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REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



U.S. Policy For The East Asia Regional Economic Development Program--What Should It Be?

Department of State
Agency for International Development

The East Asia Regional Economic Development Program is one of many programs capable of responding to Asian initiatives and regional development requirements. Program momentum in supporting regionalism has diminished and its efforts now center on monitoring existing programs and participating in spinoff projects that involve minimal Asian initiative.

Future U.S. involvement in regional programs and projects can be achieved through U.S. participation in such multilateral organizations as the Asian Development Bank, the World Bank, and the United Nations. GAO recommends that the Secretary of State and the Administrator of the Agency for International Development develop and implement an orderly plan to phase out the program.

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OCT. 28, 1975



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159451

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the East Asia Regional Economic Development Program, administered by the Agency for International Development, Department of State. We reviewed this program so that the Congress could be better informed when making decisions on U.S. policy concerning the program.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; Secretary of State; and Administrator, Agency for International Development.

A handwritten signature in black ink, reading "James B. Stewart".

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
CPA	certified public accountant
GAO	General Accounting Office
RED	Regional Economic Development

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

U.S. POLICY FOR THE EAST ASIA
REGIONAL ECONOMIC DEVELOPMENT
PROGRAM--WHAT SHOULD IT BE?
Department of State
Agency for International Development

D I G E S T

There has been much controversy in recent years concerning the relevance and adequacy of the East Asia Regional Economic Development Program. (See p. 20.)

Recent events in Indochina plus the fact that multilateral organizations now provide wide-ranging development assistance and management expertise raises the question--should the United States have its own regional development program for East Asia?

This report contends that such a program is no longer needed; however, the Department of State and the Agency for International Development have made no attempt to eliminate this program. Therefore, the Congress should consider whether it is in the U.S. interest to pursue an orderly phaseout of the East Asia Regional Economic Development Program. (See ch. 5.)

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For several years before 1965, U.S. economic assistance to East Asian regional programs totaled about \$8.5 million. In 1965 the United States embarked on a greatly expanded assistance program to the countries of the region. Its objective was to enhance prospects for long-range peace and stability in the area by supporting Asian proposals for economic and social development projects involving several countries working together on common problems. (See ch. 1.)

The Agency obligated more than \$107 million for regional assistance to East Asia through fiscal year 1974 and has proposed obligations of \$15.2 million for fiscal year 1975. This assistance has (1) encouraged countries to plan and coordinate programs of regional significance, (2) promoted development and growth of regional coordinating committees and organizations, and (3) strengthened projects contributing to regional economic and social development. (See ch. 2.)

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The regional program has been implemented through the Agency's Regional Development Office in Washington and its Regional Economic Development Office in Bangkok, Thailand. (See ch. 1.)

GAO contends that the Regional Program has outlived its usefulness and no longer constitutes a prudent use of U.S. funds because

- there is a decreasing need for a separate entity of this nature,
- the political climate in Indochina is changing, and
- program goals can be achieved through other means. In particular, multilateral organizations and private foundations are capable of increasing their roles as organizers and administrators of regional activities.

Agency officials reject this contention, but without adequate justification. (See ch. 4.)

Financial management problems have occurred because the Regional Program is not complying fully with policies, procedures, and guidelines established and geared specifically to the requirements of a regional assistance program. The Department and the Agency said that these financial management requirements now are being fully complied with. (See pp. 13 and 14.)

Neither the Department nor the Agency accept GAO's recommendation to develop and to implement a plan to phaseout the Regional Program. They said they would consider the recommendation in this report during their indepth review of the overseas manpower requirements. (See pp. 25 and 26.)

CHAPTER 1

INTRODUCTION

U.S. bilateral assistance programs for developing countries are usually (1) national in scope and (2) implemented pursuant to arrangements worked out between host government officials and Agency for International Development (AID) Mission officials stationed in the developing countries. The United States also participates in multilateral assistance programs, such as those administered by the United Nations and other international agencies and organizations.

Another type of program supported by the United States and implemented by AID is termed regional development assistance. Such programs normally extend beyond national boundaries and involve two or more recipient countries in a region. They may be managed primarily by AID's Washington headquarters or by AID field offices in the assisted regions. This report reviews the Regional Economic Development (RED) Program for U.S. assistance to projects and programs in East Asia.

We reviewed RED activities so that the Congress could be better informed when making decisions on U.S. policy concerning the program.

BACKGROUND

Before 1965 the United States had no comprehensive regional development program for East Asia although AID had supported selected regional projects, such as the Mekong River investigations, Southeast Asia Treaty Organization Graduate School of Engineering, and Asian Productivity Organization. For about 6 years before 1965, U.S. support for regional activities in East Asia totaled only about \$8.5 million.

President Johnson, in his dramatic Johns Hopkins University speech of April 7, 1965, prompted the United States to undertake a major regional economic development program in East Asia. He said,

"The first step [for peace] is for the countries of Southeast Asia to associate themselves in a greatly expanded cooperative effort for development. We would hope that North Viet-Nam would take its place in the common effort just as soon as peaceful cooperation is possible. * * *

"For our part I will ask the Congress to join in a billion-dollar American investment in the effort as soon as it is underway."

The United States hoped that the regional effort would elicit North Vietnam's interest in laying down arms in return for an opportunity to modernize its economy and would help refurbish the U.S. image, which had become tarnished because of the Vietnam war. A former president of the World Bank, engaged by the White House to encourage Asian response, traveled extensively through the region during 1965-68. Important accomplishments during that period were said to be the establishment of the Asian Development Bank, new assistance to the Mekong River development, regional transport studies, and a 1967 offer to the education ministers of the region of \$28 million in matching U.S. support for regional educational institutions.

The regional initiative, intended to support Asian proposals for economic and rural development projects involving several countries working together on common problems, was endorsed by an amendment, title VIII, to the Foreign Assistance Act in September 1966, covering multilateral and regional programs for Southeast Asia.

By the end of 1965, an Office of Regional Economic Development had been authorized and was established in February 1967 in Bangkok, Thailand, as a field office extension of the Regional Development Office at AID's Washington headquarters. At least 10 Southeast Asian countries have participated in RED-supported programs and projects.

SCOPE OF REVIEW

We examined RED's relevance to the development and growth of Asian regional organizations and to the regional activities of multilateral institutions.

We

- interviewed RED officials and examined documents and reports made available;
- visited RED-supported projects in Thailand, Singapore, Malaysia, the Philippines, Vietnam, and Laos and talked with Asian officials, project officials, and U.S. mission personnel in these countries;
- interviewed representatives of the World Bank, Asian Development Bank, and U.N. agencies to obtain information concerning these organizations; and

--reviewed RED activities at AID's Washington headquarters during March 1975.

