The Heritage Foundation Backgrounder

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INSPECTOR GENERAL AUDITS REVEAL FOREIGN AID FAILURES AND BOONDOGGLES

INTRODUCTION

In the four decades since the Marshall Plan inaugurated America's foreign aid program, the United States has provided over $530 billion in economic aid to foreign countries.[1] Nonetheless, proposals abound for vast new foreign aid outlays. Just three years ago, for instance, the Kissinger Commission recommended an $8 billion "Marshall Plan" for Central America. Calls for a Marshall Plan for Africa now are proliferating. Last year, during the United Nations Special Session on Africa, the General Assembly adopted a resolution urging $46 billion in aid from Western nations over five years. The World Bank, for its part, is now seeking a $40 billion capital increase.

Hindering Economic Growth. Yet foreign aid's record of accomplishment has been disappointing. While West European countries recovered quickly after World War II, thus "graduating" from U.S. economic assistance,[2] no country has so graduated since U.S. economic aid to Greece and the Republic of China on Taiwan was terminated in the early 1960s. Instead, U.S. foreign aid too often has hindered economic development abroad. In many nations, American assistance has supported

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1. This includes development assistance (project monies), food aid, and Economic Support Funds (general budgetary support); not included are funds contributed to the multilateral development banks or military assistance.

2. In fact, there is significant evidence that the Marshall Plan did little to foster Europe's recovery. See, for example, Tyler Cowen, "The Marshall Plan: Myths and Realities," in Doug Bandow, ed., *U.S. Aid to the Developing World: A Free Market Agenda* (Washington, D.C.: The Heritage Foundation, 1985).

restrictions on business formation and foreign investment, high tax rates, forced collectivization, and price controls.[3] The U.S. aid program has even been a party to the *de facto* confiscation of farmers' crops in Africa, which predictably has flattened the incentives for food production in the famine prone continent.[4]

Ronald Reagan, in contrast to his predecessors, appeared ready to challenge the tarnished conventional wisdom of foreign aid. At the 1981 economic summit in Cancun of selected leaders from industrialized and developing countries, he told Third World leaders that they should not look for more aid transfers as a panacea: "We are mutually interdependent, but above all, we are individually responsible." Despite these wise and welcome words, little has changed around the world or in U.S. aid efforts since then. The Agency for International Development (AID), the bureaucracy of over 4,700 men and women that administers all U.S. foreign economic aid, has persistently ignored Reagan's admonition at Cancun and his advice since then stressing the advantages of free market economic development.

A Watchdog Barks. AID's failures are not a matter of subjective judgment. They have been identified in dozens of cases by AID's own Inspector General, a congressionally appointed watchdog, who has the resources and expertise to scrutinize a broad selection of the agency's approximately two thousand active projects.

From the Inspector General's audits, the verdict is in:

◆◆ U.S. food aid continues to depress agricultural prices abroad.

◆◆ Concessional credit is displacing conventional finance.

◆◆ Project designs do not fit the recipients' local needs.

◆◆ Projects cannot be sustained because of reliance on overly sophisticated, inappropriate technologies.

AID is welcoming a new administrator, M. Alan Woods, until recently Deputy U.S. Trade Representative. For guidance in making U.S. programs a more effective catalyst for economic development in Third World nations, he can start by looking at the AID Inspector General's audits.

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3. See P.T. Bauer, *Reality and Rhetoric: Studies in the Economics of Development* (Cambridge: Harvard University Press, 1984), chapter 3.

4. Confiscation in terms of far below market prices for food products. For example, the price paid producers for rice in Egypt in the late 1970s and early 1980s was 40 percent of the world price; corn in Tanzania, 25 percent; cocoa in Togo and Ghana, 40-45 percent; groundnuts in Mali, 50 percent; tobacco in Malawi, 35 percent; rice in Pakistan, 75 percent; wheat in India, 65 percent. World Bank, *World Development Report, 1986*, pp. 64-65.

