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OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL - EAST ASIA

AUDIT REPORT
AREA-WIDE FUNCTIONAL AUDIT
TECHNICAL ASSISTANCE COMMODITIES

Period Covered by Audit: As of
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AUDIT REPORT
AREA-WIDE FUNCTIONAL AUDIT
TECHNICAL ASSISTANCE COMMODITIES

PART I - PURPOSE AND SCOPE

We have performed a comprehensive audit of the function of commodity planning for Technical Assistance projects administered by East Asia missions. The purpose was to evaluate the USAID commodity input in the framework of total country and project requirements, host country and other donor contributions, and local resources and standards. We also related the commodity planning function to major, repeated commodity management problems identified in individual project audits.

We conducted the audit on an area-wide basis (East Asia) in order to cover: (a) general conditions of projects in multiple missions, (b) conditions representative of a cross section of countries in various stages of development, and (c) various mission approaches to common problems. The audit covered Korea, Thailand, Indonesia and the Philippines, but eliminated Laos after the survey phase. We considered that Laos was outside the scope of the audit since that country had few resources for sharing, and gradually assuming, commodity support.

Organizational elements reviewed depended on each mission's assignment of responsibilities for the technical assistance commodity planning function. Project Managers' functions were covered as well as various commodity review functions of Program Offices, Logistics Offices, and Mission Directors.

There are two distinct time elements covered in the audit. The first time element covered commodity utilization problems described in previous East Asia audit reports (primarily, FY 71 and 72), and related audit working papers

and memoranda to mission officials. These individual mission problems have previously been resolved with the missions involved. Hence missions are usually not identified with these past problems because they are relevant to this audit only by their common occurrence. This audit is concerned with prevention of future commodity problems.

The second time element covered in the audit is current operations and policies of the missions involved. We also discuss recent changes in missions' policies and practices including those made during the audit period, February through July 1972.

In Part IV, Statement of Findings and Recommendations we identify common commodity problems and describe solutions in particular missions and projects which best remedy the problems. We describe solutions so they can be shared, and perhaps improved upon, not only in East Asia but on an agency-wide basis. Major findings are summarized in Section III.

PART II - BACKGROUND

At the risk of oversimplification, the basic background for this audit is contained in the broad scope of AID Program Policy (Manual Order 1000 and 1010 series) and the limited scope of technical assistance operating procedures (Manual Order 1300 series). The policy directives explicitly state the role of local resources in development assistance:

Major AID Policies (M.O. 1000.1)

"There are two reasons why the recipient country should demonstrate its desire to help itself by mobilizing local resources:

- 1) At best, foreign assistance can supply a margin of capital and technology but it can never meet total needs. In general, less developed countries must themselves finance 80% or more of their own investment.

2) Improved mobilization and use of local resources is both a means for and a measure of the progress in a developing society. Achievement of sufficient domestic savings and foreign private capital to generate continued rapid growth with diminishing dependence on external aid is the economic goal of development assistance."

Operating procedures do not ignore local resources as they state that factors to be taken into account include:

- "The willingness of the aid recipient to pay a fair share of the cost of the activity proposed..."
(M.O. 1302.1)
- "The country's total resources -- and opportunities."
(M.O. 1303.1)
- "The country's interest in and willingness to support development efforts with its own resources."
(M.O. 1303.1)

Manual Order 1311.1, Planning Process, adds a pertinent consideration:

"3. Have less costly alternative methods been adequately explored? Where unemployment or under-employment is chronic, resource uses which would be marginal under conditions of full employment may become highly desirable."

The question of how to consider these factors is not explicitly covered in operating procedures. Once USAID's "margin of capital" is determined, the manual orders explain how to prepare and process ordering documents and how procurement regulations govern competition among U.S. source manufacturers. Manual orders also explain the basis for obtaining a procurement source waiver for a U.S.-financed, foreign source commodity, but they do not explain why it is necessary for the U.S. to buy a foreign commodity if countries "finance 80% or more of their own investment".

Other policy statements suggest that USAID resources are not only marginal, but supplemental, to be considered

after consideration of alternative sources such as other donors, host governments, and U.S. and host country private enterprise:

AID Assistance Instruments: Development Grants and Technical Cooperation (M.O. 1012.2)

"III. Programming Considerations

----- . . . -----

D. Does assistance provided by the U.S. duplicate or compete with aid which is being or could be provided by friendly non U.S. sources such as the UN, IBRD, and other non-Bloc programs? Are there particular types of assistance which these sources -- because of greater political acceptability, the availability of personnel with more relevant experience, or other reasons -- can provide better than the United States?

----- . . . -----

F. Is the host government making a contribution to joint activities, including personnel, financing and other resources, which is commensurate with its capabilities?"

Programming Principles and Techniques: Private Enterprise (M.O. 1012.7)

"I. General

It is U.S. policy to encourage to the maximum extent practicable increased participation of both the host country and U.S. private enterprise in the aid program...."

1967 Balance of Payments Program and U.S. Private Investment in Developing Countries (M.O. 1012.7.1)

"II.B. U.S. efforts to support and encourage an expansion of U.S. private investment in less-developed countries are fully consistent with the 1967 Balance of Payments Program, and will continue."

How to plan for the participation of other donors, host government, and private enterprise in conjunction with planning the USAID input is not explicit. The Project Management Handbook (M.O. 1305.1.1) asks that alternative resources be considered and:

"IV.A.3. Cooperating-country ministries and other organizations having cognizance in the activity areas are to be involved early in the planning process to further their agreement, understanding, and support of the scope, aims, and manner of implementation of the technical assistance effort requested by their government. When indicated, appropriate multilateral assistance agencies also are to be involved."

The relationship of commodity resources of other parties to USAID commodities is discussed only generally in the Project Management Handbook. The Handbook describes procedures for planning USAID commodities "if commodities are required". It also asks for consideration of selecting "commodities and equipment which will be the easiest to maintain and which will place the least burden on the cooperating government to replace...."

Very limited restrictions on "eligible" commodities are provided in Borrower/Grantee or Importer Procurement, A.I.D. Guidance: Commodity Coding and AID Commodity Eligibility Listing (M.O. 1454.3.1). This document is relevant to protecting U.S. interests, but lists few ineligible items normally associated with technical assistance projects. It lists as ineligible such items as "Luxury or collectors items; e.g. jewelry, paintings, rare books, coins, postage stamps, etc." Host government descriptions of luxury goods includes more basic items such as foreign-made vehicles and air conditioners.

