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Foreign Economic Assistance Issues



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**Comptroller General
of the United States**

December 1992

**The Speaker of the House of Representatives
The Majority Leader of the Senate**

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the area of foreign economic assistance. The issues include (1) reassessing the goals and rationale for foreign economic assistance, (2) ensuring management accountability in aid programs, (3) establishing a work force planning system in the Agency for International Development, (4) improving information resource management, and (5) establishing modern financial management and accounting systems.

The GAO products upon which this report is based are listed at the end of this report.

We are also sending this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.



Charles A. Bowsher

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Foreign Economic Assistance Issues

Since the end of World War II, beginning with the Marshall Plan and throughout the Cold War era, foreign economic assistance has served as an important tool of U.S. foreign policy. Foreign economic assistance programs have focused on a wide range of national objectives—political, economic, commercial, security, developmental, and humanitarian. However, with the end of the Cold War and the easing of East-West tensions, the perceived threats to our national interests—the glue that once held together the political and popular support of foreign aid—have disappeared. New challenges are on the horizon, both at home and abroad. However, the role of foreign aid in meeting these challenges is unclear, and mismanagement at the Agency for International Development (AID), the primary agency for delivering U.S. bilateral economic assistance, has clouded the agency's future.

Four years ago, we reported that the legislative framework, the Foreign Assistance Act of 1961, as amended, needed to be reexamined. The multiplicity of objectives in the legislation had created confusion as to the direction assistance programs should take, had contributed to the lack of consensus on priorities, and had made it difficult to hold the agency

accountable for achieving any particular objective. Attempts to reform the foreign assistance legislation have so far been unsuccessful.

Other problems discussed in our 1988 report also remain. Management weaknesses have caused problems in accountability and in control over funds and have reduced the effectiveness of our foreign assistance programs. For the past decade, AID has maintained a pipeline of several billion dollars in obligated but unspent funds; since 1987, these funds have totaled more than \$8 billion. Also, for many years, AID's weak, unintegrated accounting system has precluded it from reliably determining (1) what the status of its appropriated funds is, (2) whether it actually has on hand all the property it has paid for, and (3) what resources have been used to achieve program results. AID has initiated a project to improve its financial management system, but it is repeating past mistakes. AID has begun to address its other management problems. In December 1990, the AID Administrator announced a strategic management initiative with overall short- and long-term goals, and other actions were taken to provide more accountability for

**policy, operations, and administration.
However, progress has been slow.**

Reassessing Goals and Rationale for Foreign Economic Assistance

It has been over 30 years since the Foreign Assistance Act of 1961 was enacted. Since that time, the United States has provided an estimated \$180 billion in bilateral economic aid to 153 countries, in addition to an estimated \$27 billion provided through international financial institutions such as the World Bank. The act has been frequently amended, often to add new objectives or to refocus old ones; however, neither our foreign assistance goals and objectives nor the best mechanisms for providing assistance have been fully reexamined. With the breakup of the Warsaw Pact and the Soviet Union and other global changes and with increasing demands for assistance, it is time for such a reexamination.¹

The Agency for International Development, the primary agency administering U.S. bilateral economic aid, does not have a clearly articulated strategic mission. The Foreign Assistance Act of 1961, as amended, contains more than 30 directives covering a wide range of development assistance objectives, such as promoting human rights, protecting tropical forests, integrating women into developing countries¹

¹Similar concerns have been raised about the future of U.S. military assistance, particularly as it pertains to U.S. security commitments abroad. These concerns are addressed in a separate report of this transition series.

economies, promoting private enterprises, and using appropriate technology for small farms and businesses. New programs and approaches introduced by each Administrator, added to ongoing activities and congressional directives, have resulted in a complicated and incoherent set of objectives with no clear priorities. The foreign economic assistance program has become fragmented, largely because of a lack of consensus among the many groups that are concerned with AID's mission or that have a stake in AID's services and resources. The program has been buffeted by the competing agendas of other federal agencies, the significant role the Congress has taken in programming decisions, and the lobbying efforts of special interest groups outside the government.