"FOOD FOR PEACE"

Public Law 480 (P.L. 480),[5] renamed "Food for Peace" in 1966, was developed originally in 1954 from a plan by the American Farm Bureau to export U.S. farm surpluses. Since then, the U.S. has shipped more than $38 billion worth of farm commodities to the Third World. This year food transfers total about $1.5 billion. Despite common assumptions, the bulk of Food for Peace shipments are not given away. Over the past three decades, about two-thirds of the food has been transferred under Title I aid, which requires foreign governments to take out long-term loans from the U.S. to purchase the commodities. The recipient nations resell the food in their domestic markets, often in direct competition with local farmers, and use the proceeds for "development" purposes.

Although AID officials have been aware for decades that P.L. 480 pushes down producer prices throughout the Third World, the program continues virtually unchanged. In the 1950s and 1960s, massive transfers of U.S. wheat to India put thousands of Indian farmers out of business. A 1969 study concluded that, for every pound of P.L. 480 cereals India imported, there was a net decline of almost one-half pound in domestic cereal production over the following two years.[6] Colombia imported over one million tons of U.S. wheat between 1955 and 1971; the Colombian government marketing agency fixed the price so low that it undercut domestically produced wheat, halving the prices received by Colombian farmers. Countless official and private studies, from various parts of the political spectrum, chronicle this continuing problem with the program.[7]

Violating the Law. Yet the damage continues. A January 1987 audit by the AID Inspector General (IG) found that the AID mission in Mogadishu failed to reduce Title I food transfers to Somalia between 1980 and 1985, even though that country's own food output climbed. Failure to reduce U.S. food shipments violated the law's stipulation of providing agricultural commodities only if they "will not result in a substantial disincentive to or interference with domestic production or marketing in that country."[8]

From 1980 to 1985, Somalia benefited from a 95 percent increase in sorghum production and a 168 percent increase in corn production. Yet, during the same period, P.L. 480 Title I imports into Somalia increased 97 percent. As a result, in November 1986, IG auditors found that 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained unsold and had spoiled in Somalian government

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5. The Agricultural Trade Development and Assistance Act of 1954.

6. J.S. Mann, "The Impact of Public Law 480 on Prices and Domestic Supply of Cereals in India," *Journal of Farm Economics*," No. 49, February 1969, p. 143.

7. See, for example, U.S. General Accounting Office, *Disincentives to Agricultural Production in Developing Countries*, November 26, 1975; James Bovard, "The Continuing Failure of Foreign Aid," Cato *Policy Analysis* No. 65, January 31, 1986; and Frances Moore Lappe, *et al.*, *Aid as Obstacle* (San Francisco: Institute for Food and Development Policy, 1980).

8. P.L. 480, Title IV, Section 401; as cited in Agency for International Development, "Audit of the P.L. 480 Title I Program in Somalia," Inspector General Audit Report No. 3-649-87-2, January 26, 1987, p. 4.

warehouses. The grain was found unfit for human consumption, costing the government of Somalia $1.5 million.

Somalia Food Glut. The grain oversupply naturally caused a glut on Somalia's food markets and cut farmers' incomes. Growers in the Lower Shebelle region lost half of their net profits between 1985 and 1986. To make matters worse, virtually all 1985 and 1986 Title I food deliveries to Somalia arrived at the worst possible time, the harvest months. None arrived during the critical "hungry" period just prior to harvest. Although the AID mission in Mogadishu requested pre-harvest delivery during those years, it failed to complete agreements early enough to permit the shipments being made in time. The result: In 1985, during harvest time, corn prices dropped 38 percent and sorghum fell 30 percent.

The finding of the IG audit: "the consensus of the donor community was that the timing of deliveries lowered farmer's prices thereby discouraging domestic production."

FOREIGN DEVELOPMENT BANKS

Another series of projects poorly managed by AID is the funding of various financial intermediaries or small development banks. These institutions are intended to lend money to small farmers and entrepreneurs to make up for an alleged lack of credit from domestic financial organizations. The AID institutions, however, have been badly designed and contribute little to development.