Program guidance most directly related to the actual process of commodity selection is found in AIDTO Circular A-1962, 9/13/69, subject: Evaluating Commodity Element of Projects. This instruction does not cover consideration of alternative commodity sources, but it does explain many of the assumptions and misconceptions associated with selecting "suitable" commodities:

"When A.I.D. furnishes commodities as part of projects, it has a more direct responsibility for choosing items which are suitable for the local situation than in commodity import programs where, within limits, local importers decide what to purchase. Although project commodities are expected to raise local standards, a key programming and evaluative question concerns the practical limits for such improved standards. Recognizing that limits may exist is an important first step for enthusiastic subject matter specialists who want the 'best' for their activities and who may dismiss the skepticism of programmers as a standard occupational disease. Host country officials may have even more difficulty admitting the necessity for modifying both quantity and quality, since their pride is involved."

The circular states that certain advisers, who wanted to "uphold their professional standards" with respect to commodities, "had not considered that their obligation as advisers was to use their superior technical knowledge to help select and adopt advanced technology to a less advanced situation...." Two tests are suggested for judging suitability of USAID commodities: (1) Can the project (USAID input) be "replicated" by the LDC?, and (2) Has USAID weighed the burden of foreign exchange imposed on the LDC by the project? In the midst of this discussion is an assumption:

"The USAID recognizes that it furnished the commodity in the first place because it was not manufactured locally."

PART III - SUMMARY

Audit findings are discussed in detail in Part IV. We summarize below those findings which we consider most significant.

The commodity element of technical assistance projects can be improved by the establishment of definitive guidelines for selecting only the most essential, economical, and problem-free commodities. In accordance with basic AID policy, planning USAID commodities should begin with consideration of (a) local product resources (b) less costly resources available to host governments and other donors from non-U.S. sources, and (c) resources of U.S. private industry in host countries. (Part IV,A,1)

Approximately \$15 million in commodity support for FY 1971, represents one third of the total for technical assistance projects in East Asia countries (Thailand, Indonesia, Korea and the Philippines). Vehicle procurement totaled approximately \$6 million in FY 1971. Host governments in all four countries could have purchased locally manufactured or locally assembled vehicles for all general purpose requirements. Ford Philippines announced that its 80% locally-made Asian car/truck will be available in November 1972, and sell for \$1,195. The delivered cost of a USAID-financed Jeep (two wheel drive, utility truck) is approximately \$3,400. (Parts IV,A,3 and IV,B,2)

Common-use equipment and supplies are readily available in East Asia countries. Preference for more economical or more suitable local commodities is frequently a factor in non-utilization of USAID commodities. (Part IV,B,3)

Support from U.S. and local private enterprise concerns in host countries is an often overlooked prerequisite for efficient support of replacements, parts and service. Instead of developing U.S. and local private enterprise resources, USAID's have made some costly experiments with government-operated support services. (Part IV,B,5)

Cost saving opportunities are available to various foreign aid donors through specialization in commodities for which the procurement source offers a comparative price advantage. USAID's in three countries will provide an estimated \$4.0-5.0 million in oral contraceptives in FY 73. In the fourth country, another donor is providing the same product from a non-U.S. source at less than one third of the current AID price. (Part IV,C)

USOM/Thailand has developed an excellent system for selecting the most appropriate commodities for U.S. support. The mission has shifted the procurement burden to the host government for most of the readily available, common-use commodities. (Part IV,D)

We have concluded that guidelines for commodity selection are essential if AID is to reduce its involvement with management of technical assistance projects and reduce the incidence of costly and embarrassing commodity utilization problems. The process of commodity selection employed by USOM/Thailand simplifies commodity planning and makes the commodity element more relevant to development objectives. The general pattern of Thailand's selection process is to:

1. Establish policies for what commodity assistance is supposed to achieve in technical assistance projects.
2. Establish criteria for selection of commodities which will help identify U.S. products most needed for T.A. project support.
3. Survey local resources including locally manufactured or assembled products; readily available, reasonably inexpensive foreign products; and indigenous methods for saving foreign exchange.
4. Identify commodities which should normally be supported by host government (or other donors) and commodities that USAID should normally support.

5. Plan and review USAID-financed commodities in accordance with established norms and counsel or negotiate with host governments from this position.

The first and second steps should be undertaken by AID/W, in our opinion, because basic operating policy should be uniform. Furthermore, it is not possible to effectively implement AID's self-help policy until definitive criteria are established for self-help resources and the need for U.S. commodity resources.

Starting with Thailand's commodity selection criteria, we suggest that USAID-financed commodities may be needed, provided that:

1. The commodity is not manufactured locally or partially manufactured with local assembly process.
2. The commodity is needed because reasonably economical foreign products are not available on the local market (discounting host government taxes).
3. The commodity does not displace local methods of performing a task with more labor and less capital.
4. The commodity could not be provided by other donors from non-U.S. sources at less cost.
5. The commodity is competitive or potentially competitive in the country so that: a) it is a reasonably economical alternative to host government procurement, b) it will stimulate U.S. exports and build in-country capabilities for parts and replacements, and c) it may be economically operated, maintained, and replaced with the help of U.S. manufacturers' representatives.
6. The commodity can be effectively monitored because it involves a) few, major items, or b) specific, technical applications which do not require close monitoring.

7. The commodity is directly related to project goals accomplishment.

Our suggested criteria may need revision for world-wide application, but there should be guidelines to assure full value from commodity dollars.

Because of the AID-wide implications of our audit findings and apparent need for AID-wide improvement we are making no recommendations in this report and instead are referring our audit findings to the Office of Audit, AID/W (AG/AUD) for further review and disposition.

PART IV

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A - COMMODITY APPLICATIONS

1 - Commodity Selection

Many of the problems of AID commodity support can be avoided if, in the selection process, commodities which can be expected to cause problems are identified and denied AID financing. This solution to commodity management problems is not obvious as long as project managers assume responsibility for planning and monitoring vehicles, office equipment, supplies, spare parts and many other items involved in routine operations. The solution is obvious if USAID's consider that developing countries already have established methods and equipment for performing common tasks. Before project managers become involved with management of common-use commodities, it would seem pertinent to consider what technical advisors and U.S. products can add to what the less developed country is already using for routine operations.

