and materials.

We suggest substitution of the word *usual* for *required* at the beginning of the last sentence in the second paragraph on page 26.

### Telecommunication Project—Project 30-22-087

(See p. 30)

Although the contract has not been finalized, the contractor has been selected and is operating in the field under a letter of intent.

We disagree with the statement that funds were stockpiled in this project, and that plans were lacking at the time of obligation. At the time the first obligation was made, it was assumed that implementation could soon get underway in providing a tele-

communications system for Viet-Nam. Even after the regional aspect arose, there was no reason to believe that the difficulties since encountered would arise. Here again, the GAO investigators have the advantage of hindsight.

### IMPLEMENTATION OF SECTION 517

With respect to section 517, the draft report appears to raise two principal points of criticism: (1) ICA instructions to the field emphasize continuation of old procedures rather than a "new approach," and (2) ICA has not developed uniform procedures for implementing section 517 but has delegated responsibility to each mission director. Concerning the first point ICA did state in field instructions that *full* compliance with agency rules and procedures should assure compliance with section 517. And this we believe to be true. The same instructions outlined the existing ICA rules as follows:

517 reemphasizes existing agency obligation rules and documentation procedures, i.e.:

- a. All project-type assistance must be based on specific, limited, defined objectives which can be accomplished in stated time period (Policy Directive 6).
- b. No project-type obligations may be incurred without an issued Project Proposal and Approval or Cooperative Service Project Agreement (Manual Orders 1051.1, 1051.3).
- c. Project Proposal and Approvals require (i) beginning and termination date, (ii) complete work plan and identification of all major problems, (iii) complete financial plan, (iv) analysis of feasibility (see Project Proposal and Approval check list, Manual Order 1053.3).

But the fact that the ICA instructions to the field stated that section 517 "represents legislative adoption of basic ICA principles" does not mean that we viewed section 517 as introducing nothing new. Section 517 does supply a new element, namely, a rigidity in rules previously applied with some flexibility—a new compulsion in place of the former discretion keyed to judgments concerning the most desirable course of action in a particular case. The ICA field instructions expressly stated that section 517 "will require strict compliance" with basic ICA principles and it expressly added:

517 forbids obligating defense support, bilateral technical cooperation, special assistance dollars for assistance requiring substantive technical or financial planning (i.e., at least all project type assistance) until (a) completion of such planning, (b) completion of a reasonably firm estimate of the total cost of the project to the United States, (c) there is reasonable anticipation that legislation of the recipient country necessary to implement the specific grant or agreement will be completed within one year.

ICA instructions to field missions, in addition to referring to existing ICA rules, did indicate "new" approaches, namely, that section 517 would require the breaking down of projects so that— it will be necessary to obligate separately for preliminary engineering, costing and feasibility analysis before detailed engineering and construction.

We also pointed out that agency policies on project planning would continue to apply to all projects regardless of size, in contrast to the express exemption under section 517 of projects under \$100,000.

In conjunction with this general point, we observe that the draft report emphasizes the function of section 517 to forestall premature obligations of funds. We would call attention to the fact that a more immediate purpose of section 517 was to require adequate technical and financial planning and reasonably firm estimates of costs. In keeping with this fact, ICA instructions to the field emphasized the stern need for careful advance planning and cost estimates—objectives always contemplated by ICA rules but sometimes not attained in attempts to maximize or accelerate the impact of the assistance offered.

Standards for the application of section 517 exist in present ICA rules. It has been our intent to reevaluate this matter thoroughly in the light of experience with section 517 during this first year of its existence and the staff report will be extremely helpful in this regard. You may be assured that we shall not hesitate to promulgate further standards if this should appear necessary or desirable.

Your second point relates to the absence of mandatory uniform procedures and documentation requirements within the field missions for applying section 517. Here again we are prepared to consider further the installation of a uniform system if it appears desirable on the basis of operating experience. It had, however, seemed to us that the immensely varied nature of projects and other assistance undertakings in the various countries suggested the desirability of not imposing a uniform system from Washington. Standards, of course, are uniform under the legislation and ICA rules. But procedures for applying them within field missions have been left to the judgment of the mission director in accordance with the nature of the aid program in his country and the disposition of competence within the mission staff. We are not convinced that this is not generally the most desirable course and more especially in this initial year of working under the section 517 requirements. If experience proves otherwise, uniform systems of procedures within all field missions will be promulgated from Washington.

Two subordinate observations in the report warrant comment. The first states that the signature of the ICA mission director to standard obligating documents or to a request that Washington sign obligating documents "were established as determining compliance." The mission director's signature, of course, does not constitute compliance. It is merely the formal act indicating that a determination has been made that section 517 is being complied with. Responsibility for this act is imposed directly on the mission director in order to emphasize that the importance of section 517 compliance requires his personal attention and that he is responsible for compliance. At the same time it is obvious that the mission director must necessarily depend upon his staff for technical guidance. Section 517 involves technical matters—engineering and financial—and mission technical staff working close to the undertaking must supply the technical judgments on which the mission director necessarily relies. This relates to the second observation in the draft report on which we comment; namely, that the mission directors delegate responsibility to, or depend upon, their staffs. Perhaps this observation by the GAO

auditors was not intended to be critical. Certainly, we do not interpret the internal procedures in the U.S. Operating Missions in Korea and Vietnam as indicating a perfunctory interest by the mission directors in the discharge of their section 517 responsibilities, but rather as indicating the best judgments of the directors on how their responsibilities can be most effectively discharged.

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