El Salvador's Agrarian Development Bank

In March 1980, the government of El Salvador launched a sweeping land reform program to expropriate all large and medium-sized estates and transfer control of the land to the farmers. They, in turn, were to receive credit from the country's Agricultural Development Bank (BFA) to which AID committed $10 million that year. By the time of a January 1987 IG audit, the initial arrangement had been changed nine times, and total U.S. assistance had reached $85.8 million. The audit found the bank to be operating at a loss; and there was a 17 percent rate of nonreconciliation between the central and branch offices on their financial reports for loans disbursed. In addition, the bank had refinanced and extended over $20 million in problem loans, without assigning them to a separate category, in violation of the agreement with AID. Despite the $85.8 million in subsidies, the IG concluded that the "BFA's ability to continue providing loans to the agrarian sector without external infusions of capital was questionable."[9]

The Salvadoran bank's unsteady financial situation is directly connected to Salvador's flawed land reform strategy.[10] The project started by converting the 100

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9. Agency for International Development, "Audit of USAID/El Salvador's Agrarian Reform Credit Program, Project No. 519-0263," Inspector General Audit Report No. 1-519-87-13, January 30, 1987, p. 4.

10. See Esther Wilson Hannon, "El Salvador's Economy Sputters and U.S. Aid Policies Are the Culprit," Heritage *Backgrounder* No. 534, September 12, 1986.

largest estates into about 400 cooperatives; the government retained title to the lands. Most of the cooperatives are in debt to the BFA and must continue to borrow heavily every year for the costs that their harvests cannot cover. A 1984 IG audit warned that the BFA's solvency depended upon the cooperatives servicing their debt. The IG auditor in 1984 then added: "most cooperatives are not financially viable operations and therefore do not generate sufficient revenues to pay their debts."[11]

Another audit three years later noted that the BFA's loan losses rose from $2.2 million in 1984 to $2.9 million in 1985. As of December 31, 1985, according to the IG audit, interest on over 91 percent of BFA's loan portfolio did not cover the respective administrative expenses.

Perhaps more disturbing is the BFA's practice, discovered by the 1987 IG audit, of purchasing, storing, and marketing crops and of selling fertilizer and pesticides. This means that AID is financing a state-run agricultural marketing board which, most economists agree, is the institution that has been the greatest deterrent to Third World rural development. The IG audit reported that these nonbanking activities substantially increased the bank's administrative expenses and should be discontinued.

The Caribbean Financial Services Corporation

In July 1983, AID's Regional Development Office/Caribbean (RDO/C), headquartered in Bridgetown, Barbados, established and capitalized the Caribbean Financial Services Corporation (CFSC) with a $17.3 million loan and a $400,000 grant. This bank was to provide financing up to fifteen years and other financial services to private companies in the English-speaking Caribbean and in Belize. Project planners envisioned the institution's activities to include an array of discounting, direct lending, and general financial services such as leasing, warehouse bonding, inventory financing, export financing, debt guarantees, loan syndication, and cash management.

As of March 31, 1986, however, IG auditors found that the staff of the Bridgetown-based institution consisted only of a managing director, a loan officer, and a secretary. No funds had been expended for the mandated program of general financial services, while actual lending was far less than anticipated.

Breakdown in Reporting. Despite this lack of activity, the IG found that "a serious breakdown in reporting had occurred." The AID controller's records showed only $1.9 million in AID loan funds, or about 11 percent, had been disbursed by RDO/C to CFSC for eight subloans. RDO/C, however, had listed in its reports $5 million in accrued expenditures based on a handwritten memorandum from the project officer to an employee in the controller's office. As of March 31, 1986, CFSC's portfolio consisted of 24 approved projects in the amount of $6 million, of which eighteen loans had been disbursed. This included $1.8 million of the CFSC's

11. Agency for International Development, "Agrarian Reform in El Salvador: A Report on Its Status," Inspector General Audit Report No. 1-519-84-2, January 18, 1984.

own funds disbursed to finance subloans not yet remitted to, or ineligible for payment by, AID--for example, loans made to Guyana, a country in default to the U.S. government.