What commodities to select for USAID financing is subject to a variety of opinions. Some missions maintain that USAID should not provide what is locally produced or available on the local market, regardless of origin. Other missions have no established criteria for selection as long as the project has need of a commodity. However, in terms of AID Policy (See Part II, Background), it would be necessary to determine what commodity resources are available economically from the country, private enterprise, and other donors before determining that a USAID-financed commodity is needed.

In discussing commodity selection with USAID officials, it was sometimes suggested that USAID finances locally available equipment and supplies because the host country lacks sufficient budget support. We pointed out that it is AID Policy (M.O. 1000.1) to provide a "margin of capital" and, "in general, less-developed countries must themselves

finance 80% or more of their own investment". Furthermore, continued USAID acceptance of a country's inability to provide common, local commodities logically casts doubt on the country's ability to eventually assume total project costs.

2 - Commodity Profile

As an element of cost, commodities represent a substantial and possibly growing portion of technical assistance in the missions of the East Asia Area:

Technical Assistance Project Obligations (Dollars in Thousands)

<u>Fiscal</u> <u>Year</u>	<u>Commodity</u> <u>Cost</u>	<u>Total</u> <u>Cost</u>	<u>Commodity</u> <u>Cost</u> <u>Percentage</u>
Actual, FY 1971	14,619	46,500	32%
Estimated, FY 1972	13,610	37,081	37%
Proposed, FY 1973	22,387	50,933	44%

Source: Project Budget Submissions, FY 1973, Korea, Thailand, Indonesia, and the Philippines.

Categories of commodities can be described in several ways. For the purpose of this audit we sought to distinguish between USAID-financed commodities which have technical applications and are not commonly used in less developed countries, and commodities which are commonly used and are readily available on local markets (hereafter referred to as common-use commodities). Some overlapping was inevitable, but we identified common-use categories as follows:

- Vehicles (and spare parts)
- Office Equipment
- Office Supplies
- Supporting Services Equipment (Vehicle maintenance equipment, printing, data processing)
- Household Appliances, Equipment, and Furniture
- Hand Tools

Audiovisual Equipment
Fertilizer and Pesticides
Oral Contraceptives

Commodities which are less readily available and have more direct technical applications are:

Medical Equipment
Arms
Aircraft
Technical Books and Films
Scientific Instruments

There are also some significant in-between categories which may depend on the technical nature of specific items:

Radio and Communications Equipment
Photographic Equipment
Construction Equipment
Agriculture Equipment

3 - Vehicles

Vehicles have been the largest single item of USAID-financed commodities:

<u>Mission</u>	<u>1971 Obligations Vehicles and Related Spare Parts</u>
USOM/Thailand	\$4,917,000
USAID/Philippines	481,000
USAID/Indonesia	569,000
USAID/Korea	<u>15,000</u>
	<u>\$5,982,000</u>

U.S.-made vehicles are not commonly used in Asian countries although the jeep (Kaiser Jeep or foreign copies) is locally made or locally assembled in three countries. Other U.S. vehicles are rare. A study by the Office of Trade and Industry (Amembassy, Seoul, A-31,

January 31, 1972) for Commerce, disclosed the following data on commercial imports of U.S.-made vehicles:

<u>Country</u>	<u>Total Imports (1970)</u>	<u>USA</u>	<u>Japan</u>
Korea	22,322	194 (0.9%)	15,071 (67.5%)
Indonesia	18,579	994 (5.4%)	7,942 (42.7%)
Thailand	41,043	765 (1.9%)	30,468 (74.2%)
Philippines	- not shown		

This does not, obviously, provide much of a base for U.S. dealer support of USAID vehicles. There are U.S.-related dealers in these countries assembling compact sedans such as the Ford Cortina and some trucks, but these are not, generally, U.S. products with U.S. components. U.S.-made vehicles are proving to be non-competitive in Asia, particularly since the development of local industry (discussed in Part IV,B).

A more fundamental question than the economy and suitability of U.S. vehicles, is their application to technical assistance projects. In part, we consider this an open question, because there may be certain vehicles such as the Dodge Power Wagon (used by police in Thailand) which are so specialized that the U.S. product may be essential and the only thing suitable. General-purpose passenger vehicles, however, such as the Jeep, Station Wagon, and "Utility" truck, may or may not contribute to development objectives.

We have found project vehicles often used by officials who personally control the vehicle for their day-to-day work. We question whether use of a USAID vehicle by local official is ordinarily vital to a project. In a recent project audit, we found that out of 212 vehicles purchased for field work, only 78 were assigned outside the metropolitan area, and 134 (many of which had four wheel drive) were divided among the ministry including the Printing Division and Supply Section. In another country, project vehicles were assigned to provincial governors who already had vehicles provided by the provincial government. We

found a few projects using vehicle pools, but the usual practice was to assign vehicles to an individual or an office. Advisors sometimes also set bad examples, by making personal use of a project vehicle titled to the host government.

Determination of who needs a vehicle, what kind, for what purpose, and how its use will be controlled are difficult problems for technical advisors. One USAID project provided flatbed trucks for assignment to mobile schools which moved no more than once every six months. Also provided, were mobile classrooms and mobile generators, but every school we visited was located in a town which had classroom space and electricity.

As an example of how USAID's get involved with routine administration, one family planning project provided 97 vehicles for 185 primary public health centers and decided to distribute the limited quantity to those centers that were the best "targets of opportunity" based upon criteria including, "high competence of the health center's personnel", and "a history of superior family planning activities".

There are management prerogatives which rightfully belong to the host government, and assignment of vehicles is, in our opinion, one of these. The options available to the host government include use of private vehicle, use of taxi or other public conveyance, or use of local products such as compact sedans or motorcycles. Even if the general-purpose U.S. vehicle were an economical alternative to local vehicles, the project manager cannot be expected to know enough about its use value or its application to technical development to do an effective job of administration.

4 - Common-use Equipment, Supplies, and Services

Audits in East Asia have been directed at the need to establish policies and procedures for screening out common-use commodities which are available locally and which often involve utilization problems if procured by USAID. One recently completed sector audit of Technical Assistance in East Asia concluded:

"The USAID had not established local policy and criteria on commodity assistance for use by project managers, many of whom were technicians with limited knowledge of proper commodity management. There was no established Mission policy covering the type of commodity requirements eligible for AID financing and a method had not been systematically developed to determine what items are available in country. As a result, substantial amounts of AID's limited resources have been unnecessarily expended to procure items not essential to the success of the projects or available locally."

