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MORE AUDITS UNCOVER AID FAILURES

(Updating *Backgrounder* No. 618, "Inspector General Audits Reveal Foreign Aid Failures and Boondoggles," November 23, 1987.)

The House of Representatives last month passed a $14.3 billion foreign aid appropriations bill. An unusually congenial bipartisan alliance of supporters maintains that this assistance is vital to help the world's poor and to meet their "basic human needs." Yet congressionally mandated reviews of the Agency for International Development (AID) by its Inspector General (IG) continue to reveal that, instead of addressing the root causes of poverty, U.S. foreign aid projects too often are costly burdens that ill serve the countries receiving such assistance. Examples:

Egypt. Last year IG auditors inspected Egyptian schools participating in a $190 million AID education project. Since AID is required by law to give preference to U.S.-made goods for its projects, the agency had contracted to U.S. companies for all the equipment. Among the auditors' findings: the overhead projectors with American-type plugs could not fit into Egyptian electrical outlets and were thus jerry-rigged, resulting in hazardous bare wires and erratic current. Five thousand U.S.-built stoves valued at $135,000 were not being used because they were designed for pipeline gas, while the schools used only tanked gas. School administrators explained that more acceptable stoves were readily available locally and the U.S. ones were not needed. Similarly, the 8,640 U.S. hand-cranked ice cream makers shipped at a cost of $95,040 were not being used. Schools reported that the models were unsuitable for Egyptian cream, ice was not readily available at most locations, and better models with motors were available in Egypt anyway.

Egypt. IG auditors discovered that in a $12 million AID-financed system to pipe clean water from the Egyptian city of Suez to the Suez Cement company about 38 miles away, AID project designers never specified who would operate the system. When the project was completed in September 1986, no Egyptian government agency related to the project accepted responsibility for operating it. The pipeline has yet to carry water.

Indonesia. In 1978, AID launched a $60 million project to help local governments in Indonesia plan development programs on their own. The two-part project is to terminate in 1988 and 1989. This January, a decade after the project's inception, IG auditors found that "...a plan for AID orderly withdrawal [still] had not been developed. As a result, the $18 million in AID funds

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spent...to improve the planning, monitoring, implementation and evaluation capabilities of participating provinces may not have lasting impact."

El Salvador. While AID boasts that land reform in El Salvador is an AID "success story," production of coffee — El Salvador's main export — is down by half from the pre-land reform period. The farming cooperatives established under land reform continue to flounder. Farmers are forced to sell their coffee to a government monopoly from which they net $38 per 100 lb. bag, a mere 28 percent of the $135 world market price that the government receives upon resale. The unprofitable coops must borrow heavily every year from the government's Agricultural Development Bank (BFA) to cover costs that their meagerly rewarded harvests cannot support. As a result, most of the coops are caught hopelessly in a cycle of debt. The BFA survives primarily on periodic infusions of AID funds, totalling some $100 million so far. A January 1987 IG audit disclosed that the BFA has been purchasing, storing, and marketing grains, and selling fertilizer and pesticides — making the bank a *de facto* state marketing board, which economists now agree has been a key impediment to Third World growth. This audit recommended that the BFA divest itself of these non-banking activities. A year later, in January 1988, AID explained this was to be done over the succeeding four months. The reform has still not taken place, although one AID official maintains the bank is "conducting a study" on it.

Bribes. Too much AID money chasing too few well-designed and critically needed projects predictably creates the temptation for officials to divert funds for their private use. In El Salvador, the IG is investigating charges that the former director of the National Commission for the Restoration of Areas, Luis Mejia Miranda, as well as a dozen other officials of the ruling Christian Democratic Party, had misused and stolen $2 million in U.S. aid targeted for the poor in war-torn areas. In Ecuador, the AID IG and the U.S. Justice Department are investigating allegations disclosed early last year that AID officials have paid "salary supplements" to Ecuadoran officials to get Ecuador's approval for AID projects. The top U.S. AID official in Ecuador resigned from AID and other top AID officials were recalled to Washington.

These IG reports once again confirm that U.S. foreign assistance too often finances projects that ignore local needs. As the case of El Salvadoran agriculture indicates, AID often supports foreign government policies that seriously harm the economies and the poor in developing countries. AID Administrator Alan Woods has been grappling with the problems uncovered by the IG reports. He should devise a strict checklist for determining whether a proposed AID project is critical to a country's indigenous, sustainable growth. AID also should work with Congress to reassess the U.S. aid program's institutionalized preference for procurement of U.S. goods. Finally, in future reports the Inspector General should identify by name the AID bureaucrats responsible for approving questionable projects so that the AID Administrator can work to improve the performance of his less efficient personnel.

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For further information:

AID Inspector General, "Audit of Property Management Under USAID/Egypt's Basic Education Project no. 263-0139," IG audit no. 6-263-87-8, May 31, 1987.

AID Inspector General, "Audit of the Indonesian Provincial Development Projects I and II, project nos. 497-0264 and 497-0276," IG audit no. 2-497-88-02, January 28, 1988.