Contrary to the project's aims, the CFSC concentrated on making large loans, generally exceeding $100,000 to existing businesses. About 90 percent of the funds went for the expansion of well-established firms; 44 percent of the portfolio involved the tourist sector. AID's stated intent, however, has been for CFSC to make loans to innovative new projects, which have the hardest time raising capital. Instead, CFSC in effect displaced conventional financing for traditional enterprises, which usually have no difficulty in arranging financing. Established firms, explains a former AID official, have little trouble getting commercial loans, for there never has been evidence of a shortage of liquidity in Central America or the Caribbean.

Loans for the Well-to-Do. The 1986 IG audit also noted that the CFSC Board of Directors acted more in an operational than an advisory capacity, leaving the Corporation without overall policy direction. Several lending decisions were based on borrowers' relationships with Board members; in fact, the audit warned of the potential for "self-dealing," since several companies that serviced and provided outside support for CFSC's operations had representatives on the Corporation's Board at various times.

The situation is similar to that in other AID-financed development banks. Despite AID's original aims to direct credit to disadvantaged groups, loans are usually available only to the well-connected. AID thereby serves unwittingly to buttress crony capitalism abroad.

INADEQUATE PROJECT DESIGN

AID projects frequently have been found to have glaring design problems; often the wrong equipment has been procured, or foreign governments have been unable to maintain technically sophisticated projects in good order. Specific problems include the high costs of maintaining expensive projects and a lack of necessary local technical expertise. And while AID (as has the World Bank) increasingly tries to create projects that can become financially self-sustaining through user fees, consumers often cannot afford the high fees that invariably result from expensive, overly sophisticated projects.

In Jamaica, for instance, the AID mission in Kingston designed a multimillion dollar agricultural marketing project without consulting the farmers who were to benefit. The project, approved in 1980, was to build up the Ministry of Agriculture's marketing research and extension services, establish 25 farmer marketing organizations, and construct 25 produce assembly and grading stations. Because AID and the Jamaican government did not involve the farmers themselves in the planning process, a $154,369 weighing and grading station was constructed that vastly exceeded their needs. A spokesman for the farm group responsible for managing and operating the station said that it is too sophisticated and its scheduled payments were too high. The USAID/Jamaica Director admitted the station was a "white elephant."

AID's IG auditors estimate that a simpler facility could have been built for $93,300. And by saddling poor farmers with unnecessarily high payments, this sophisticated AID project not only wasted American taxpayers' dollars, it retarded sustained, internalized Jamaican development.

Unusable Red Pea Sorters. AID also procured $755,422 worth of equipment for the grading stations before farmer marketing groups had been consulted about equipment requirements. As a result, certain expensive machines were unusable. Example: a $58,276 red pea conveyor-sorter that cannot be used in Jamaica because red peas are not grown.

An IG audit in Peru of a project aimed at the socioeconomic development of rural areas reveals similar severe design flaws. As a result, many subprojects were of no value. For example, in Cajamarca the 4.3-mile San Marco-El Azufre road, which crosses a river, lacks a bridge. The engineer responsible for the project explained it was poorly designed and that the bridge was not constructed because of local opposition. He said the road should be cut from a different angle, about 1.5 miles upriver. Yet roads up to either side of the river were completed.[12]

In Egypt, a $108 million AID-financed grain silo complex, to have been completed early this year, will not have sufficient electricity to operate for about two years. Though this was noted in 1979, AID failed to act on the warning until mid-1985. Indeed, when AID initiated the project in 1982, neither the Project Authorization, the Project Paper, nor the Grant Agreement--all signed with the government of Egypt--addressed the issue of sufficient power.[13]

INAPPROPRIATE TECHNOLOGIES AND UNSUSTAINABLE PROJECTS

Equally wasteful have been many overly ambitious projects that cannot be sustained by the recipient countries after AID assistance ends. AID's reliance on inappropriately sophisticated technology is one reason. But there is also AID's failure to design projects in a way that allows them ultimately to "spin off" to the indigenous peoples. To do so would require considering: technologies that fit a country's industrial base; machinery to be serviced and spare parts to be produced locally; the needs and social customs of the end users; the level of indigenous technical and managerial expertise; and the possibility of creating a professional cadre for the project before it is completed and AID personnel depart.