USAID/Indonesia, in response to an audit report, said it would expect local support of commodities produced locally or otherwise readily available. This was later added to Mission Order 1410.1 Issuance 24, January 13, 1971. Thailand has gradually adopted this position through FY 71 and FY 72 and expressed it in a Staff Notice dated April 9, 1971. Other countries had not established guidelines requiring local support of readily available commodities.

Thailand's action made significant changes in the procurement of certain types of commodities:

<u>Commodity Category</u>	<u>USOM/Thailand Obligations-FY70</u>	<u>USOM/Thailand Obligations-FY71</u>
Office Equipment	\$ 151,425	\$ 32,200
Office Supplies	6,600	-
Supporting Services	-	39,350
Equipment		
Household Appliances	29,380	-
Audio-Visual Equipment	829,484	95,742
Hand Tools & Kits	623,950	-
Fertilizer and Pesticide	<u>1,033,900</u>	<u>288,870</u>
Categories Total	\$ 2,674,739	\$ 456,162
Total, All Commodities	<u>\$14,425,340</u>	<u>\$8,639,718</u>

Other missions with smaller commodity inputs are financing common-use equipment and supplies to varying degrees:

<u>Commodity</u>	<u>FY 1971 Obligations</u>		
	<u>Indonesia</u>	<u>Philippines</u>	<u>Korea</u>
Office Supplies	\$ 55,248	\$ 4,480 <u>1/</u>	\$ 11,356
Office Equipment	29,722	115,739	67,566
Supporting Services	-	58,498	165,706
Equipment			
Household Appliances, Equipment & furniture	-	13,483	-
Audio-visual Equipment	<u>7,470</u>	<u>165,446</u>	<u>16,697</u>
Categories Total	\$ 92,440	\$ 357,646	\$ 261,325
Total, All Commodities	<u>\$1,419,249</u>	<u>\$1,964,556</u>	<u>\$1,059,397</u>

1/ A recent PIO/C for FY 72 (492-220-8-20056) provides \$200,000 for miscellaneous supplies including writing paper, film, scotch tape, lacquer, ink, newsprint paper and other printing supplies.

The over-all dollars in these categories is relatively modest at the present time, but commodity planning and monitoring continues over years, and involves the technical advisors' valuable time on numerous minor items. There are also many field units and end users involved which present a span of control problem and overextend the management capabilities of the technical advisor.

An examination of each common-use category will help identify general problems and the involvement of technical advisors. Office supplies are a commodity category for some projects. The technical advisor sometimes estimates how many staplers, typing ribbons, pencil sharpeners, etc., that all of the field units will need by the time these commodities can be delivered from the U.S. The costs of the advisor's time, the mission's time in reviewing PIO/C's and the cost of AID logistics and GSA processing of minor value items are not accounted for. When an end-use check

is made the supplies are often in a warehouse or distributed to points where they were not needed.

Office equipment is a similar category. Field level requirements are difficult to determine and utilization problems result. We found examples of USAID provision of electric powered equipment to areas which had no electricity. Problems of distribution, availability of operating supplies and service also plague USAID involvement with office equipment.

Spare parts involve another set of problems. Vehicles and heavy equipment are sometimes purchased with a spare parts components equaling 10% to 25% of the equipment costs. Problems of selecting the right parts combination, pilferage, distribution, stockage and reordering have made project handling of parts generally ineffectual. In several cases, the problem was by-passed by going directly to suppliers in-country. One large project which had 25% dead stock and 15% zero balance at the time of our audit, is solving the problem with open-end contracts with some U.S. dealers in-country which have up to 90% parts in stock and ready access to back-up supplies. Other projects are still ordering parts with the vehicles.

During the audit, we called to the attention of one mission, that while it was buying spare parts with vehicles, it was requiring the bidder to certify that he had a dealer in country with adequate spare parts and service. The mission has since issued orders providing that it will no longer finance spare parts.

Commodities used in connection with support services involve management problems. USAID's have provided maintenance equipment for vehicles, radios, weapons, aircraft, and heavy equipment. After this equipment was received, USAID's made costly experiments trying to train low paid government workers and police mechanics to run these shops effectively. Again, the problems were often solved by falling back on private enterprise services, including local maintenance shops and work by USAID contractors who were originally hired for on-the-job training. Private

resources for maintenance were used after projects failed to use USAID commodities effectively.

Other supporting services such as printing equipment and automatic data processing equipment have been provided. These services are usually available and adequate on the private economy. Commercial printing has been used in several cases after problems arose with USAID commodities. In one country, some projects provided ADP equipment and printing paper, while other projects obtained these on the economy.

Visual aids are common AID-supported commodities which are often unused. Host government officials have not demonstrated the interest in visual aids that is expected by project managers. Audit reports disclose repeatedly that projectors are not used because educational programs have not been developed.

5 - Indirect Applications

One aspect of commodity selection concerns determining relationship of the commodity to project objectives. Mission guidelines frequently do not require a direct application of the commodity to the project. Family Planning Projects, in particular, provide USAID commodities for activities remotely related to family planning. The rationale for this has been stated as follows:

"As a general proposition, once Family Planning services are integrated into Maternal and Child Health system, anything that strengthens the MCH system will enhance its ability to provide Family Planning services; in the long run by improving child health, thereby assuring parents that their children will survive, and in the short run, by attracting more potential Family Planning clients through improved MCH services."

Using this reasoning, one mission responded to a host country's request for USAID support of "Proposal for the Reinforcement of Tuberculosis Case Finding and Case Management", as follows:

"As you are probably aware, funds are available from USAID for teaching seminars and training institutes such as the type described in your letter and its attached proposal. However, our funds are limited for use for Family Planning activities. Therefore, I would suggest that the proposal be reworked and rebudgeted to identify more specifically the 'Family Planning' elements as well as the funds from (local) Tuberculosis Campaign and other sources."

While it is possible to rationalize the relationship of various activities to family planning, it is much more difficult to define what dollars spent for other activities can accomplish in family planning. The justification for contraceptives is direct and obvious, but the justification for equipping hospitals, offices, kitchens, warehouses and other activities is difficult to substantiate.

Generally accepted cost-benefit principles apply to this situation. Commodity costs should be justified on the basis of the demonstrable value of the commodity to the accomplishment of program objectives. Our recent audits of Family Planning Activities have made the point that indirectly related commodities are non-essential and often unutilized. It is our opinion that a primary criterion for commodity selection should be that the commodity is directly related to project goal accomplishment.