CHAPTER 2

RED'S ACTIVITIES

As of June 30, 1974, AID had obligated more than \$107 million for regional assistance to East Asia and had proposed additional obligations of \$15.2 million for fiscal year 1975. This assistance has contributed to the development of a number of regional institutions and organizations. As a general rule, assistance must be (1) initiated by the Asian recipients, (2) regional in character, and (3) on a cost-sharing basis.

MEKONG BASIN DEVELOPMENT

The Committee for Coordination of Investigations of the Lower Mekong Basin has been in existence in Southeast Asia since 1957. Through 1973, the United States had provided \$50.7 million (about 18 percent of total amount granted or loaned) to help the Committee promote, coordinate, supervise, and control the planning and investigation of water resource development projects in the Lower Mekong Basin. Almost all U.S. assistance to the Committee has been in the form of special studies and contributions to multilaterally funded construction projects. A small portion of U.S. funds is used for personnel and other costs of the Committee and its secretariat. The secretariat carries out the Committee's day-to-day activities, makes studies, and implements Committee projects.

Support to Committee

Before establishment of RED, the United States assisted the Committee through AID/Washington and bilateral AID missions in each of the four riparian countries, Thailand, Laos, Republic of Vietnam, and Khmer Republic, whose representatives make up the Committee. When the RED office was established in Bangkok, Committee funds began to be channeled through this source. AID has obligated \$5.9 million for the following RED projects since fiscal year 1967.

	<u>Cumulative obligations as of March 31, 1974</u>
Mekong Basin Development Planning	\$4,712,000
Mekong Resource Atlas, completed	479,000
Spare parts replacement hydrological systems, completed	389,000
Mekong River ports and cargo, com- pleted	<u>282,000</u>
Total	<u>\$5,862,000</u>

RED relationship with Committee

In its role as a conduit for U.S. assistance to the Committee, RED has served as (1) regional coordinator for U.S. bilateral missions in the riparian countries, (2) contact point for U.S. Government and private contractors, and (3) U.S. representative in negotiations between the World Bank, Asian Development Bank, other donors and the recipients.

RED functions for Mekong projects primarily involve (1) programming and (2) monitoring contracts. For example, when RED is a project's sole donor, RED personnel review Committee proposals and, after giving approval, prepare Letters of Agreement with the secretariat for project implementation. If work is to be contracted, RED personnel review and approve the proposed contract, receive progress reports and financial statements, and occasionally visit project sites. As one of several project donors, RED reviews the proposal and represents the United States in any negotiations required to implement the project.

RED staffing for Committee projects

As of August 1975 three RED personnel were working on Committee activities.

- One project manager in RED.
- One local assistant program officer used part time on Committee projects.
- One participating assistance support agreement employee detailed to the Committee to coordinate the Pa Mong Optimization and Downstream Effects Study.

RED funding commitments to Committee

RED has no long-term commitments to continue funding Mekong projects. As of March 31, 1974, RED's only active Mekong project was the Mekong Basin Development Planning. In

fiscal year 1975 AID obligated an estimated \$1.5 million for this project, which included the following activities.

<u>Activity</u>	<u>Cumulative obligations for fiscal years 1972-74</u>
Salinity intrusion	\$ 61,146
Waterborne Disease Study	299,791
Nam Ngum fisheries	39,700
Pa Mong Optimization and Downstream Effects Study	225,903
Pa Mong Resettlement Study	500,000
Legal consultant	15,000
Basinwide Fisheries Study	250,000
Stung Treng mapping	620,000
Map equipment	11,900
Hydrologic equipment and spare parts	55,000
Delta soils management	94,800
Mekong Committee Cadre Scholarship Program	50,000
Construction--ports and cargo--handling in Laos and Thailand	135,000
Study of ecological import of Nam Ngum Dam and reservoir	55,000
Expert services, consultants, and training from U.S. Army Corps of Engineers	30,000
Mekong Committee participants attending Earth Resource Technology Satellite course in United States	12,000
Mekong Committee participants attending workshop in United States	10,000
Potash drilling in Laos and Thailand	<u>100,000</u>
Total	<u>\$2,565,240</u>

RED contributed \$500,000 from fiscal year 1971 funds toward pioneer project studies made under World Bank administration. There is also outstanding a \$5 million loan to Laos for the Nam Ngum Phase Two Project sponsored by the Committee and administered by the Asian Development Bank.

The Department of State and AID advised us that, owing to recent events in Indochina, the question of future support for the Committee is under review. The 1976 continuing resolution, enacted June 27, 1975 (Public Law 94-41), prohibits use of funds available thereunder for direct or indirect assistance to North Vietnam, South Vietnam, Cambodia, and Laos.

Potential impact on U.S. bilateral projects

The construction of several mainstream dams on the Mekong River and of dams on its tributaries are an important part of the systematic economic development of the Mekong Basin. The construction of mainstream dams is preceded by years of physical and social science studies. The Committee is still carrying out detailed studies of these dams. As of July 1974, 12 tributary dams had been built and 2 were under construction.

None of AID's projects have been flooded by any of the Mekong tributary dams, and the Committee, riparian countries, and AID officials were trying to limit project implementation in potential flood areas. Existing large bilateral projects in such sectors as education and public health are in large population centers which will not be flooded. AID/Laos has provided assistance for small projects, such as minor irrigation works, village-style dispensaries, and one-room classrooms, which may be flooded as a result of future dam construction. For these projects, low cost, immediate use, and rapid rate of return should be weighed against possible flooding because the projects should have served their purpose by the time any dams are built. For example, the proposed Pa Mong Mainstream Project is still being studied, and if it is decided to build the dam, estimates are that it will be from 12 to 20 years before it is completed.

However, one bilateral project in Laos may require an assessment of future implementation in view of the proposed Pa Mong Dam. Proposed fiscal year 1975 funding for AID/Laos includes \$4.3 million to complete construction of the Vientiane Dike Project which will provide flood control for the city of Vientiane. The Pa Mong Dam, if constructed, will achieve a similar objective. Since escalating costs for the Vientiane dike raise questions as to the cost benefit of the project if Pa Mong is built, the decision to proceed with the project should be reassessed and held in abeyance until the final decision is made on constructing the Pa Mong Dam.

The Department of State and AID, in commenting on our report, said that no AID funds were obligated for constructing the Vientiane dike in fiscal year 1975 and that the bilateral aid program to Laos has been terminated. They said the U.S. aid relationship with Laos is under review.

EDUCATIONAL DEVELOPMENT

Support for regional educational programs have had high priority from the beginning of U.S. participation in regional economic development for Southeast Asia. As of June 1974,

the United States has obligated \$13.7 million to the Asian Institute of Technology and \$15.5 million to the Southeast Asian Ministers of Education Organization to encourage the development and growth of quality regional education centers.