Renewable Energy Showpieces

Since 1978, AID has designated over $304 million to develop, test, and demonstrate renewable energy technologies, including solar, wind, bio-gas, and small-scale hydroelectric generation. Last year, AID's IG auditors found that most of the projects they inspected required large capital investments, involved complex and

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12. Agency for International Development, "Audit of USAID/Peru Integrated Regional Development Project No. 527-0178," Inspector General Audit Report No. 1-527-86-18, June 18, 1986, p. 5.

13. Agency for International Development, "Audit of Safaga Grain Silos Complex, USAID/Egypt Project No. 263-0165," Inspector General Audit Report No. 6-263-87-1, October 27, 1986.

expensive technologies, suffered from high operating costs, and were not suited to the needs of the end users. In the Philippines, for instance, AID spent $528,000 to build a single 315-kilowatt electric plant to power a government-owned rice mill using rice hulls as fuel. A solar dryer in the Dominican Republic cost $500,000.[14] A small-scale hydroelectric system in a remote rural Indian village cost $467,000.[15] The auditors concluded: "It is highly unlikely [the projects] will ever become commercially viable."

Inappropriate Technology. After inspecting a complex, $713,000, AID-financed solar-powered electrical system constructed in another remote village in India in the early 1980s, the IG auditors wrote:

> The system provided an integrated set of services including street lighting, water pumping and a community television set for entertainment;...[and] required trained engineers to repair and operate. According to an evaluation report on this project, 'A more inappropriate technology for a remote site occupied by uneducated villagers is hard to imagine.'[16]

Although Congress has mandated that AID energy projects be integrated with AID agriculture and rural development activities, the IG finds that this seldom occurs. Example: in Egypt, 26 irrigation pumping stations, established as part of a $19 million AID project, were not working, in part because there was inadequate electrical power at the pumping sites. At the same time, AID sponsored a separate $32 million renewable energy project involving water pumping without linking it to the irrigation project.

No Technical Expertise. IG auditors also found that 46 percent of the AID projects reviewed were oriented to research and development, rather than power-generating projects. Among the IG report's findings: "Few, if any, missions had the technical expertise to properly manage and monitor their multi-million dollar research and development projects."[17] IG auditors found that 88 percent of the Project Papers studied lacked plans to replicate the process at other sites. In fact, the replication potential for the AID-subsidized technologies was severely limited in 73 percent of the cases.

Finally, it must be noted that Congress is as much at fault as AID since it passed legislation mandating "...research and development and use of small-scale, decentralized, renewable energy resources for rural areas..." even though replication

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14. Agency for International Development, "Audit of AID Renewable Energy Projects," Inspector General Audit Report No. 9-000-86-3, February 21, 1986, p. 12. According to an evaluation report cited in the audit, the dryer was designed for use by Dominican sugar mills, but the average mill required a dryer 50 times larger than the prototype; and any cost savings realized by the technology would be offset by costs of labor and replacement parts for the system.

15. *Ibid.* The audit notes that power was distributed between uses such as irrigation and household lighting by a computer system that was so complicated that commercial software could not be used and specialized programs had to be developed. A project evaluation team expressed serious concern about the reliability of a microcomputer used 24 hours a day in a remote and inaccessible village without any technical expertise to maintain the system.

16. *Ibid.*, p. 11.