B - LOCAL COMMODITY RESOURCES

1 - Available Information

There is a tendency for USAID officials to overlook the country's commodity resources. Except for USOM/Thailand (See Part D) missions in East Asia had very little information on local resources. They did not maintain lists of local products. They had little information on what local industries the government is trying to protect through import restrictions. They had little information on what relatively inexpensive foreign products were available to the host government on the local market.

Although there is no formal requirement for gathering information about local resources, it is not possible to determine that a U.S. import is essential until it is determined what is already available. To implement AID's Self-Help Policy it is necessary for missions to determine what resources exist for self-help.

2 - Local Industry

Local industry for the production of consumer goods has started to develop in East Asia through support of host governments and the assistance of AID. Vehicles, appliances, office equipment, and supplies are manufactured or assembled in East Asia countries, utilizing in-country resources as much as possible. AID has provided capital assistance loans for local industry. Some of the products which are produced by AID-supported local industries, however, are the same products AID is providing in Technical Assistance Grants.

All of the countries covered in the audit have automobile manufacturing plants which assemble vehicles and make as many of the components as possible using local steel products, rubber, wood and other materials. All four countries manufacture tires and rubber parts. In Korea, 37% to 81% of each vehicle is Korean made. In Thailand, truck bodies are locally made and the government has announced that it will require a minimum of 25%

locally made parts for the vehicle chassis by 1974. Indonesia has few parts manufacturers, but in the Philippines, we were advised, all but the engine can be fabricated and vehicles are continually rebuilt.

Ford Philippines announced that its new "Asian" car will be on the market November 15, 1972. This vehicle is 80 percent local content, comes in seven basic models for various truck or passenger functions, and retails for \$1,195 (base price). By comparison, a USAID-financed Jeep (2-wheel drive, utility truck) costs approximately \$3,400, delivered.

While part of the local vehicle industry is labor intensive compared to large scale vehicle manufacturing, there tends to be a plant investment disproportionate to the size of the local market. In one country the automobile industry is operating at 30% capacity, overall, and the plant connected with a U.S. manufacturer is operating at 12% capacity. In a second country, where Jeeps are a principal USAID commodity, a locally owned Jeep assembly plant produced 2 Jeeps per day although it had the capacity for 5 Jeeps per 8 hour shift. In a third country, the USAID Commodity Import Program has financed U.S. vehicle components, but when the vehicles were assembled, they did not sell as well as expected, resulting in a backlog of unused vehicles. One of the problems of local vehicle industry is competition from imported vehicles, including vehicles provided under USAID Technical Assistance grants.

Host governments have taken strong measures to protect their vehicle industries. Two countries required government agencies to buy only locally made vehicles. The other two countries placed assembled foreign vehicles on the list of banned imports. To the extent fully assembled foreign vehicles are allowed in the countries, they are discouraged by restrictive tariffs.

USAID missions, in effect, consider host government import restrictions and import duties not applicable to USAID grants. Mission officials pointed out that the host government's approval of the PIO/C indicates that the

host government's economic interests are served. This is true to the extent that the USAID item is free and the local product requires local currency. However, a USAID-financed product which displaces a local product, frustrates AID's own efforts to build local industry resources.

Besides vehicles, we found other locally made or locally assembled products which are similar to products AID had been financing:

<u>Country</u>	<u>Local Products and USAID Commodities</u>
<u>Korea</u>	Electronic Calculators Overhead Projectors Air Conditioners Slide Projectors Copy Machines, Automatic Paper, Correspondence & Stencil Scissors Burners Scales Flashlights Lamps Boilers Pumps Generators Tape Recorders Perforators Air Compressors Battery Chargers Welders
<u>Philippines</u>	Air Conditioners Refrigerators Freezers Steel Filing Cabinets
<u>Thailand</u>	Farm Tractors Tractor implements -- plows, harrows, rotary tiller Water Pumps Air Conditioners

Country Local Products and USAID Commodities

Thailand
Refrigerators
Electric Stoves
Other Electric Appliances
Radio and Communication Equipment
Paper
Insecticides
Cutlery
Hand Tools

Indonesia
Refrigerators
Air Conditioners
Paper
Steel Filing Cabinet
Office Furniture

3 - Traditional Methods and Labor Saving Devices

Locally manufactured products represent one means of self-help with local resources, but there are other means available. A frequently overlooked source is the traditional techniques and tools for doing a job. While traditional methods may not be labor efficient, they may get the job done effectively, while providing jobs and holding down import requirements -- all at a cost level that the country can afford to sustain.

We have found that preference for traditional methods is frequently a factor in non-utilization of USAID commodities. In a recent audit, we found that USAID-furnished hand calculators were not used because government employees preferred to use the abacus. In some Asian countries, mathematical calculations are traditionally done with the abacus. There are also hand operated adding machines that sell for a few dollars, and, of course, the pencil and paper method. Some local officials may prefer adding machines and calculators, but it is often difficult to conclude that more sophisticated equipment is essential to development objectives.

The calculators which were not used because the abacus was preferred, were ordered by USAID based on the justification that it "will be a tremendous time saving piece of equipment". We cannot agree that it is ordinarily AID's objective to save labor in a less developed country.

Although the justification for time saving is an isolated statement, it underlies all procurement for the sake of efficiency or labor saving. Less developed countries which have surplus labor have little need for USAID purchases which impose a financial burden (operating, maintenance and replacement costs) for the purpose of saving labor.

A recent audit described utilization problems involving a USAID purchase of kitchen equipment for an educational institution:

<u>Commodity Item</u>	<u>Utilization Problem</u>
Dumbwaiter	Unrepaired because not required
Electric Dishwasher	No boiler for steam
Steam Kettle	No boiler for steam
Freezer	Not needed, one on hand
Refrigerator	Not needed, one on hand
Ice Cube Maker	Not used, not required

Other appliances were used:

<u>Commodity Item</u>
Range
Chair's Table
Washer (2)
Dryer (2)
Freezer
Refrigerator

The auditor observed that kitchen items are locally produced and could have been purchased with host government funds. A separate matter is why USAID provided labor saving devices. The country's labor standards are below

the level at which such labor saving machines are economical. The mission's cafeterias hire dishwashers at 25¢ per hour. More important, equipment which reduces labor requirements and increases non-essential import requirements is counter-productive in terms of the country's development objectives.