Asian Institute of Technology

The United States was the major contributor to the operating budget of the Institute when it was founded in 1959 as the Southeast Asia Treaty Organization Graduate School of Engineering. In November 1967 the school was chartered as the independent Asian Institute of Technology. U.S. support has proportionally diminished over the years to 20 percent of its operating budget. Largely as a result of this assistance, the Institute is considered a leading graduate school of engineering in Asia. As of November 1973, 662 engineers from 18 countries received advanced degrees and enrollment for the 1973-74 academic year was 348 students. The 65-member faculty comes from 18 different countries.

RED provided \$100,000 to the Institute in 1968 for the services of a consultant firm to formulate a long-range development plan, including alternative recommendations on the staging of a physical plant. In June 1970, RED agreed to provide \$2.75 million in matching funds to assist in constructing a new campus 26 miles north of Bangkok; the Institute obtained other construction financing bringing the total to \$9.6 million. The new campus was formally opened in January 1973. U.S. funds amounted to 29 percent of total construction costs.

U.S. operational support to the Institute has been given through an AID contract with the Colorado State University and budgeted support for this contract through June 30, 1975, amounts to about \$10.9 million (including support to the Southeast Asian Treaty Organization Graduate School for Engineering). As of June 30, 1974, U.S. contributions applying directly to the Institute represented about 45 percent of donor contributions. U.S. contributions have gradually decreased since fiscal year 1971, and 1974 AID obligations of \$831,000 represent final operating support, of which \$495,000 will be used to fund the Colorado State University contract in fiscal year 1975.

Contract funds provided technical advisory services for establishing and operating the school, procuring equipment, and training participants. The contract has been administered by AID/Washington, but the RED office has monitored the project, reviewed the annual budget before AID/Washington approval, and served as a U.S. contact point for Institute officials.

Through the Colorado State University contract, the United States has provided \$1.2 million for student scholarships. Additional funds of \$150,000 for 15 scholarships had been programmed for fiscal year 1975 to promote and expand the use of Asian regional institutions for training Asians.

Southeast Asian Ministers
of Education Organization

RED has had a major role in developing the Education Organization and, as of June 30, 1974, has provided \$15.5 million in capital, operations, and scholarships for six major educational centers, one of which, Tropical Medicine and Public Health, consists of six national centers.

Initially discussed in a November 1965 meeting by the education ministers of several Southeast Asian countries, the charter for a regional educational organization was signed by the ministers in February 1968. Legal status was given in January 1969 to the Southeast Asian Ministers of Education Council and the Southeast Asian Ministers of Education Secretariat.

The United States implemented the preliminary efforts of the interim secretariat, organized at the 1965 meeting, with educational advisors, consultants, and grant funds to cover costs of meetings, studies, reports, and routine operations. When the project plans required permanent funding, the U.S. Government entered agreements to share 5-year project costs with host governments and agreed to share with the Southeast Asian Ministers of Education Secretariat the responsibility for providing special funds to the centers. These funds would cover training and research scholarships, governing board meetings, research grants, and personnel exchanges. The secretariat was responsible for raising these funds, and the United States agreed to provide half the funds for the first 5 years of operations at each center to help get the programs started.

At the end of fiscal year 1974, five of the six centers had completed or were in their first 5 years of operations. The centers were conducting courses for students of the eight participating countries, and most offered seminars and specialized courses. From 1967-73, 2,021 professionals participated in training courses and another 5,217 attended professional-technical conferences, seminars, and workshops. Information on each center is given in the following chart.

<u>Center</u>	<u>Location</u>	<u>Terminal support date</u>
Regional English Language Center	Singapore	Dec. 31, 1976
Regional Center for Educational Innovation and Technology	Vietnam ¹	Dec. 31, 1979
Regional Center for Tropical Biology	Indonesia	June 30, 1978
Regional Center for Education in Science and Mathematics	Malaysia	June 30, 1975
Regional Center for Graduate Studies and Research in Agriculture	Philippines	June 30, 1974
National Centers for Tropical Medicine and Public Health	Indonesia Philippines Thailand Singapore Vietnam ² Malaysia	June 30, 1975

The need to develop regional centers or programs that would not duplicate or compete with national programs was recognized early in the development of the Education Organization. Existing regional agencies and programs were considered to avoid duplication and, wherever possible, existing national programs and institutions with potential for regional service were to be used in lieu of building new institutions. Thus, education programs were directed toward graduate study and developing research methods, rather than duplicating course work. Center locations were determined, in part, by the following factors:

--Each country would eventually want to have some identifiable role in the Southeast Asian Ministers of Education Council.

--Host countries selected had prior experience in the areas to be developed by each center.

¹ Center relocated temporarily to Bangkok from Saigon until the end of December 1975 pending consideration of a new permanent location.

² Following the fall of South Vietnam, support for the Saigon Center has ceased.

It was also determined that, except for the regional English Language Center in Singapore, projects would be located where the programs and facilities could easily be phased into the national program of the host country, should the Council cease to exist and/or decide the project was no longer needed as a regional program.

A number of existing institutions are being used for the regional education program, but new facilities have also been constructed. Facilities for administration, teaching, and research as well as living quarters have been built with matching U.S. funds for the Center for Education in Science and Mathematics, the English Language Center, and the Center for Graduate Studies and Research in Agriculture. About \$1 million has been obligated to purchase equipment and supplies for the national institutions participating in the Tropical Medicine and Public Health Project.

OTHER RED-FUNDED ORGANIZATIONS

Eleven percent of total RED obligations through June 30, 1974, have been for the Asian Vegetable Research and Development Center in Taiwan, regional transport and communications development, and Intergovernmental Coordinating Committee for Regional Family Planning.

Asian Vegetable Research and Development Center

The Center was organized on May 22, 1971, with a 5-year, \$7.5 million funding plan. The United States agreed to provide \$3 million, or 40 percent of costs. Other participating countries and organizations which agreed to provide the remaining costs were the Asian Development Bank, the Republic of China, the Philippines, Korea, Vietnam, the Kingdom of Thailand, and Japan. AID, through RED, made its final contribution to the initial 5-year plan in fiscal year 1975.

However, we were informed by the Department of State and AID that, based on a favorable evaluation of the Center and the increased priority placed by the Consultative Group on International Agricultural Research on tropical vegetables, AID plans to continue providing the same level of support through its central Office of Agriculture, Bureau for Technical Assistance.

