

GAO

United States General Accounting Office

Report to the Ranking Minority Member,
Subcommittee on International Economic
Policy and Trade, Committee on Foreign
Affairs, House of Representatives

June 1991

**FOREIGN
ASSISTANCE**

Obligated but Unspent
Funds as of
September 30, 1990



**National Security and
International Affairs Division****B-244269****June 18, 1991****The Honorable Toby Roth
Ranking Minority Member
Subcommittee on International
Economic Policy and Trade
Committee on Foreign Affairs
House of Representatives****Dear Mr. Roth:**

This report responds to your May 7, 1991, request that we update certain information contained in our report, Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991), discussed the Agency for International Development's (AID) pipeline of obligated but unexpended funds, as of the end of fiscal year 1989. Specifically, you asked us to determine, as of September 30, 1990, (1) how much funding was in AID's overall pipeline, (2) how much was in the pipelines of selected countries, and (3) how long the funds had been in the pipeline and their legal status. In addition, we followed up with AID on its intended actions on recommendations contained in our earlier report.

Background

Congress appropriates funds to assist foreign countries, and AID obligates these funds for various activities, such as disaster assistance to help refugees. The pipeline is the difference between the amount that AID obligates for such activities and the amount it has spent on them. To ensure that obligated funds do not simply accumulate in the pipeline but actively advance agency goals, AID guidance generally limits to 1 year the amount of planned spending that can be obligated for ongoing activities.

In our April 1991 report, we allowed AID to have up to 2 years of planned spending for ongoing activities and still concluded that AID's pipeline contained excess funding. We also pointed out that legislation passed in November 1990 required that appropriations available for a definite period of time, including AID appropriations, be canceled 5 years after the end of the last year in which they were available for obligation. The legislation further required that funds obligated in fiscal year 1983 or earlier be deobligated and withdrawn by March 6, 1991. The President, however, has authority under the Foreign Assistance Act of

1961, as amended, to waive such requirements with respect to AID appropriations.

Results in Brief

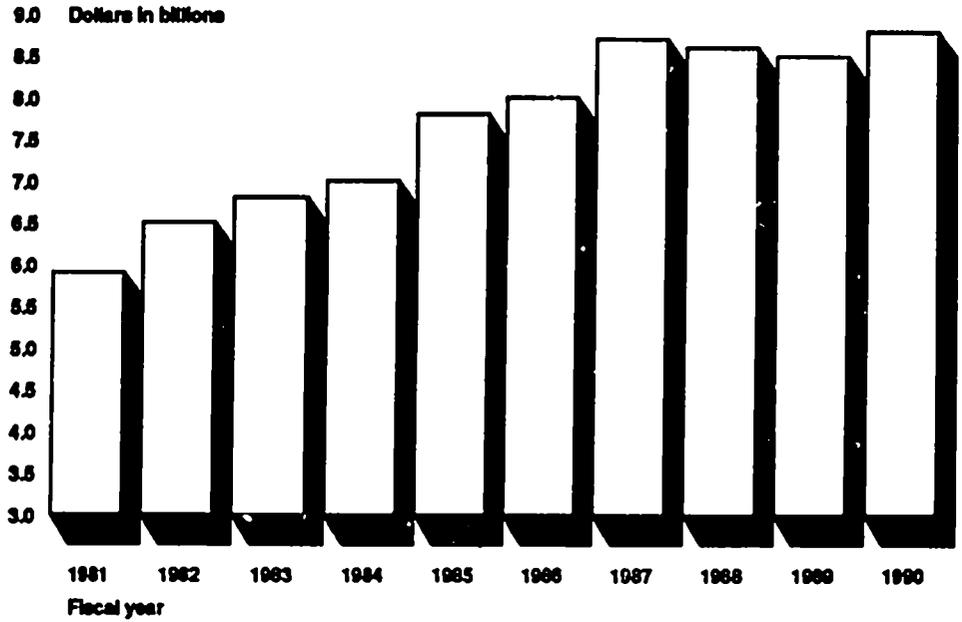
As of September 30, 1990:

- The obligated but unspent funds in AID's pipeline amounted to \$8.8 billion. This amount is approximately \$266 million more, or 3 percent greater, than the amount of AID's pipeline at the end of fiscal year 1989. However, two new programs in Panama and Nicaragua added about \$532 million to AID's overall pipeline during fiscal year 1990.
- AID had \$2.04 billion in its pipeline for Egypt, \$757 million for Pakistan, and \$433 million for the Philippines. Compared to fiscal year 1989, the funds in the pipeline for Egypt declined substantially, while funds in the pipeline for Pakistan increased. The pipeline for the Philippines remained about the same.
- Over \$90 million in AID's pipeline had been obligated in fiscal year 1981 or earlier, indicating that these funds had been in the pipeline 9 years or longer. Over \$200 million had been obligated in fiscal year 1983 or earlier. Although existing legislation required AID to cancel these funds by March 6, 1991, a presidential determination waived AID's requirement to do so through September 30, 1992.

AID's Pipeline Has Increased

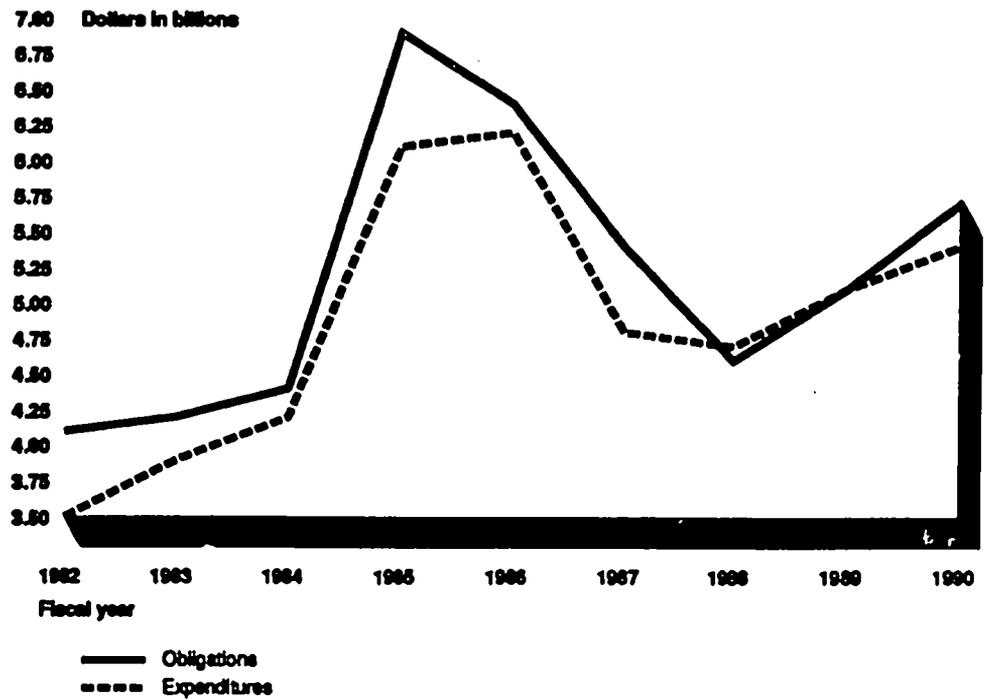
Between the end of fiscal years 1989 and 1990, AID's pipeline increased by about \$266 million. This increase in obligated but unspent funds followed slight decreases at the end of fiscal years 1988 and 1989, as illustrated in figure 1.

Figure 1: AID's Pipeline (Fiscal Years 1981 Through 1990)



The gaps between obligations and expenditures in figure 2 represent changes in the size of the pipeline from fiscal years 1982 to 1990. In fiscal years 1988 and 1989, AID spent slightly more than it obligated, which caused the pipeline to decrease slightly, but this situation did not continue in fiscal year 1990.

Figure 2: Obligations and Expenditures
(Fiscal Years 1982 Through 1990)



Country Pipelines

Of the 12 countries with the largest pipelines at the end of fiscal year 1990, 4 had decreased the amount in their pipelines compared to fiscal year 1989. The pipelines for six other countries had increased between the end of fiscal years 1989 and 1990, but only Pakistan's and Guatemala's pipelines increased by over 10 percent. According to AID officials, the pipeline for Pakistan increased because the mission fully funded a major road construction project that was not to be implemented until 1991.¹ In Guatemala, the pipeline increased because AID decided to withhold economic support funds until the newly elected government was in place and AID could negotiate economic policy reforms with it.