AID's traditional role as the lead agency for administering U.S. economic assistance is being eroded, and other agencies—such as the Departments of State, the Treasury, and Commerce and the Environmental Protection Agency—have begun to take the lead in implementing specific new programs. This phenomenon stems partly from the lack of strong leadership at AID and partly from the perception that AID cannot manage its programs well. In a 1991 report on assistance

ω Central and Eastern Europe, we noted that the State Department had taken the lead in managing this assistance effort. While more than 15 U.S. government agencies and other entities were involved, AID's role was unclear. State Department officials observed that some U.S. agencies were using their assistance programs as an opportunity to establish an overseas presence. A similar number of U.S. agencies is involved in providing assistance to the republics of the former Soviet Union; AID's role in managing this effort is again ill defined. In Latin America, the Treasury Department took the lead in implementing the Enterprise for the Americas Initiative, and AID found itself taking a secondary and poorly defined role.

In April 1992, the President's Commission on the Management of AID Programs concluded that AID's organizational status and location within the executive branch—as a semiautonomous agency under the general policy direction of the State Department—did not equip it to respond with the effectiveness and flexibility required by the rapidly changing world of the 1990s. The Commission argued that AID had difficulty attracting effective leaders because it lacked prestige; that the agency was less able to resist the imposition of new priorities

and programs because it spoke with less than Cabinet-level influence in both the executive and legislative branches; and that AID had found itself isolated from the rapidly flowing political events of the 1990s, such as the developments in Central and Eastern Europe and the former Soviet Union. Concluding that the rationale for foreign assistance programs was to support U.S. foreign policy objectives, the Commission recommended that AID be fully merged into the State Department.

We have identified many of the same problems in AID that were articulated by the President's Commission and have come to some of the same conclusions about the pernicious effects of these problems. However, we have withheld judgment on the Commission's recommendation to merge AID into the State Department because we believe that the question of an organizational home for AID is premature. Before this question can be appropriately answered, the executive and legislative branches must agree on the policy goals of U.S. assistance. Although complete consensus may be unattainable, AID needs to articulate its strategic goals and assume leadership in obtaining the support of key groups. On our recommendation, AID has begun such a

**Reassessing Goals and Rationale for
Foreign Economic Assistance**

process; however, for the process to be successful, the Congress and the new administration must become engaged at the very top levels in addressing basic questions about why the United States has a foreign aid program, what priority goals we are trying to achieve, and what the most appropriate means are for providing foreign aid.

Ensuring Management Accountability in AID Programs

AID has traditionally used a highly decentralized organizational structure to implement its programs through a worldwide network of overseas missions. Such an approach may be appropriate for an agency such as AID because the development and assistance needs of the countries and geographic regions it serves vary widely. However, AID has not carried through its management approach by establishing strong centralized policy and priority-setting mechanisms and systems to ensure that its decentralized units are fully accountable for implementing agency policy.

During the 1980s, AID increasingly decentralized approval authority for projects and programs. This weakened the central policy-making function and made the geographic regional bureaus much more independent. Lacking strong central policy guidance, the geographic regional bureaus and missions tried to develop performance measurement systems independently. We found that, because the bureaus and missions did not coordinate, the data they were using were not comparable and their efforts were redundant and costly. The centrally funded functional bureaus—responsible for activities such as private enterprise development, population

programs, and efforts to combat HIV/AIDS—responded to the shift in power by marketing services directly to the missions.

We have cited numerous instances in recent years in which organizational fragmentation has made management inefficient. We reported that interbureau disagreements had slowed and diffused AID's response to the HIV/AIDS crisis in less developed countries. In addition, the targeting of resources to a few countries where AID could have the most impact was delayed, partly because the central and geographic bureaus could not agree on which countries were priorities. Earlier, we had found that 43 units within three geographic bureaus and one central bureau were implementing AID's population program and no single program officer or office had overall management authority and oversight responsibility.