Regional transport and communications development

The Coordinating Committee of Southeast Asian Senior Officials on Transport and Communications was basically U.S.-

funded when it was established in 1967. The Coordinating Committee, composed of senior officials from eight Southeast Asian countries with expertise in the fields of transport and communications, coordinated the initial regional programs proposed by the Southeast Asian transport and communications officials in their 1967 meetings. In 1973 the Coordinating Committee was incorporated into the Southeast Asian Organization for Regional Transport and Communications Development and a permanent secretariat was organized.

As of June 30, 1974, RED had obligated \$3,588,000, mostly for technical assistance and feasibility studies of transportation activities. An additional \$673,000 was included for U.S. personnel and program costs for fiscal year 1975.

RED has contributed over \$2 million to finance 20 feasibility studies for potential transportation and communications projects in Southeast Asia. More than \$96 million in commitments for project implementation of these studies had resulted as of May 17, 1974.

RED's role in regional transportation and communications primarily involves funding operations and monitoring areas that RED can finance through additional feasibility studies. RED personnel also attend Coordinating Committee meetings to look after U.S. interests and to insure that U.S. funds are properly expended.

Intergovernmental Coordinating Committee

Fiscal year 1974 obligations for support of the Intergovernmental Coordinating Committee terminates RED's financial involvement with this organization. Obligations amounting to \$487,000 as of March 31, 1974, have been used to provide about 90 percent of the Committee's budget since its beginning in late fiscal year 1970.

The Committee's purpose is to coordinate regional programs in family and population planning, and, according to RED, it is achieving its goals. Although RED played an essential role in the Committee's development, the Committee now receives funds from 16 or 17 donors and RED's role has diminished to that of evaluating the Committee's program and monitoring use of U.S. funds.

CHAPTER 3

FINANCIAL MANAGEMENT OF REGIONAL ASSISTANCE

RED is responsible for protecting U.S. interests in funds disbursed for regional development activities. This involves insuring that adequate information is available, securing and analyzing information, and resolving problems. RED must also insure that appropriated funds are expended for the purpose and within the time for which they are made available.

In a previous report, we recommended that AID develop and implement definitive policies, procedures, and guidelines geared to the special requirements of regional assistance programs. These have been established, but are not being fully complied with.

MANAGEMENT AND COLLECTION OF UNUSED GRANT FUNDS TO U.S. GOVERNMENT

In August 1973 we reported to the AID Administrator that, because AID had not instituted policies and procedures for adequate administration of regional programs, management deficiencies had resulted. We noted that AID had no procedures for identifying and requesting the prompt return of unused grant funds. The Administrator replied that RED does have such procedures which are as follows:

- Letters of Agreement requiring that a financial report be submitted to RED on use and refunds of unexpended amounts.
- A financial operations manual has been designed, setting up a uniform accounting system for each project center and providing uniform and timely financial reports to the U.S. Government.
- The RED office has instituted more formal procedures whereby a ledger record is kept of all Letters of Agreement, amounts of grants, dates of pertinent reports, and fiscal comparisons between funds released and funds disbursed to determine refunds due.

These mechanisms do exist, however, not all required financial reports have been submitted to RED, some were not submitted in a timely manner, and the "formal procedure" set up by the RED in 1973 is incomplete and not fully used.

A review of the grant control ledger showed that required expenditure reports for 53 grants totaling \$4.4 million had

not been submitted. RED explained that, due to staff shortages, the ledger is incomplete and some of the reports had probably been submitted. However, we determined that the Coordinating Committee on Transport and Communications had not submitted reports on 11 grants totaling \$210,255 for reporting periods ranging from December 1968 to March 1974. Because the ledger is incomplete, it cannot be effectively used to maintain surveillance over U.S. grants. RED officials agreed and stated they would try to devote more effort to financial analyses to insure that reports are submitted on time.

In commenting on our report, the Department of State and AID said that formal procedures--a ledger of all Letters of Agreement, amounts of grants, dates of pertinent reports, etc.--established by RED are now complete and have been fully implemented. They said that RED has reviewed reports on the 11 grants due from the Coordinating Committee on Transportation and that no reports are outstanding over 45 days beyond the due date. Additionally, State and AID said the grant control ledger has been instrumental in detecting reporting shortcomings, and RED officials agreed with us that it is a valuable management tool. Also, in October 1974 RED instituted a program progress report monitoring log which has kept project managers alert to due dates and delinquencies of technical and financial reports.

Collection of funds

RED's "refund ledger" showed that RED had collected more than \$500,000 in funds refundable to the U.S. Government. However, in some cases no refunds had been submitted for the projects when due and in others, RED had not taken timely followup action.

According to a June 30, 1973, financial report made by a certified public accountant (CPA) firm and issued in October 1973, the Education Organization and the various centers held \$98,472 in unobligated funds refundable to the U.S. Government. These funds consisted of interest earned on U.S. contributions and unobligated operating, capital, and special funds. After various adjustments, the total refund due the U.S. Government increased to \$108,307. As of May 10, 1974, only \$73,132 had been refunded, \$58,089 of which was collected from March through May 1974. The Department of State and AID said that RED now advises that the remaining funds have been received.

A September 1971 CPA firm report of the operations of the Regional Center for Graduate Studies on Research in Agriculture for fiscal years 1969-71 noted that the U.S.

contribution of \$83,000 in fiscal years 1970 and 1971 to the Center's special funds exceeded funds generated by the Education Secretariat from other sources by \$29,841. In March 1972, \$22,045 was refunded; but as of June 13, 1974, no additional refunds had been received. Although RED contends that the final balance due will be determined in an audit of special funds, we question the delay of almost 3 years in collecting refunds.

In commenting on our report, the Department of State and AID said that RED matches non-U.S. fund inputs on an overall project basis, is aware of the imbalance regarding the Regional Center, and would take it into consideration when an overall Special Funds audit is made to determine the exact amounts of U.S. and non-U.S. contributions toward special funds.

The total refund due the U.S. Government should have been collected promptly instead of awaiting the outcome of a separate audit. Additionally, the timeframe of this audit has not been established and, as it now stands, refunds due the United States have remained outstanding for over 4 years.

PREMATURE RELEASE OF GRANT FUNDS

We examined \$2.2 million in grant funds for four Education Organization centers covering fiscal years 1973-75. About \$1 million of this was disbursed to the secretariat far in advance of project requirements.

RED officials stated that the centers need money before the fiscal year starts in order to have funds to continue operations. Although certain disbursements could be justified because of the type of operational support they provide, we can see no reason for disbursing funds more than one quarter in advance of expenditures.