17. *Ibid.*

of renewable energy technologies had not occurred to any significant extent. In fact, Congress vastly overestimated what could be achieved with these technologies:

> Such programs shall also be directed toward the earliest practicable development and use of energy technologies which are environmentally acceptable, require minimum capital investment, are most acceptable to and affordable by the people using them, are simple and inexpensive to use and maintain, and are transferable from one region of the world to another.[18]

In general, AID's renewable energy program has been based upon esoteric, expensive technologies and has ignored the needs of users and their acceptance. A small project typifying these failings is AID's $4.5 million dung digester project in Mali. The aim was to generate gas from animal dung. An AID evaluation, cited by the IG audit, found the system too complex and too expensive for intended small-scale uses such as cooking. In fact, the machine has been inoperable because of inadequate supplies of water and dung and the fact that the consumers have found the daily cleaning and filling of the digester too time consuming.

The Honduran-American Chamber of Commerce

Chambers of commerce exist in four Central American nations: Costa Rica, Honduras, El Salvador, and Guatemala. The Honduran chamber is funded by AID, and according to an IG audit, it is the only one that is not self-sufficient.

The Honduran-American Chamber of Commerce (HAMCHAM) was created by Honduran and American businessmen in November 1981 to promote commerce and investment between the two countries. The following year, HAMCHAM received a $50,000 AID grant. Additional AID funds were approved in 1983 and 1984, totalling $350,000 in dollars and local currency equivalent.

Soaring Liabilities. The financial solvency of any organization obviously depends upon its ability to generate enough income to cover its operating expenses. From 1982 to 1986, HAMCHAM was able to cover only 53 percent of its operating expenses. In 1985, for example, expenses totalled $140,000, compared to an income of only $67,257. While liabilities increased twelve times that year, assets fell 16-fold to $2,656. Because of the organization's increasing inability to pay its bills on time, a creditor in March 1985 attempted to repossess its office machinery. AID funding of HAMCHAM was scheduled to end in June 1986, but IG auditors reported in May of that year that "HAMCHAM had not prepared plans to become a self-sufficient organization." Instead, it relied on AID funding to cover its operating deficit, and prepared budgets based on continued AID funding.[19]

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18. Section 106 of the Foreign Assistance Act.

19. Agency for International Development, "Audit of the Honduran-American Chamber of Commerce, USAID/Honduras Project No. 522-0204," Inspector General Audit Report No. 1-522-86-14, May 29, 1986.

A STUDY IN NONDEVELOPMENT

Perhaps no single project better reveals AID's problems than the Jamaica Agricultural Development Foundation. In 1983, Land O'Lakes, Inc., a U.S. dairy cooperative, and Grace, Kennedy & Co., Ltd., a Jamaican food conglomerate, presented AID with a proposal to use surplus U.S. commodities to create a private, nonprofit foundation for financing Jamaican agricultural development activities. AID approved the project in 1984 and agreed to grant, under P.L. 480 Title II, 4,000 metric tons of surplus bulk cheese and butter to the Foundation each year for six years.

Through the end of 1985, the Foundation had received $6 million worth of butter and cheese. Revenues from selling the produce were to have financed the Foundation's operating expenses, as well as provide funds for loans, grants, and equity investments to promote Jamaica's agricultural sector. Creative as the scheme originally may have appeared, it was seriously flawed.

Ignoring Jamaican Tastes. Neither AID nor the promoters, for instance, apparently took account of Jamaicans' preference for butter with a lower salt content than is found in U.S. butter. Ignored too, it seems, was the ready availability in Jamaica of such lower priced butter substitutes as margarine. As a result, sales have been very slow, and the Foundation is unlikely ever to become self-sustaining. As of March 1986, the Foundation had more than 1,200 metric tons of donated butter in storage, most of it nearly two years old. This inventory is not expected to be sold until 1988.[20] The unexpectedly high costs of storing the butter have proved a serious drain on the Foundation's scarce revenues.