As table 1 shows, the United States resumed providing assistance to Nicaragua and Panama in fiscal year 1990; these programs are the subject

¹AID officials told us that Pakistan's pipeline would be reduced because, as of September 30, 1990, AID ceased obligating funds for Pakistan. AID was beginning to wind down all assistance activities in the country, as required by section 620E(e) of the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2375(e), because of U.S. concerns that Pakistan had acquired a nuclear explosive capability.

of recent GAO reports.² This assistance alone added \$532 million to AID's pipeline, which more than accounts for the overall increase in the pipeline at the end of fiscal year 1990.

Table 1: AID Pipeline for Certain Countries (As of September 30, 1989 and 1990)

| Country | Fiscal year | | Percent change |
|-----------------|-------------|-------------|----------------|
| | 1989 | 1990 | |
| Egypt | \$2,335,859 | \$2,036,350 | -13 |
| Pakistan | 673,589 | 756,684 | +12 |
| The Philippines | 427,427 | 433,178 | +1 |
| El Salvador | 357,406 | 365,661 | +2 |
| Panama | 6,076 | 357,598 | ^a |
| Bangladesh | 201,019 | 210,100 | +5 |
| Nicaragua | 4,306 | 184,457 | ^a |
| India | 227,075 | 181,282 | -20 |
| Indonesia | 216,585 | 175,839 | -19 |
| Guatemala | 129,039 | 167,298 | +30 |
| Honduras | 122,929 | 135,253 | +10 |
| Kenya | 133,209 | 119,662 | -10 |

^aThe United States resumed aid to these countries in fiscal year 1990.

Legal Status and Age of Pipeline Funds

Beginning with fiscal year 1987, AID's annual appropriations acts have provided that AID appropriations shall remain available until expended if such funds are obligated during their initial period of availability. Basically, this proviso converts AID's fiscal year 1987 through 1991 appropriations to no-year appropriations, once obligated, and makes them available for an indefinite period. If a similar proviso is included in future AID appropriations, AID's funds, once obligated, will similarly be converted to no-year funds.

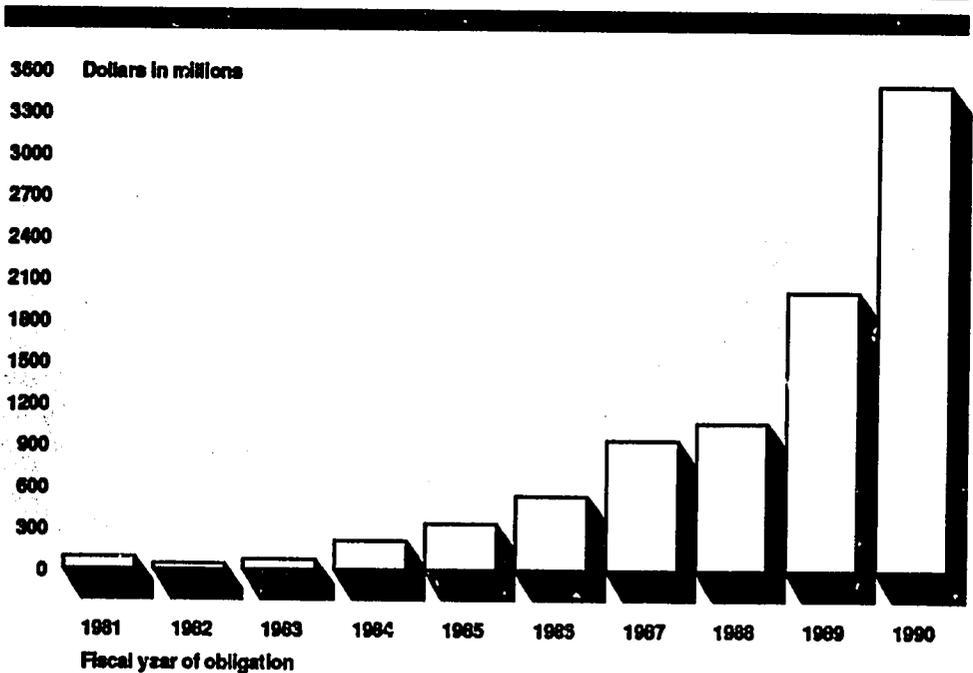
Public Law 101-510, section 1405, enacted on November 5, 1990, requires that appropriations available for a definite period be canceled 5 years after the end of the last year in which they were available. This legislation applies to AID funds appropriated in fiscal year 1986 or earlier since AID does not have the authority to convert such funds to no-year funds. For example, the legislation requires AID to cancel and withdraw funds that had been obligated in fiscal year 1983 or earlier, by

