UPDATE

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# INSPECTOR GENERAL FINDS MANY AID PROJECTS WASTEFUL FAILURES

(Updating *Backgrounder Update* No. 127, "Inspector General Audits Find Aid Problems Continue," March 9, 1990; *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.)

The United States Agency for International Development (AID) has for three decades administered America's foreign aid program. Yet AID's efforts have done little to alleviate poverty in the Third World. Not surprisingly, there is widespread criticism of AID's record. Even AID itself has admitted that little, if any, economic improvement has resulted from its programs. States a 1989 AID report, entitled *Development in the National Interest*:

> All too often, dependency seems to have won out over development... U.S. development assistance, overall, has played a secondary role and has not always succeeded in fostering growth-oriented policies among recipient states.

Some congressional critics of AID advance the curious argument that if AID programs are ineffective, the answer is to spend more money on them. These critics fail to ask what impact AID projects have had. Other critics would devote more assistance money to subsidize U.S. exports to less-developed countries. The Bush Administration, for example, appears to have signed onto the "tied-aid" approach by using $150 million of existing funds from AID and the U.S. Export/Import Bank for the creation of a lending pool, or as the Administration calls it, the "war chest," for 1991. This will provide funds to subsidize the sale of American products for AID projects. But the problem with turning AID into an export subsidy program is that commercial interests tend always to outweigh development interests. In an attempt to design development projects that incorporate U.S. business subsidies, AID stimulates U.S. exports — at the taxpayers' expense — but generates little economic development in less-developed countries.

Fortunately the Bush Administration may be undergoing a welcome though belated change of heart on the wisdom of tied-aid. Currently the Administration is negotiating a reduction in the use of tied-aid by all the largest donor countries. Under the President's plan, the current $150 million U.S. war chest would be reduced to $115 million by 1992 if the Japanese and the Europeans agree to incremental cuts in their tied-aid programs. The White House favors a multilateral agreement to reduce tied-aid because unilateral action by the U.S. would permit other countries to use foreign aid to crowd out U.S. exports to less-developed countries. Yet the U.S. Congress is resisting the scale-down. Indeed, the Aid for Trade Act of 1991 (S.571), introduced in the Senate and sponsored by Democrats Lloyd Bensten of Texas and David Boren of Oklahoma, actually would increase funding for tied-aid programs within the U.S. Export-Import Bank and AID.

Demands for increased assistance funding and tied-aid overlook the fact that AID projects consistently have been poorly designed, wasteful and subject to fraud. Reviews of AID projects, conducted in 1990 by the United States Inspector General, underscore why simply spending more money for assistance and tied-aid is a waste of the taxpayers' money.[1] Some examples:

**BANGLADESH.** AID agreed in 1988 to pay $259.6 million for a Fertilizer Distribution Improvement Project in Bangladesh. The project was designed to help promote private sector involvement in the country's fertilizer distribution system. The Inspector General found that $9.5 million earmarked by AID for the project was unnecessary. Further, some 61 AID-funded warehouses, costing $65 million, were deteriorating, under-utilized or improperly used.

**INDIA.** A 1990 audit discovered that several bishops, priests and nuns within India's Roman Catholic Church misused food aid intended for the poor. The AID project concerned was designed to distribute American surplus wheat to India's poor. The audit found that administrators were using some of the proceeds for personal use, such as capital for private commercial businesses. The audit found that total losses to the U.S. taxpayer were as much as $4 million during 1987 and 1988. An inspection of the 84 Catholic food distribution centers in central and southern India revealed that 79 were involved in the scandal. The audit faulted Catholic Relief Services for failing to monitor the program sufficiently.

**PAKISTAN.** In 1989, AID entered into a $14.6 million contract with a Pakistan firm to provide bridges, drainage structures, roads and other infrastructure for the government of Pakistan. The project was terminated in 1990 because of inadequate performance by the contractor. AID paid $2 million in advance to the firm, yet the contractor submitted a $4 million termination claim for expenses it said it had incurred. An audit, however, found that $3 million of the amount either was not supported by any records or was inaccurately claimed. The audit faulted AID for contracting with the firm and recommended that the advance should be recovered.

**RWANDA.** Rwanda's National Office of Population was formed in 1981 to reduce the country's rate of population growth. Between 1981 and 1989, AID spent $4.4 million to assist the program by paying for counseling and providing contraceptives. Auditors questioned $2 million worth of services and products, declaring them to be wasteful and unnecessary. Moreover, the project appears to have had no impact on the rate of population growth in the country.

**SUDAN.** Federal investigators in 1989 launched an inquiry into AMG Services, Incorporated, a New York-based shipping company. The company had been awarded an AID contract to deliver high quality milk powder to famine-stricken Sudan. The company was paid nearly $1 million in advance for delivery of the powder. What was delivered, however, the investigators found was unfit for human consumption. In addition, the investigators discovered that the company already was being

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1 See "Using Local Currency Generated by U.S. Food AID for Development Purposes," GAO Report No. GAO/T-NSIAD-90-32; "Foreign Assistance: AID's Population Program," GAO Report No. GAO/NSIAD-90-112; "Foreign Assistance: AID Can Improve Its Management of Overseas Contracting," GAO Report No. GAO/NSIAD-90-31.

probed by the U.S. government for alleged fraud in similar projects. It also was discovered that there were some sixty lawsuits filed against the company by private shippers that had done business with AMG.

**ZIMBABWE.** An education and basic skills training project was designed by AID to improve the education of Zimbabweans. The project was launched in the early 1980s; by the end of 1989 it had cost $45 million. On the face of it, this might seem a worthy expenditure. But the Inspector General found that facilities and equipment totaling $6 million were underused or not used at all. Examples: a lecture hall was being used to hold garbage rather than to teach students, and several expensive pieces of educational equipment were lying unused for a lack of spare parts.

These Inspector General's reports are just more items in the long catalog of investigations demonstrating AID's dismal track record in fulfilling its mission. Tying foreign aid to U.S. exports and funding major development projects have been costly failures. A stronger emphasis on tied-aid, such as that contained in the Bensten legislation, merely will result in more wasteful and sometimes fraudulent contracts in which commercial interests are pursued while the long term interests of less developed countries continue to suffer. The Inspector General, echoing various studies by the General Accounting Office, recommends instead that AID reform its management process, and start designing projects that promote economic growth.[2] Rather than blindly pouring more money into projects, or turning AID into another export subsidy program, the Bush Administration and Congress should pay closer attention to the recommendations of the government's own auditors.

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2 "Semiannual Report to Congress" by the Inspector General, October 1, 1989 - March 31, 1990 and April 1, 1990 - September 30, 1990.