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INSPECTOR GENERAL AUDITS FIND AID PROBLEMS CONTINUE

(Updating *Backgrounder Update* No. 103, "Inspector General Verdict: Poor Planning on AID Projects," June 5, 1989; *Backgrounder Update* No. 93, "Results of the Inspector General's Audit of AID," February 15, 1989; *Backgrounder Update* No. 90, "New Audits Find More Foreign Aid Waste," December 13, 1988; *Backgrounder Update* No. 78, "More Audits Uncover Aid Failures," June 8, 1988; *Backgrounder* No. 618, "Inspector General Audits Reveal Aid Failures and Boondoggles," November 23, 1987.)

In light of the revolutions in Eastern Europe and the changes of government in Panama and Nicaragua, Congress is considering how best to use American foreign assistance funds, managed by the Agency for International Development (AID), to help the economies of those newly established democracies. The trouble is, AID's track record has been poor. Its projects have been poorly designed and mismanaged, wasting scarce foreign aid dollars. Chronicling AID's poor handling of foreign assistance are piles of Inspector General (IG) audits of AID programs. Examples:

Egypt. In 1978, AID agreed to fund the Helwan Housing and Community Upgrading Project to provide 7,200 living units for poor Egyptians. The total cost of the project was estimated to be \$160 million, with AID and the government of Egypt each contributing half of this. A 1988 IG audit shows that after spending \$133 million and 10 years of construction, not one family has occupied a house in the Helwan community. The IG reports that: "The project was characterized by inordinate delays and questionable management decisions." For example, six of the ten developments making up the community had no housing construction plans. Because of poor planning of the sewer system, it remains unfinished and \$7.4 million worth of completed piping sections within the system was not expected to be operating until 1992. The IG concludes that as a result of poor management and project design, "...the housing needs of low-income Helwan residents remained un-met; full project completion lay years distant; and the impact of much effort and money on [the part of the] Government of Egypt housing sector policy makers appeared to have been minimal at best." A separate \$78.5 million Irrigation Management Systems Project in Egypt shows similar poor planning. AID purchased electrical irrigation regulators that sat unused for two years because the irrigation site has no electrical outlets.

Indonesia. AID authorized \$36.4 million in 1988 for a Family Planning Development and Services Project to reduce the number of births in Indonesia through voluntary sterilization and the use of contraceptives. The IG finds that the program has been plagued by waste and inefficient use of resources. Example: AID approved the purchase of 195 clothes cabinets for use by needy hospital patients. The auditors discovered that these cabinets were being used by the nurses instead of patients because the hospital ordered cabinets too big to fit through the doors to the patients' rooms. Further, 410 file cabinets were ordered to keep the hospital's patient files. The IG auditors

found that most of the cabinets were being used to store such items as dinner plates because the cabinets were too small for the filing cards used by the hospital.

Pakistan. In a \$35 million Food Security Management Project approved in 1987, the IG finds that \$3.8 million has not been spent appropriately. Example: The project bought five Suzuki motorcycles that sat in warehouses because there was not enough staff to use them.

Rwanda. Here outright theft has plagued AID projects. Example: the IG finds that a private voluntary organization (PVO), unidentified in the report, has used \$1.6 million of AID funds for unauthorized food purchases. The food was then sold to other countries. The proceeds from these sales were used by the PVO director to build a new residence with tennis courts. "Contributions from recipients of the donated food went to finance equipment for the tennis court and to hire a tennis pro.... Many of the employees [of the PVO] received donated funds to which they were not entitled. They then sold the food and used the proceeds to construct personal residences or upgrade farms and, in one instance, built a restaurant."

Philippines. In 1987, AID gave \$150 million to the Philippines through the Economic Support Fund program. Part of this program required AID to exchange U.S. dollars for Philippine Pesos at the highest available exchange rate for use on the project. Such an exchange would give the Philippine government much-needed hard currency at a premium rate, aside from any other benefits of the program. The IG, however, discovered that AID did not use the highest lawful exchange rate. The result: "...approximately \$1.7 million of Peso equivalent was not made available to the program."

Bolivia. From 1986 through 1987, AID gave \$14.3 million to the government of Bolivia to help its balance of payments problem. The IG discovered that the project had serious management flaws that made the program ineffective. Says the IG: "USAID/Bolivia's Economic Support Fund program have been affected by basic management problems since inception and, considering the limited benefits of the programs to date, our audit raises serious questions...." For example, over half the allocated funds, \$7.2 million, were never used and therefore the program had little effect on the balance of payments problems.

Policy makers are coming to understand increasingly that free market economic reforms that give people incentives to work and be productive are the only means to economic prosperity. Foreign aid too often turns into a form of international welfare. When foreign aid is given, the least that people in recipient countries and American taxpayers who foot the bill can expect is efficiently designed and managed projects. Before AID begins to pour money into Eastern Europe and other newly emerging democracies, it must establish itself as effective in promoting economic growth.

The inefficient use of resources, poor record-keeping, and poor project design undermine the effectiveness of AID and its ability to promote economic growth in less developed countries. With Eastern Europe asking for economic assistance, AID must establish sound policies and projects that will benefit the recipients of such aid.

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For further information:

AID Inspector General, "Semiannual Report to the Congress," October 1, 1988 to March 31, 1989.