Analysis of a CPA audit report for the Tropical Medicine project for the year ended June 30, 1973, showed that a \$430,500 grant had been approved for the Education Organization on May 31, 1972, for equipment for national centers in Thailand, the Philippines, and Indonesia. The audit report showed that \$411,000 had been released to the Education Organization and that more than \$250,000 remained unexpended at June 30, 1973. An additional grant of \$155,000 was approved on February 27, 1973, for centers in Thailand and the Philippines. The Education Organization also had unexpended funds amounting to more than \$148,000 from this grant on June 30, 1973. This level of unexpended funds indicates that RED disbursements were made well in advance of actual requirements.

This practice not only results in U.S. funds lying idle in noninterest-bearing accounts, but can result in RED's losing control over the return of unused funds as required by Letters of Agreement. This situation might have been averted had RED exercised better control over disbursement of funds and provided better monitoring of the Education Organization's activities.

RED officials did not agree that funds, used for budget support, released in full at the beginning of a fiscal year was an undesirable practice. Rather, they believe that such action conforms to sound financial management policies.

The Department of State and AID said that RED's disbursement policy is based on specific use of funds as contained in the individual Letters of Agreement. If funds are to be used for short-term projects they are released before the actual needs of the project; however, if they are for budgetary support, RED releases the full amount of funds at the beginning of the period covered by the grant agreement. Nevertheless, AID does seem to recognize the merit of limiting disbursements to needs and advised us that RED would be guided by a new policy which generally limits advances to needs of the upcoming calendar quarter.

NEED FOR IMPROVING FINANCIAL MANAGEMENT PRACTICES

RED provides funds for Education Organization operations although no formal agreement has been negotiated specifying the purpose and amount of this financial assistance. RED also participated with the Education Organization and the Government of Singapore in developing an educational institution with an income-producing feature, but failed to provide specific criteria for disposing of funds generated from U.S. inputs.

Southeast Asian Ministers of Education/Secretariat General Fund

As initially projected, the secretariat's estimated \$150,000 annual budget was to be provided by annual contributions from member countries. The ability of each country to pay was determined by the Asian Development Bank contribution index. A Ford Foundation grant covered half the operational costs for the first 3 years, and thereafter the cost was to be borne by member countries.

RED has obligated \$954,442 since fiscal year 1968 through the secretariat general account, compared with an estimated \$1.14 million from member countries.

RED has no memorandum of understanding with the secretariat for this support, and no criteria have been established on the purpose or amount of any account expenditures. All grant procedures are ad hoc.

RED personnel stated that the secretariat general account was established to provide funds for special activities RED deemed necessary for developmental purposes. The secretariat cannot handle this necessary developmental work because of priorities and limited resources, so RED funds it.

We examined expenditures made during fiscal years 1972-74 in relation to the assertion by RED personnel that RED funding was not being used to make up any deficiencies in the secretariat's ability to meet budgetary requirements. We noted that the categories of secretariat budget items and of RED-supported expenditures were similar--funds for travel, seminars and conferences, fund raising, professional service charges, and miscellaneous. In addition, RED was funding items for which the secretariat's budget had allocated funds but which had not been spent. For example, the fiscal year 1972 secretariat budget allocated \$11,000 for seminars and conferences but spent only \$6,893.39. In the same period, RED provided \$13,813.63 for seminars and conferences, at least \$5,947.45 of which appeared to be directly related to Education Organization's operations and should have been regular budget items.

RED paid \$106,787.25 to a CPA firm during fiscal years 1972-74 for management services and regular annual audits. Although the cost of developing an adequate financial management operations manual may be justified, the \$81,501.25 for Education Organization center audits should have been a U.S.-matching contribution to each center.

If RED wishes to provide support to the secretariat in addition to that already provided to the centers and to the secretariat fund, criteria should be established and formal agreements negotiated to identify the amount and purpose of the support.

The Department of State and AID, in commenting on our report, said that AID provides selective support to the education secretariat for special projects, meetings, seminars, short-term consultants, and professional services. They said that no memorandum of understanding has ever been signed regarding general account funds because

--criteria for using funds are reasonably well defined,

--rather than granting a lump sum, RED preferred to retain control each time money was requested, and

--it never intended to apply the matching principle to the varied and selective assistance provided to the overall program through the general account.

Nevertheless, we believe that formal agreements should have been negotiated and criteria established to identify the amounts and purposes of the support.

Regional English Language Center

In February 1968 the United States, Government of Singapore, and Southeast Asian Ministers of Education Secretariat entered into a memorandum of understanding concerning the establishment of the Southeast Asian Regional English Language Center at Singapore. The memorandum specified a 50/50 cost-sharing arrangement in outlining the financial responsibilities of the United States and the Government of Singapore for constructing the building and operating the Center. The United States agreed to put its share into construction, equipment, and commodity costs and the Government of Singapore agreed to fund all operational costs for the 5-year period to meet its matching share. The Center started its 5-year permanent operation phase on January 1, 1972.

The United States has contributed funds for operational support because income derived from U.S.-funded facilities has been used for current operational costs. From January through April 1974, \$34,000 in revenues from U.S.-financed facilities was applied against operational costs because there was a lack of understanding among the United States, Government of Singapore, and secretariat as to how revenue from the Center's U.S.-financed facilities was to be applied.

The Center was designed with an income-producing feature. The Government of Singapore paid construction costs for 4 of the 18 floors of the Center's building because it expected to generate income from some floors to help defray operating and special fund costs. The United States and the Government of Singapore shared construction costs for the ground and first floors because it was intended that these facilities would be used for both Center and non-Center activities. The remaining 12 floors were to be used for Center activities.

However, some of these 12 floors are being used for non-Center activities, principally because they have been excess to Center needs. For example, the top two floors contain eight apartments designed for use by Center staff. At the

time of our visit in June 1974, six of these apartments were being rented to nonstaff individuals. Six floors were for Center student rooms, but two floors are used for public occupancy on an "as-needed" basis. Since these facilities were U.S. financed, any income earned should have been used to offset other U.S. contributions or returned to the United States. Although RED officials said these earnings cannot be considered for matching purposes by the Government of Singapore, the issue had not been resolved at the time of our audit and the funds were being used to offset operational costs, thus reducing the Government of Singapore's annual contribution.

In commenting on our report, the Department of State and AID said that any income generated by U.S.-constructed facilities will be considered as part of the U.S. contribution in the "fourth year" audit of the Language Center. The audit will determine total U.S. and non-U.S. inputs to operating and capital costs of the Language Center over its first 4 years of operations in order to adjust fifth year contributions to assure that overall 5-year contributions comply with the 50/50 cost-sharing arrangement.

While it appears that the 50/50 cost-sharing arrangement ultimately will be adhered to, AID should have reacted more promptly to resolve the issue. The lack of agreement among the United States, Government of Singapore, and secretariat on how to treat income generated from U.S.-financed facilities should have been resolved immediately. As it now stands, revenue due the United States will not be determined until the fourth year audit of the Center, and collection, if it takes place at all, will happen later still.

