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NEW AUDITS FIND MORE FOREIGN AID WASTE

(Updating *Backgrounder* No. 618, "Inspector General Audits Reveal Foreign Aid Failures and Boondoggles," November 23, 1987, and *Backgrounder Update* No. 78, "More Audits Uncover Aid Failures," June 8, 1988.)

Reviews of United States foreign aid policy and the future of the U.S. Agency for International Development (AID) currently are underway in both the Congress and the Administration. Reports by AID's own congressionally mandated Inspector General reveal that one area of repeated policy failure at AID has been insufficient planning for maintaining AID-sponsored projects after U.S. assistance ends. The Foreign Assistance Act of 1961 requires that U.S. assistance promote "self-sustaining economic growth" and "long-term development." At an operational level, however, AID lacks an effective policy of planning at the project design stage for a project's "sustainability."

When designing a project, AID officials are directed to consider such things as: 1) should AID create a local professional cadre to run the project after its completion — "institutional development" in AID parlance — and 2) is the recipient government likely, and able, to provide the necessary resources and personnel after the project is completed. AID tries to ensure this by requiring recipient governments to assume from the beginning "recurrent costs," such as salaries of local government employees working on the AID project or their local transportation expenses. This recipient government contribution, in local currency and generally 25 percent of the total cost of the project, serves as an important check on aid projects to which the recipient government is little committed.

Despite these policies, recent audits by AID's Inspector General (IG) find that too often such considerations are neglected by AID officials, jeopardizing permanent benefits from U.S. aid to poverty-stricken countries.

Kenya. A 1988 IG audit of a $10 million Arid Lands Development Project in Kenya finds that the government failed to provide $443,851 in Kenyan currency to meet local support costs. Auditors note that the Kenyan government had $24 million of local currency in an account available for such projects, but apparently was not committed enough to the project to pay for it. Rather than insisting that Kenya honor its agreement, AID assumed these costs itself. Worse still, AID inexplicably reimbursed five Kenyan government ministries for $1.5 million of these ministries' expenses — three times the shortfall in the government's contribution to the project. The audit concluded: "By paying the government of Kenya's recurrent costs. . . USAID/Kenya reduced the prospects that the government would pay these costs after AID's funding ceases."

Pakistan. IG auditors found a number of problems with a $339 million project to provide electricity for Pakistan's rural poor. AID was unable to disburse $51 million for one part of the project due to the failure of the Pakistani government to develop an acceptable master plan for expanding part of its electrical system. In another part of the project, $18.4 million was disbursed to a technical assistance contractor which, as part of its duties, was to train Pakistani government employees to assume project responsibilities on the expanded system. Instead, the contractor executed most of the tasks on the project itself. The audit concluded it was doubtful the Pakistanis would be able to take over the project when the contract ends in 1989.

Thailand. IG officials note a repeated lack of planning for sustainability in AID projects in Thailand. A 1988 audit of an $8 million project to build twelve small hydroelectric plants finds virtually no reference in planning documents to how plants would be operated by the Thai government once construction is complete and AID assistance ends. And in a 1986 audit of a $10 million watershed development project, IG officials found that project achievements probably would not be sustained because of lack of a plan by AID and the Thai government.

Burma. In 1986, IG officials reviewed a $70 million AID project in Burma that sought to increase grain production through donations of U.S. fertilizer that the Burmese government resold to farmers at an artificial price 27 percent below the Burmese free market price. The project resulted in an annual rise in grain output worth $29 million. But the IG audit concluded that because the project had no plan for maintaining production gains upon the conclusion of AID's fertilizer donations — and hence the Burmese government's fertilizer subsidies — there would likely be no long-term benefits.

Zaire. A 1987 audit of two rural health projects, authorized by AID at a cost of $25 million, found that while they successfully converted rural dispensaries into full service health centers, AID officials in Zaire had made no provisions to make the centers self-financing, as designed.

These IG audits again confirm that too often U.S. foreign assistance does not "help others to help themselves." Failure to take care that AID-financed projects are sustainable after AID's role is over wastes U.S. foreign assistance funds. As Congress and the Administration rewrite the Foreign Assistance Act, they should insist that AID project planning and implementation rigorously promote sustainable, permanent improvements in developing nations' economic and social infrastructure.

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For further information:

AID Inspector General, "Audit of Host Country Contract with Louis Berger International, Inc. Under the Arid and Semi-Arid Lands Development Project in Kenya," IG Audit No. 3-615-88-04, January 28, 1988.

AID Inspector General, "Audit of Micro/Mini Hydroelectric Project USAID/Thailand," IG Audit No. 2-493-88-03, February 17, 1988.