Another example of labor saving is a USAID purchase of dump trucks for a construction project. Although this appears logical, we have observed that local contractors use trucks without dumps and employ laborers to load and unload trucks with shovels. The USAID dump trucks were also purchased with optional power steering (\$350 option). The manufacturer's representative in the country advised us that he did not stock parts for power steering on trucks and that delivery time for parts from the United States ranged from 4 to 6 months.

One commonly AID-financed item, a U.S.-made duplicating machine, has been repeatedly found unused in projects in all four missions. The causes have been lack of in-country dealer support for parts and service and the fact that operating supplies, if available on the market, are considered too expensive.

The solutions adopted in projects which could not use this machine, reveal that more economical local resources are the reason the U.S. manufacturer is not well established in Asia. In one country we found a project using a locally made, hand operated duplicating machine instead of the USAID machine. Another project was using commercial duplicating service, which the host government official said was cheaper than buying supplies for the USAID machine. In a second country, we found a very simple silk screen process (\$10 kit) used for duplication rather than the USAID machine. In a third country, the mission resorted to a solution of obtaining a procurement source waiver in order to purchase a foreign duplicating machine which was more economical to purchase and operate and which was commonly used in the country. Only one country recognized, and only after utilization problems had developed, that duplicating machines are an item that should be singled out for host country, not USAID, procurement.

One alternative to USAID-financed equipment is simply to make do without the equipment. A not uncommon practice for host government offices lacking a copying machine is to have a typist retype what needs to be copied. Business districts in Asian cities also have available copy service enterprises. By U.S. standards, offices cannot afford retyping or sending someone out on the streets to get a copy. Less developed countries frequently can afford inefficient use of labor (by U.S. standards), and to the extent they do a job without expensive foreign products they prove such products are not essential.

A trade training project had received approximately \$3 million in USAID commodities, mostly common appliances, tools and radios. We found the teachers, for various reasons, did not find it appropriate for their classes to use the U.S. products. Unused appliances were placed in display cases for students to look at. U.S. handtools were locked up so they would not be stolen, while classes used locally purchased tools. Radio kits were provided, but beginning students learned to construct their own radios using a few simple components picked up on the market. U.S. stoves were unused while classes cooked on earthen charcoal pots.

It is apparent that common-use, U.S. commodities are often inappropriate to development objectives. Locally adopted methods are needed which do simple jobs with a minimum of imported capital investment.

Missions are buying U.S. products conforming to U.S. standards of operation without much knowledge of what standards are appropriate to the less developed country. In one audit, we criticized the purchase of electric typewriters when manual typewriters were locally made. The project manager responded that "electric typewriters are standard for professional work". If he were talking about technical equipment in his field, his professional standards would be appropriate. He is commenting, however, on how a typist does her work. While we want to raise host government standards in technical areas, we do not need to promote more expensive ways of doing simple jobs. As a

general rule, we see no point in changing operating standards if it involves doing the same work with more foreign exchange and less labor.

4 - Local Markets

We made a limited survey of host government procurement practices and commodity availabilities. We sampled host government purchase orders and procurement restrictions. We also contacted U.S. Commercial Attaches and some businesses and offices similar to Chambers of Commerce in the U.S. The purpose was to determine whether USAID commodities were compatible with host government standards, supportable with in-country parts and service, and economical in relation to available foreign and domestic products in the country.

In contrast to some USAID practices, host governments generally prohibited import of products which are domestically produced. One country's annual appropriation act contained the standard provision:

"All appropriations for the purchase of equipment, supplies and materials authorized in this act shall be available only for locally manufactured equipment, parts, accessories, supplies and materials except when none is available in the market, or when the price of the locally manufactured article exceed those determined by the Flag Law by ten per cent."

We compared representative purchase by all four USAID's and host governments for the following items:

Passenger Vehicle (for field work)
Calculator
Duplicating Machine
Refrigerator
Typewriter

Korea manufactured or assembled all of these items. The Korean government had purchased foreign as well as domestic products but the government announced in February 1972,

that it had banned "domestically producible" commodities from government use.

Vehicle procurement had been suspended for government agencies in Thailand and the Philippines since October 1971. Thailand also suspended procurement of typewriters and the Philippines suspended procurement of office equipment. Korea and Indonesia were buying locally manufactured or locally assembled vehicles. The USAID's were providing fully assembled U.S. vehicles, which host governments were either administratively prohibited from buying or the items were banned as "luxury" or "non-essential" imports (although some exceptions were allowed).

Although USAID vehicles were larger than locally made compacts, USAID prices were sometimes less than local currency prices for local products. We could not determine the reason for this, except that local industry was small and government protected. By using local labor and parts, however, the countries were reducing foreign exchange requirements for vehicles.

When host governments bought non-U.S. imported products, the prices of some items were significantly less than USAID commodities. In one country, USAID paid approximately 60% more for electric typewriters and hand operated duplicating machines than comparable, non-U.S. items purchased by the host government from local vendors. The local vendors' price included various taxes and import duties which the host government had previously collected. Average unit prices for calculating machines (although there was a wide variety of brands and prices) were 90% higher for USAID than for the average host government purchase.

Calculators offered the widest range of cost alternatives. USAID-financed electric calculators (U.S. source) cost \$475 to \$775; and electronic calculators cost \$475 to \$1,235. One host government bought Japanese electronic calculators for \$160 and manually operated calculators for \$100. Through off-shore procurement, one USAID also bought manually operated calculators from Hong Kong for \$83.00. In the U.S., a current Sears and Roebuck catalog offers

only two electronic calculators, both Japanese-made, at prices of \$180 and \$238.

Our purchase comparisons show that host governments have definite advantages over USAID in buying certain items locally. Some of the equipment they are buying such as vehicles and refrigerators are smaller and more modest. Other equipment is less expensive and some is locally made. Host governments also buy some U.S. products, but they are in a position to evaluate the U.S. product in relation to other economical alternatives. In general, we concluded that USAID commodity support should be avoided when host government procurement on the local market may involve choices among cheaper items, locally made items, or less sophisticated items.

5 - Local U.S. Industry Support

Our review of locally available commodities included an examination of local dealer services. If U.S. dealer support is not available in the country, repairs, parts, and supplies are difficult to obtain and this is one of the causes of non-utilization. Host government procurement does not involve this problem to the extent that host governments buy from local dealers who have products established in the country with accompanying parts, supplies and service.