CHAPTER 4

POSSIBLE PHASEOUT OF RED

Controversy has arisen in recent years concerning (1) RED functions and organization and (2) its relevance and adequacy in implementing the legislative mandate of title VIII of the Foreign Assistance Act.

Since its inception, RED's role has evolved from that of a catalyst--providing high degrees of financial and technical input--to a more passive function. RED's momentum in supporting regionalism and the development of new projects has diminished, and its efforts now center primarily on monitoring existing programs and participating in spinoff projects involving minimal Asian initiative and effort.

DECREASING NEED FOR RED

The diminished role of RED, accompanied by the increased role of the Asian Development Bank and other regional and multilateral organizations, has prompted the foreign affairs agencies to consider whether a new charter and more activist role should be developed for RED or whether RED has outlived its usefulness and should be phased out. The agencies have considered this question since at least 1972, but it remains unresolved. Moreover, the agencies have not attempted to surface the question for congressional consideration.

In the summer of 1974, during our review of RED activities, we were not aware of all the agencies' views on the phaseout of RED. Nevertheless, in inquiries to RED in August 1974, we questioned the need for providing continued U.S. support to regional projects in view of their present stages of development and the fact that participating countries should assume a greater share of the projects. We stated that continued assistance to viable regional institutions contradicted U.S. objectives and that the need for maintaining RED should be reassessed in view of existing alternatives for channeling regional economic development assistance to Southeast Asia.

RED advised us in September that a reassessment had already been completed as a result of recommendations that some RED and AID Mission functions in Bangkok be integrated and gave us an August 9 message from the Department of State and AID which reconfirmed U.S. support of Asian regionalism and Asian institutions which foster regional cooperation and interdependence. The message stated that:

--It must be clear to regional organizations and countries involved in them that the United States

continues to strongly support Asian regional activities and maintains in Bangkok a regional office through which the United States will continue to support them.

RED also discussed phasing out support to regional institutions, but did not indicate when the RED office might be phased out.

--We intend to phase out our support to regional institutions as is appropriate, but we hope to be able to use these institutions for new initiatives that will contribute to regional cooperation and regional development. And we hope to continue our role of participating in new regional activities where these seem productive, where the Asians themselves desire these programs and are prepared to contribute to them, where other international and national donors are involved, and where we have sufficient funds.

We made a further review in Washington during March 1975 and found that:

--The former Director of RED, at a meeting with several U.S. Ambassadors in Southeast Asia late in 1972, said that RED had outlived its usefulness and should be phased out. A draft internal report at AID/Washington indicated that the Ambassadors concurred in that opinion.

--Notwithstanding his earlier view regarding RED phaseout, the RED Director in January 1973 hired two U.S. consultants to write a new charter for RED, which would retain an unstructured, activist role for RED in the 1970s. Although RED proposed a new mandate in its country field submission to Washington, AID's proposed program submitted to the Congress for fiscal year 1975 neither suggested a new mandate nor discussed a possible phaseout. AID essentially proposed continuing existing RED projects and programs at a level of \$15.2 million.

--From about April through September 1973, AID's Operations Appraisal Staff of the Office of the Auditor General appraised RED operations. That appraisal envisioned a reduced need for RED's size, scope, and responsibilities and perceived a complete phaseout over a 2 or 3 year period. Its October 9, 1973, report concluded that the time

was opportune to begin regularizing the RED program and recommended "medium-term" actions toward relocating RED programs within concerned missions and regional organizations. AID's program managers essentially rejected the appraisal's conclusions and recommendations, as evidenced by their subsequent action to continue the RED program.

--Perhaps the strongest case for phasing out RED has been made by State's Bureau for East Asian and Pacific Affairs. Some of its views, provided for the 1973 appraisal by AID's Operations Appraisal Staff, were (1) a RED phaseout offered a good opportunity to rationalize U.S. development activities in Southeast Asia in accordance with overall policies and expected future developments; (2) the concept of RED was inconsistent with U.S. efforts to lower its profile in Southeast Asia and to place greater reliance on multilateral organizations to achieve U.S. development objectives; and (3) the U.S. objective of encouraging Asian initiatives would be better served by working through the Asian Development Bank.

The record indicates that State's views have not changed. As late as February 1975, State continued to express reservations about AID's proposed lines of effort for RED during 1976-80. However, it appears that State officials have been satisfied with informing other executive branch agencies of their views on RED's organizational arrangements but have taken no further action toward reducing U.S. regional activities.

During 1974 AID consolidated some administrative and overhead functions of RED and the AID Mission in Bangkok. In mid-1974 RED offices were moved to the AID Mission building in Bangkok and many financial and certain administrative staffs and activities were merged. These changes were prompted by (1) the U.S. Ambassador's concern about having two separate AID groups in Thailand reporting directly to him on economic assistance and his desire to minimize the U.S. official presence and (2) AID's expanded efforts to reduce operating costs. AID determined that, however, RED would continue as a separate office with its own Director but would report to the Thailand Mission Director and to the U.S. Ambassador through the Mission.

AID's files indicate that such limited action was taken so as to not adversely affect U.S. support of regionalism in fact or in the eyes of Asians. AID/Washington advised RED to make it clear to the regional organizations and countries involved that the United States would continue to

strongly support Asian regional activities through the Bangkok regional office.

RED's proposed strategy in early 1975 for future activities contemplates continued but declining levels of assistance to regional organizations through fiscal year 1979. RED proposes that it become a (1) regional center having a technical staff available to AID Missions in East Asia, (2) coordinator for field research and studies within the region, and (3) reporting center for regional and multilateral activities.

The Department of State has again questioned whether RED should extend itself beyond present commitments. AID's Bureau for Program and Policy Coordination, in commenting on RED's proposed strategy, questioned whether fiscal year 1976 should be the last year in which funds are obligated for RED. The Bureau suggested alternatives to continued support for regional organizations which would permit closing the RED office.

ALTERNATIVE MEANS FOR PROVIDING REGIONAL ASSISTANCE

The United Nations, World Bank Group, Asian Development Bank, and Ford, Rockefeller, and Asia Foundations provide wide-ranging experience and assistance that parallels AID's regional economic development program in Southeast Asia.

The World Bank and Asian Development Bank have committed loans of more than \$2 billion from 1967 through mid-1974. The U.N. Development Program has a 1972-76 assistance planning figure of \$118 million. One private foundation provided \$16 million in 1971 and 1972 to five countries in Southeast Asia. Moreover, the recent U.S. decision to contribute to the Asian Development Bank Special Fund should help the poorest of its member countries and lessen the need for direct regional assistance inputs under title VIII of the Foreign Assistance Act.