AID has not emphasized project implementation and program results as much as project design and the obligation of funds. The agency therefore has not collected the baseline data needed and does not have adequate evaluation systems for measuring the impact of its individual projects, country programs, or overall operations.

For the past decade, AID's pipeline of obligated but unspent funds has exceeded \$6 billion—\$8 billion since 1987. These funds exist largely because of unrealistic or overstated plans for implementing projects. AID does not intend to use a sizable percentage of these funds within the next 2 years. Thus, they represent a lost opportunity for AID to redirect scarce resources to higher priorities.

Good management procedures are sometimes neglected. For example, contrary to AID guidance, missions generally do not assess a host country's contracting practices or audit capabilities before deciding to use host country contracting procedures. Also, AID makes cash grants too far in advance of when recipient countries need the money, thus adding to the U.S. government's borrowing costs. Recipient countries earned, for their own use, nearly \$229 million in interest on these cash grants between October 1988 and May 1992.

AID has managed some programs effectively. In October 1992, we reported that AID's Office of U.S. Foreign Disaster Assistance has been generally responsive to both quick-onset and long-term disasters. The effectiveness of the Office is due largely to

its programming and funding flexibility (which was authorized by the Congress) and its ability to work well with international and private voluntary organizations.

AID has recognized the need for stronger controls to hold bureaus and missions accountable for their programs. The Administrator tried to address the lack of central direction through his reorganization of headquarters operations in October 1991. Despite this and other management initiatives, AID still lacks the strong central leadership and management systems required to make its decentralized operation effective.

Establishing a Work Force Planning System in AID

The number of AID employees has steadily declined over the past decade as AID has evolved from a hands-on agency implementing projects to one that largely oversees the implementation of projects by third parties such as contractors and private voluntary organizations. However, AID employees, particularly at the agency's missions, frequently do not have the skills necessary to perform their new responsibilities. The underlying reason is that AID has not systematically planned for its work force needs.

AID acknowledges that it does not have an integrated system for determining the appropriate composition of its work force or the skills missions require. Consequently, it cannot systematically match its mission needs with available skills or fill gaps in the agency's skill profile. The agency also has not developed effective placement, training, and recruiting programs to make better use of its staff. AID officials are developing a work force planning system but are constrained by the lack of basic information about the agency's work force—its size, components, and skills. AID's ongoing work force planning efforts are inhibited by the lack of a clear strategic direction for the future.

**Establishing a Work Force Planning
System in AID**

AID believes that the steady decline in the number of U.S. employees, coupled with the rapid expansion of programming and management requirements, has been a major source of its accountability problems, and missions have frequently told us that they have insufficient staff to manage and oversee their projects. While staff reductions do challenge AID's ability to manage its activities, we believe the agency could significantly improve accountability and oversight over its programs by strengthening the management of its work force. The first step in this process is to develop a work force planning system.

Improving Information Resource Management

Like other agencies, AID depends on information to sustain its programs and operations, to fulfill a multitude of internal and external reporting requirements, and to evaluate program performance in response to legislative concerns. However, long-standing shortfalls exist in AID's information resource management (IRM), including problems with undefined agency information needs to support technology decisions; duplicate data; redundant, outdated, and unintegrated information systems; complaints from users about inadequate IRM support; and nonexistent data standards and procedures. In 1990, AID hired a management consulting firm to review its IRM program and develop a strategic IRM plan to correct deficiencies. The agency has since taken steps to improve its IRM program, but it has still not developed a business plan and remains unfocused in its overall approach to IRM. AID is just beginning to shift its focus from obtaining information technology, with little control or standardization of data or systems agencywide, to managing information as a corporate resource. As a first step, AID should develop a functional business plan to provide the agency with a framework for managing its information resources and formally designate a senior IRM official with overall responsibility for