Because of the slow sales, AID has made three additional grants to the Foundation totaling about $1.6 million. The AID mission in Jamaica, moreover, has hired a marketing specialist to help unload the donated butter that Jamaicans do not like. None of these expenses were part of the original project.

Seaga's Failed Promise. Once the project began operations, it displaced conventional financing. The Jamaican government had approved the Foundation as a venture capital company. But, as with other AID-subsidized financial intermediaries, most of the enterprises receiving loans or equity financing were well-established firms, which could put up the large amounts of collateral requested, and therefore used the funds to expand operations. Although the project was supposed to focus on the Jamaican dairy industry and small farmers in general, the Foundation avoided both. Foundation officials explained that dairy loans were too risky because the Jamaican government held down milk prices. Prime Minister Edward Seaga was to have deregulated milk prices in 1984, but has failed to keep this promise.

Finally, the IG auditors also found: "The JADF was influenced by representatives from those Jamaican and American companies who were involved in the Foundation's development and who remain actively involved in its

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20. Agency for International Development, "Audit of USAID/Jamaica Agricultural Development Foundation, Project No. 532-0105," Inspector General Audit Report No. 1-532-86-22, July 11, 1986, p. 26.

operations...these relationships also benefited the companies with representatives on the Foundation's Board." For example, when the Foundation's cheese store deteriorated, Land O'Lakes recommended that newer cheese be acquired and blended with existing supplies. Since there was no "young" cheese in the P.L. 480 pipeline, the Foundation had to purchase the cheese on the open market. Naturally, as auditors observed, Land O'Lakes received the contract--at three times the world market price.[21] It was subsequently reported that the young cheese may not even have been needed.

CONCLUSION

The verdict of AID's Inspector General is in: Too many AID programs are wasteful and useless. Too many fail to help the economies of recipient countries. And many seem flawed from the start. Projects too often ignore local needs and cannot be maintained after AID assistance ends; embarrassing white elephants abound.

But the problem goes beyond faulty projects that are ineffective; the aid flows often actually retard development. Wasted AID money that flows through Third World governments, after all, bolsters the state-run sector of the economy. These funds also help cover up the effects of aid recipients' anti-growth policies, such as price controls which discourage production; government trading monopolies which displace private firms; prohibitive tax rates, which discourage economic activity; and over-valued exchange rates, which discourage exports.[22]

There are lessons to be learned from the Inspector General's reports. The most important are:

1) **The level of U.S. financial assistance should be cut.** As AID's own IG reports consistently document, the agency seems incapable of using its current budget effectively. Proposals for costly new initiatives for Africa and elsewhere would merely toss good money after bad.

2) **U.S. assistance should be funneled through the private sector** in recipient countries unless it is absolutely impossible to do so.

3) **AID officials need to be held accountable** for projects that fail. Promotion within AID currently seems to be based on a staffer's ability to spend funds rather than to use them effectively. If AID is to end the waste endemic to its programs, it must restructure its evaluation and promotion process.

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21. *Ibid.*, p. 15.

22. In fact, according to a recent World Bank study, "increases in the real volume of aid cause real appreciation" in a country's foreign exchange rate. Thus, providing governments with a sizeable injection of foreign exchange--as the U.S. foreign aid program does annually--reduces many countries' need to earn foreign exchange through exports and gives governments free rein to set a grossly artificial exchange rate. Sweder van Wijnbergen, "AID, Export Promotion and the Real Exchange Rate: An African Dilemma," World Bank (October 1986); and James Bovard, "The World Bank vs. the World's Poor," Cato *Policy Analysis*, September 28, 1987, which cites the World Bank study, pp. 10-11.

4) Projects should be designed with maximum local input. They should be structured so as to be sustainable by the beneficiary nation. In particular, AID should emphasize simple technologies, indigenous practices, and low-cost processes.

5) When projects do not achieve their objectives, AID should terminate funding. The Jamaican Agricultural Development Foundation, for instance, was supposed to operate on U.S. surplus foods; when these proved of little value, AID should have cut America's losses rather than contributing millions more to the project.

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