According to the Department of State, the Asian Development Bank has a solid reputation as a well-managed and highly professional international investment institution and an effective source of advice and technical assistance for Southeast Asian countries. It feels it is well suited to support U.S. regional developmental objectives in Southeast Asia.

Overall, we found that these organizations present a viable alternative to title VIII direct support for Asian

initiatives and regional development. They have already made substantial contributions and stand ready to increase their roles as organizers and administrators of multilateral and regional projects.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

Asian institutions in 1975 differ markedly from those in existence at the start of the RED Program. The Asian Development Bank has an expanded operational program, the World Bank is involved in regional development activities, and the United Nations has expanded its programs. These U.S.-supported institutions provide diverse development assistance, much of which parallels RED activities. In addition, their longevity in Asia and their established administrative and management bases, makes these institutions viable instruments for pursuing regional assistance activities. Thus, RED is one of many organizations or programs capable of responding to Asian initiatives and regional development requirements.

We believe that U.S. involvement in regional programs or projects can be achieved through participation in such multilateral institutions as the Asian Development Bank, World Bank, and the United Nations. This contemplates phasing down RED's programs and transferring residual U.S. responsibilities to other U.S., regional, or multilateral organizations. Based on AID's trend toward increased multilateralism since 1972 and reliance on the less developed countries themselves, the phaseout of RED seems appropriate. Apart from its early accomplishments in promoting regional cooperation, RED's program cannot be justified in the light of new directions for U.S. foreign assistance and domestic priorities.

AID officials and RED program managers seem unwilling to accept this conclusion, voiced by many knowledgeable observers, and are continuing to formulate new strategies and justifications for continuing the RED Program through 1979.

RECOMMENDATION

We recommend that the Secretary of State and the Administrator of AID develop and implement an orderly plan to phase out the East Asia Regional Economic Development Program.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report, the Department of State and AID stated that, because of recent events in Indochina,

they have been reviewing activities of the RED Program. They noted that, although AID has commitments in the East Asia regional programs and institutions, direct support will continue to decline as commitments for startup and operational financing are fulfilled. They added that presently there are no plans to support new regional organizations and institutions; however, a certain amount of liaison and coordination with the bilateral aid missions and the regional centers should exist.

State and AID said that with the phasing out of support for the Mekong development program and institutional development, RED, as it was previously conceived, is in its final stage. They stated that AID is making an indepth review of the overseas manpower requirements associated with all current and planned regionally funded activities. This review is to consider (1) the established policy of reducing substantially the number of U.S. officials in Bangkok and (2) our recommendation.

This indepth review is necessary; however, it will probably not direct itself to the issue at hand--the phaseout of RED. Although the RED Program has provided funds to projects necessary for the economic development of the region and has helped promote regional cooperation, there are sound reasons for discontinuing the program, especially in light of the political climate in Indochina.

We concur that liaison and coordination between the regional centers and the AID missions should exist; however, residual functions of this nature could easily be absorbed by the bilateral missions. Additionally, regional economic development projects if otherwise justified, can be effectively accomplished either through bilateral missions or such multilateral institutions as the Asian Development Bank, the World Bank, and the United Nations.

While State and AID seem to recognize that the basic thrust of the RED Program is no longer valid they nevertheless appear unwilling to initiate and implement plans to phase out the program. Consequently, we reaffirm our position that an orderly phaseout plan should be developed and implemented for the RED Program and any future U.S. support for regional programs and/or projects should be channeled through either the multilateral organizations or bilateral missions.

MATTER FOR CONSIDERATION BY THE CONGRESS

Because the Department of State and AID are unwilling to take a firm position on whether to phase out the RED

Program and due to the changing political climate in Indo-china, the Congress may wish to consider whether it is in the U.S. interest to pursue an orderly phaseout of the East Asia Regional Economic Development Program.



DEPARTMENT OF STATE

Washington, D.C. 20520

August 5, 1975

Mr. J. Kenneth Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

I am replying to your letter of May 5, 1975, addressed to the Secretary, which forwarded copies of your draft report "U.S. Policy For The East Asia Regional Economic Development Program--What Should It Be?".

The enclosed comments, prepared by the Acting Deputy Assistant Secretary of the Bureau of East Asian and Pacific Affairs, represent a joint response of both the Department of State and the Agency for International Development.

We appreciate having had the opportunity to review and comment upon the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Williamson".

Daniel L. Williamson
Deputy Assistant Secretary
for Budget and Finance

Enclosure:

Comments.

GAO note: Deleted comments pertain to material presented in the draft report which are not included in the final report or were revised.

Joint STATE and A.I.D. Comments
on GAO Draft Report

"U.S. Policy for the East Asia Regional Economic
Development Program -- What should it be?"

The following comments are offered on the Draft Report.

CHAPTER 1

INTRODUCTION

Background

[See GAO note p. 28.]

The East Asia Regional Economic Development program has engendered considerable technical, economic and political cooperation among the countries of Southeast Asia, resulting in the promotion of social and economic development. This was generally acknowledged in the GAO's Report of August 10, 1973 which "found that the East Asian regional assistance program has provided funds to projects necessary for the economic development of the region and has helped promote regional cooperation."

[See GAO note p. 28.]

CHAPTER 2

RED's ACTIVITIES

MEKONG BASIN DEVELOPMENT

We believe it would provide a more balanced picture to note that U.S. contributions to the Mekong program have amounted to less than 18 percent of total resources granted or loaned to assist the Mekong Committee.

[See GAO note p. 28.]

EDUCATION DEVELOPMENTAsian Institute of Technology

[See GAO note p. 28.]

The last sentence at the bottom of page 11 and the top of page 12 of the Draft Report mis-states the program for which scholarship support to AIT was programmed in FY 1975. The purpose of such support is to promote and expand the use of Asian regional institutions to provide needed training for Asians. The Executive Branch believes that it is sound policy to encourage the use of the regional educational institutions which the RED program has helped to establish over the last decade.

Southeast Asian Ministers of Education Organization

It should be noted that owing to the fall of South Vietnam, support for the Saigon center under the TROPMED Project for Tropical Medicine and Public Health has ceased. Moreover, the operation of the Regional Center for Educational Innovation

and Technology has been moved temporarily to Bangkok (from Saigon) until the end of December 1975 pending consideration of a new permanent location.

OTHER RED-FUNDED ORGANIZATIONS

[See GAO note p. 28.]

It should be noted that all RED-funded studies were awarded to U.S. firms. However, the construction implementation was not U.S.-funded, so the awards went to low bidders on international completion; and U.S. firms submitted very few proposals or bids.