The Project Manager's Handbook (M.O. 1305.1.1) counsels the project manager to determine that adequate spare parts and services will be available. In practice, we found that planning of support services for USAID-financed equipment was generally ineffective, but to varying degrees. We identified four distinct approaches to equipment support services:

(a) Some project managers began to look for in-country U.S. dealer support or other private enterprise sources of parts and service after the commodities were acquired and maintenance problems arose. Sometimes they found a U.S. manufacturer's representative who was only a sales representative and did not have adequate service

or parts stock capabilities. USAID's have provided project equipment, particularly vehicles, radios, and some types of office equipment, which have practically no U.S. dealer support in-country. The solution employed is for the host government or USAID to continually buy parts from the U.S. This entails downed equipment, long lead times, costly procurement activity, and high inventory requirements. Furthermore, projects which rely on continuous parts supply through USAID channels are not developing self-sufficient capabilities.

(b) A second, and very common approach, was to develop parts and maintenance service within the host government agency. This often involves a large USAID or host government investment in maintenance equipment, warehouses, spare parts inventories, and expensive training. Host government maintenance shops have been plagued with operational problems. Without going into those problems, which are treated in other audit reports, the solution often found has been to transfer support services to the private sector. After the USAID investment was made, it was sometimes found that U.S. dealers or other contractors, with a larger scale of operations, had more efficient and more effective support than government agencies.

(c) A third approach, used in one mission, was to require the U.S. manufacturer, in bidding to supply his product, to name his dealer in the country and certify that the dealer had adequate parts and stock. This served the double purpose of involving the in-country U.S. dealer and screening out manufacturers who couldn't support their product. This is an excellent practice, in our opinion, which helps identify commodities which are easiest to maintain and dis-involves USAID from maintenance problems.

(d) The last approach, which is an extension of the third, is to directly involve U.S. dealers and contractors in the host government's maintenance program. One of our mission's has helped the host country set up open-end parts contracts with U.S. dealers in the country. One U.S. dealer's representative, however, refused an open-end contract. He advised that, based on his past experience

with USAID projects, he needed more assurance that his stock would be used if he stocked parts for the project. He said he had stocked \$50,000 in parts for a USAID project five years ago and the parts were never used. In any case, this mission has learned that it needs to stop providing spare parts and seek U.S. dealers' cooperation in order to build in-country support capabilities.

6 - Conclusions about Local Resources

Host government use of local resources would preclude USAID financing of common-use commodities. Almost every commodity for routine business operations is available in East Asia. Two East Asia missions have written policies precluding USAID support for most commodities available locally, at reasonable cost, regardless of origin.

East Asia missions have made some attempts to assure U.S. dealer support in-country. If U.S. dealers are in-country, their products are available locally. If they are not in-country, the U.S. equipment cannot be easily maintained. Moreover, if the U.S. product is not established in-country it may have been kept out by host government import restrictions or more economical foreign or local products. Common-use commodities are not, therefore, the most essential or economical cost element for U.S. dollar financing.

C - ALTERNATIVE DONORS - CONTRACEPTIVES

1 - Cost Saving Accomplishments

Economies are available to USAID and other foreign assistance donors by each specializing in commodities for which their procurement source offers a comparative price advantage. We limited our review of other donors' procurement to commodities used in the family planning programs. We found various donors buying the same types of commodities, but not necessarily at the same time or in the same country. Certain procurement items offered substantial savings if purchased from non-U.S. sources.

Some countries have already accomplished savings by changing the commodity donor and procurement source. Condoms are now generally purchased from Japan, either through Japanese grant assistance or through untied UN agencies. USAID's have bought U.S. condoms in the past and one mission is still providing a limited amount. To the extent the shift in procurement source has taken place, family planning programs have acquired a product judged more suitable in Asia, at a price of approximately \$1.50 per gross compared with the U.S. price of approximately \$3.60 per gross. USAID/Philippines also encouraged UN purchase of thermometers from Japan and reduced unit costs from \$1.90 (AID cost) to \$.33 (UN cost), thereby saving approximately \$12,000.

Inter-urinary devices (IUD's) are another minor item for which the procurement source has partially shifted to the most advantageous donor source. In one country, AID provided IUD loops through the International Planned Parenthood Federation at a unit cost of \$.35. (One order delivered February 72, cost \$17,667.) A second donor, Population Council, has begun procuring the loop for the same country at a unit cost of \$.06 per loop. Population Council also provides a \$.06 loop in another country, but in a third country they provide only bulk plastic which costs approximately \$.001 per loop. The loop is then manufactured by local industry at a cost of \$.01 per loop (Population Council estimate). Changing procurement

sources for the IUD, thus, reduces procurement cost to as little as 3% of the AID cost.

2 - Sources of Oral Contraceptives

In terms of total cost and potential cost saving, the single most important commodity in East Asia is the oral contraceptive pill. USAID procurement costs of orals in three missions, Indonesia, Thailand, and the Philippines, has increased from \$1.4 million in FY 1971 to an estimated \$4.0-5.0 million for FY 1973. Part of the increase is due to quantity of consumption and part is due to increased unit costs. AID's purchase price for three U.S. manufactured orals has increased from \$.147 per cycle to \$.23 per cycle and then to \$.347 per cycle in consecutive purchases. These prices do not include transportation unit costs of approximately \$.005 for surface or \$.04 for air freight.

In Korea, the Swedish International Development Authority (SIDA) is providing the oral contraceptive pill for \$.111 per cycle, delivered. The SIDA oral, Eugynon from Schering of Germany, is the same product as the U.S. manufactured Ovral for which AID pays approximately \$.35 to \$.39 per cycle, delivered.

We have no information on the reasons for the recent price escalation of U.S. made orals. The SIDA representative in Korea showed us that his purchase price for Eugynon had increased from \$.093 per cycle to \$.111 in the past year, but he indicated this may be due to changing exchange rates. We can observe that AID in its latest purchase pays more than 300% of the latest SIDA price.

We appreciate the complexity of multi-donor coordination, but a 2:1 or 3:1 cost differential applied to approximately \$4 million or more per year in three countries warrants attention. One possible alternative is to encourage untied donors to increase their financing of less expensive orals. USOM/Thailand advised us that SIDA will begin providing a limited quantity (2 million cycles) for Thailand in FY 1973. In Indonesia, the UN and World Bank have programmed family planning loans and grants totaling

\$33 million. On a world-wide basis, it would seem desirable to shift oral contraceptives to untied donors who have a comparative price advantage.