²Aid to Panama: Status of Emergency Assistance to Revitalize the Economy (GAO/NSIAD-91-168, Apr. 8, 1991) and Aid to Nicaragua: Status of U.S. Assistance to the Democratically Elected Government (GAO/NSIAD-91-183, May 1, 1991).

March 6, 1991. By September 30, 1991, AID must cancel and withdraw funds obligated in fiscal year 1984. The President has the authority to waive these requirements, however, under section 633(a) of the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2393(a).

At the end of fiscal year 1990, AID's pipeline contained over \$200 million that had been obligated in fiscal year 1983 or earlier and over \$420 million obligated in fiscal year 1984 or earlier. Figure 3 illustrates the age of all funds in the pipeline. Although Public Law 101-510 calls for the remaining balances from these fiscal years to be canceled at their respective cancellation dates, Presidential Determination No. 91-21 of February 27, 1991, suspended the application of these provisions, with respect to AID, through September 30, 1992. The presidential determination was based on a concern about the foreign policy consequences of cancelling this assistance.

Figure 3: Age of Funds in the Pipeline



AID Actions to Implement Our Recommendations

In our April 1991 report, we concluded that unrealistic or overstated implementation planning was the major factor contributing to projects having excess funds in the pipeline. Circumstances that AID could not control, such as delays by host governments, also resulted in excess funding. AID, however, made limited use of its statutory authority to deobligate funds from slow or stalled projects, in part because host countries had to agree to the deobligation.

To help AID more effectively manage its pipeline resources, we recommended that AID (1) review the justifications for not deobligating funds in projects that were more than 9 months beyond the completion of activities, and deobligate the funds that could not be justified; (2) require each AID mission and office to annually identify excess funds in the pipeline, provide a rationale for the excess, and take necessary steps to deobligate the funds if the rationale was not consistent with AID guidance; and (3) require that future AID project and program agreements contain a standard provision stating the conditions under which AID could unilaterally deobligate certain assistance funds. U.S. national interest or political considerations might affect AID's actual use of this management tool, but a standard provision would provide leverage to move projects or programs in the right direction.

AID has not formally responded to Congress about how it will address these recommendations. However, responsible agency officials told us that they are planning to fully implement the recommendations. They are planning to (1) review all obligations for projects that are 9 months beyond the completion of activities and deobligate funds that cannot be justified; (2) annually identify projects with excess pipelines, review the justifications for any excess funds identified, and take steps to deobligate amounts that are not consistent with AID guidance; and (3) include a standard provision in project and program agreements allowing for unilateral deobligation of assistance funds, based on specified conditions.

Scope and Methodology

We analyzed AID's fiscal year 1990 data base that was used to report on all AID projects and programs for the fiscal year 1992 congressional budget hearings. We also interviewed officials at AID's Bureau for Program and Policy Coordination, an AID deputy controller, and country desk officers about the status of the pipeline at the end of fiscal year 1990. We did not determine whether the fiscal year 1990 obligations exceeded AID guidance. We did not validate the data base provided to us by AID. However, we reviewed the internal controls used to obtain the data and had previously validated the fiscal year 1989 data.

We performed our review during May 1991 in accordance with generally accepted government auditing standards. We did not obtain written agency comments. However, we discussed our report with agency officials and have included their comments where appropriate.

We are sending copies of this report to the Secretary of State; the Administrator of AID; the Director, Office of Management and Budget; and responsible congressional committees. Copies will also be made available to others on request.

Please contact me at (202) 275-5790, if you or your staff have any questions concerning this report. The major contributors to this report were Donald L. Pattor, Assistant Director, and Tet Miyabara, Evaluator-in-Charge.

Sincerely yours,



Harold J. Johnson
Director, Foreign Economic
Assistance Issues

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