Intergovernmental Coordinating Committee.

No comments.

CHAPTER 3

FINANCIAL MANAGEMENT OF REGIONAL ASSISTANCE

The first two paragraphs of this section summarize GAO conclusions based upon the more detailed sections which follow in the report. Our comments are addressed to the more detailed sections.

[See GAO note p. 28.]

[See GAO note p. 28.]

Chapter 5

Conclusions and Recommendations

Owing to recent events in Indochina, State and A.I.D. have been reviewing the activities of the RED program. For example, it is obvious that our support of the Mekong program will be limited at best in the foreseeable future.

Although A.I.D. has existing commitments to East Asia regional programs and institutions, direct support for regional institutional development will continue to decline as commitments for start-up and operational financing are fulfilled. There are no plans at the present time to support new regional organizations and institutions.

State and A.I.D. believe that the regional centers which have been successfully established should be used to good advantage to help meet training and research needs in Southeast Asia. A certain amount of liaison and coordination with our bilateral aid missions and with these centers appears to be called for.

With the phasing out of support for Mekong development programs and institutional development, the East Asia regional development program as it has been pursued in the past is in its final stage.

A.I.D. is now undertaking an in-depth review of the overseas manpower requirements associated with all current and planned regionally funded activities including support for private and voluntary organizations and participant training. In this review A.I.D. will give due consideration to the established policy of reducing substantially the number of American officials in Bangkok as well as to the GAO recommendations. This review, which will be undertaken in consultation with the State Department, will be completed not later than by the end of this year. Should the GAO so request, A.I.D. will inform the GAO of the staffing and organizational structure needed for the prudent management of continuing regional programs by December 31, 1975.

State and A.I.D. are agreed that the liaison functions with ESCAP be transferred to the Embassy.

[See GAO note p. 28.]

A handwritten signature in black ink, appearing to read "Anthony Geber". The signature is fluid and cursive, with a long horizontal stroke at the end.

**Anthony Geber, Acting
Deputy Assistant Secretary
of East Asian and Pacific Affairs**

GAO note: Page references in this appendix may not correspond to page numbers in the final report.

PRINCIPAL OFFICIALS RESPONSIBLE FOR THE
ACTIVITIES DISCUSSED IN THIS REPORT

Appointed

DEPARTMENT OF STATE

SECRETARY OF STATE:

Henry A. Kissinger	Sept. 1973
William P. Rogers	Jan. 1969
Dean Rusk	Jan. 1961

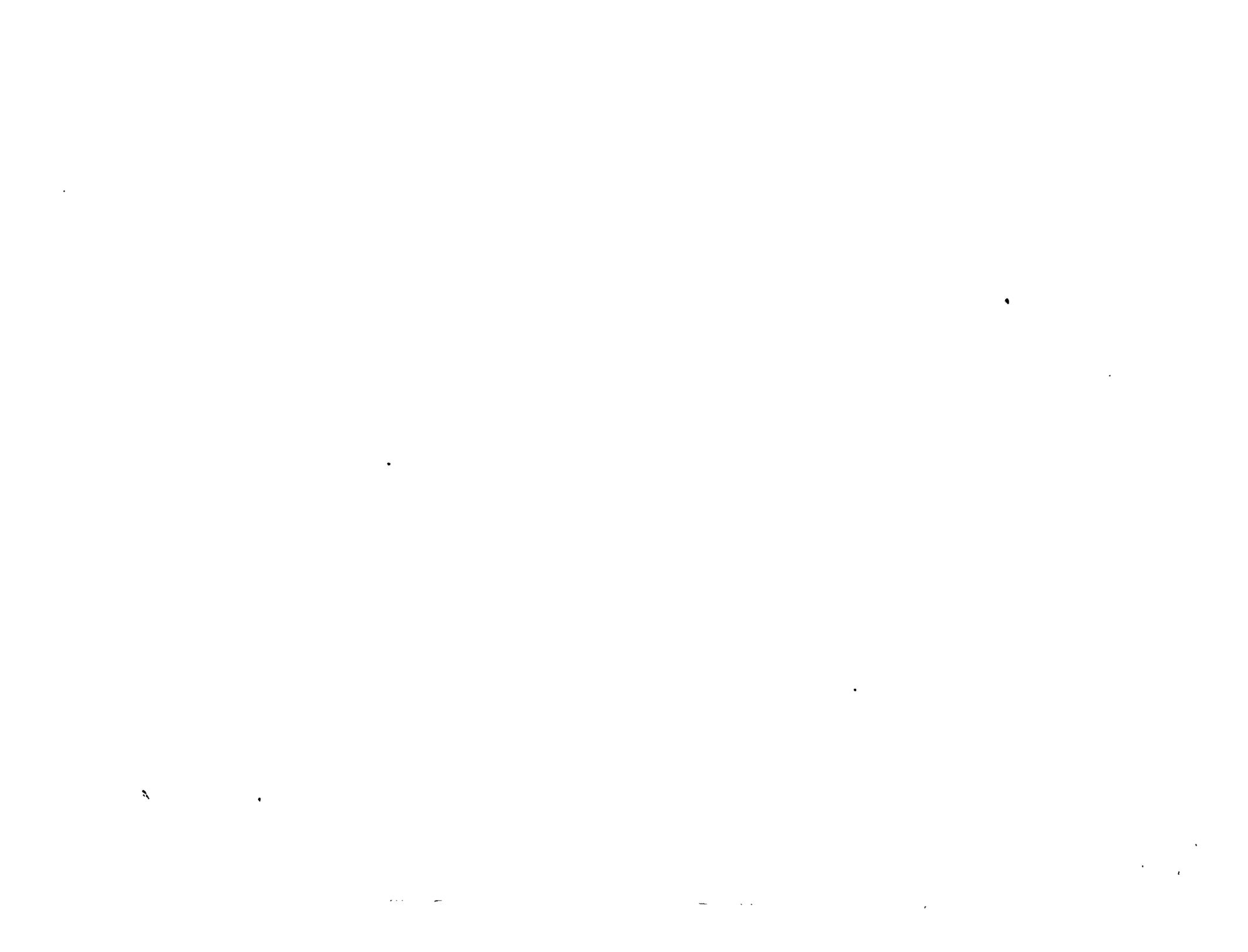
U.S. AMBASSADOR TO THAILAND:

Charles S. Whitehouse	Apr. 1975
Edward E. Masters (Charge d'affaires)	Apr. 1975
William R. Kintner	Nov. 1973
Leonard Unger	Sept. 1967

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR:

Daniel S. Parker	Oct. 1973
John A. Hannah	Mar. 1969
Rutherford M. Poats (acting)	Jan. 1969
William S. Gaud	Aug. 1966



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