**Improving Information Resource
Management**

**agencywide leadership in information
resource management.**

Establishing Modern Financial Management and Accounting Systems

AID administers billions of dollars of economic and development assistance programs worldwide. However, the agency has serious accounting and financial reporting problems that preclude it from reliably determining (1) what the status of its appropriated funds is, (2) whether it actually has on hand all the property it has paid for, and (3) what resources have been used to achieve program results. These problems exist because AID managers have not enforced established accounting and financial reporting procedures. Currently, AID uses 45 headquarters and overseas financial management systems to account for, control, and report on resources used for its program and administrative operations, but these systems do not meet the information needs of AID managers.

AID cannot reliably account for and report on the status of its appropriated funds. As of September 20, 1992, AID had \$418 million in disbursements that remained unmatched with corresponding obligations, some for as long as 10 years. Consequently, AID has no assurance that these disbursements were made only against valid, preestablished obligations. AID's accounts also include erroneous information, and in two cases the amounts obligated for programs exceeded

the appropriation. Until AID matches its unliquidated obligations with the disbursements already made and determines which of the remaining unliquidated obligations represent valid amounts still owed by the federal government, AID cannot determine the status of its appropriated funds or ensure that it fully complied with congressional directives on using these funds.

AID's property systems do not reliably account for and control property. One system overstated vehicle acquisitions by 44 percent and disposal by 14 percent. Another system recorded more than 20,000 items valued at about \$1.9 million that could not be located during a physical inventory. Still another system understated property balances in overseas offices by about \$13 million in 1990 and by about \$1.9 million in 1991. Because of this unreliable information, AID has no assurance that it has on hand all property paid for and that property has not been misappropriated.

AID's systems do not record and report financial and quantitative information on the resources used and results achieved by program operations. As a result, AID cannot efficiently provide program and financial

information to program managers and the Congress. To obtain information on program results, AID must use ad hoc manual data from project files, which can take weeks to gather and process.

AID has initiated a major project to improve its financial management systems, but it appears to be repeating past mistakes by not having a comprehensive plan for the project and a management structure to ensure that the project's design is fully developed and implemented. We believe that the agency will need to develop a long-term plan that establishes a steering committee; designates a project manager; and specifies the goals, objectives, and scope of the financial management system.

Related GAO Products

Foreign Assistance: Cost Reductions Possible From Improved Cash Transfer Management (GAO/NSIAD-93-58, Nov. 18, 1992).

Foreign Disaster Assistance: AID Has Been Responsive, but Improvements Can Be Made (GAO/NSIAD-93-21, Oct. 26, 1992).

Information Resources Management: Initial Steps Taken, but More Improvements Needed in AID's IRM Program (GAO/ITTEC-92-64, Sept. 29, 1992).

Foreign Assistance: Combating HIV/AIDS in Developing Countries (GAO/NSIAD-92-244, June 19, 1992).

Foreign Assistance: Management Problems Persist at the Agency for International Development (GAO/T-NSIAD-92-31, May 1, 1992).

Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992).

Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, Apr. 3, 1992).

AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992).

Foreign Assistance: AID's Use of Personal Service Contracts Overseas (GAO/NSIAD-91-237, Sept. 13, 1991).

Foreign Assistance: Progress in Implementing the Development Fund for Africa (GAO/NSIAD-91-127, Apr. 16, 1991).

Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991).

Latin America: Views on the Enterprise for the Americas Initiative (GAO/T-NSIAD-91-07, Feb. 27, 1991).

Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, Feb. 26, 1991).

Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-91-31, Oct. 5, 1990).

Foreign Assistance: Use of Host Country-Owned Local Currencies (GAO/NSIAD-90-210BR, Sept. 25, 1990).

Related GAO Products

Foreign Assistance: AID's Population Program (GAO/NSIAD-90-112, May 1, 1990).

Foreign Economic Assistance Issues (GAO/OCG-89-23TR).

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