If untied donors do not have sufficient funds for total oral contraceptive requirements, AID should consider an off-shore procurement waiver. Manual Order 1415 2.1 states that, "Unless otherwise authorized..., Agency policy requires that all contraceptives and related supplies financed with Project Assistance funds shall be of U.S. source and origin...." However, authority to waive geographic source requirements (M.O. 1414.1.1) is based on criteria including:

"4. Price differential - in Technical Assistance Project Procurement where the lowest available U.S. - delivered price exceeds the delivered price from an alternative 'limited free world source' in the amount of 50% or more."

One year ago, the AID price exceeded the current SIDA price by 36%, but the last two purchases exceed the SIDA price by 110% and 217%, respectively. We do not know what prices would be available to AID on the world market, but the SIDA purchase price is an indication of the potential savings involved.

A third possibility is local production of the oral contraceptive pill. Pharmaceutical industries are developing in all four East Asia countries, and local manufacturing of orals is done in some countries on a limited scale for small commercial markets. The Schering Co., Korea Ltd., advised us that they have begun exporting limited quantities of orals to Malaysia and Singapore. Retail prices that we checked for locally made and imported orals are high, approximately \$.50. This covers factors other than manufacturing costs, however. If donor-financed orals were transferred to the local pharmaceutical industry, economies of volume and scale could reduce unit costs. We could not do a feasibility study, but local production of orals could be developed if AID's objective is development of in-country (or regional) capabilities. In any case, several cost saving alternatives are available.

D - CURRENT POLICIES AND PRACTICES

1 - Planning Documentation

Program documentation offers some indication of whether USAID commodities are planned as an economical supplement to available resources. We found wide variety in the degree of detailed documentation of other resource contributions. In one mission, Project Agreements usually listed specific procurement items to be contributed through various local currency resources. In other missions, some ProAgs described the host government contribution as commodities which USAID does not provide. Other ProAgs detailed the USAID commodities and expressed host government contributions in general, but inclusive categories of local support such as office equipment and supplies, operating facilities, and transportation. The latter method, while it does not indicate host government planning is complete, does indicate criteria were formulated for dividing the commodity element.

We found documented justifications for procurement actions were generally weak or non-existent. This is not necessarily a deficiency, in our opinion, because good rationalizations are not as important as good criteria for procurement decisions. If project managers have guidelines for commodity selection, written justifications would only be necessary for exceptions to the rule. Guidelines would, thus, simplify the decision process.

2 - The Gray List

We found few established guidelines for the determination of what commodities USAID should finance, except in one mission. USOM/Thailand established criteria for commodity selection and a systematic means of implementation. Thailand's approach is experimental and partially incomplete but it is an important first step towards getting more development value out of commodities.

USOM/Thailand began the experiment with a limited survey by its Logistics Division entitled "A Look at Some Thai Industries", September 21, 1970. The Mission

Director then established a "gray list" of commodities that the U.S. should normally not provide the Thailand government:

"I hope that setting forth an illustrative list of both discouraged and allowable commodities will help us all think about some of the larger issues which the subject touches: uses of local currency; support and development of Thai industry; development of larger scale sector plans to supplant commodity-oriented project assistance; development of the necessary budget habits upon which a Thai replacement policy of commodities will depend, etc." (Rey Hill, Nov. 12, 1970)

Criteria behind the gray list introduced important policy considerations:

"The agreement should recognize that to the greatest extent possible commodity requirements should be met with baht (local) currency when reasonably satisfactory items are available locally, even if there is some sacrifice of quality."

----- ... -----

"Agreement should cover, and PIO's confirm, that USOM is moving rapidly toward the provision of fewer and major items, eliminating small, difficult-to-monitor commodities, particularly things available in Thailand at reasonable cost regardless of origin." (USOM Staff Notice April 9, 1971)

Also discouraged are items "which more often are requested for prestige purposes than for their actual need". Items related to special services such as computers and printing presses are discouraged because they are often more efficient and economical from the private sector.

USOM/Thailand has gradually applied this policy. Gray list items were still ordered in FY 1971, though in

reduced quantities. In response to our Education Sector Audit (AR 8-493-72-17) which disclosed in April 1971, that schools set aside USOM common-use commodities and used locally purchased items, FY 70 Purchase Orders were cancelled to the extent possible and virtually all FY 1971 procurement (which had averaged over \$1 million per year since FY 1966) was stopped for that sector.

The "gray list" has not been updated or revised on the basis of a complete commodity availability survey. Nevertheless, it includes many of the common-use items the mission had been providing such as office supplies, audiovisual equipment, office machinery, appliances, medical supplies, furniture, fertilizer, and small items. The "gray list" does not include field vehicles and trucks, which it described as commodities that may be procured with normal justification. Trucks were to be "usually chassis only" as bodies are locally made, but the mission is still buying complete, assembled trucks.

Use of the gray list is fairly simple. Project managers are advised that if they request gray or discouraged commodities, they are required to submit special justification on a project review sheet explaining why USAID support of the item is needed. The justification is then reviewed by the Program Office and the Director.

The Gray List finds its way into program documents. The following statement was in a FY 1971 ProAg:

"The commodities requested are those items which cannot be obtained in Thailand, or if available they cannot be purchased at a reasonable price and in a timely manner."

The Thailand experiment also proved that substantial commodity support is possible without the common, available items. FY 71 commodities for Thailand included approximately \$4 million for medical instruments, heavy duty equipment, well drilling equipment, guns and ammunition (\$1.4 million for Public Safety Project), laboratory and scientific equipment, and machine tools.

Less Developed Countries have need of commodity resources. The problem for USAID's is how to select what is most needed, not readily available in country, and directly related to development.

PART V - GENERAL COMMENTS

Commodities such as passenger vehicles, office equipment and supporting services are related to administrative operations and, therefore, involve USAID's in the internal management concerns of host governments. AID's "redirection" involves a de-emphasis of project management as explained in the Stern Report:

"Within each sector, technical assistance projects must cease to be 'ours' and become 'theirs' Project management is a host country responsibility. If they cannot do it, they cannot benefit from the project. Our role is to coordinate our inputs and to assure that they are being used for project purposes."

The President's message of September 15, 1971, to the Congress calls for a reduction in direct U.S. involvement in the internal affairs of the less developed countries and a less directive style and approach with respect to management of assistance activities.

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