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Procedures To Assist  
U.S. Small Business  
And Shorten  
Commodity Procurement Cycle  
In India  
Need Improvement B-161854

Agency for International Development  
Department of State

*UNITED STATES  
GENERAL ACCOUNTING OFFICE*

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AUG. 2, 1971



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-161854

Dear Dr. Hannah:

This is our report entitled "Procedures to Assist U.S. Small Business and Shorten Commodity Procurement Cycle in India Need Improvement."

The matters in this report have been covered on an overall basis by congressional hearings and subsequent recommendations. The problems have been analyzed on an AID-wide basis by AID's Office of Management Planning, and resulting recommendations to revise and improve AID's small business procedures have been approved by AID's Deputy Administrator.

The purpose of this report is to bring these matters to your attention with the hope of eliciting implementing action as soon as possible on the problems involved--particularly for India, where large amounts of AID program loan funds are being expended.

This report was discussed with AID officials. Their views and comments have been considered. We did not request formal comments on the report.

The recommendations, in a number of instances, are similar to several of the AID and congressional recommendations that have been adopted but not yet fully implemented by AID.

Your attention is invited to section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the action taken with respect to GAO recommendations. The statements are to be sent to the House and Senate Committees on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations in connection with the first request for appropriations submitted by your agency more than 60 days after the date of this report. In addition, we request that you furnish us with copies of the statements sent to the congressional committees on the recommendations made.

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Copies of this report are being sent to the Director, Office of Management and Budget; the House and Senate Committees on Government Operations; the House and Senate Committees on Appropriations; the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations; and the Subcommittee on Government Procurement, House Select Committee on Small Business.

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Sincerely yours,



Director, International Division

Enclosure

The Honorable John A. Hannah  
Administrator, Agency for  
International Development  
Department of State

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D I G E S T

WHY THE REVIEW WAS MADE

A large part of U.S. economic assistance to India is in the form of loans to help provide essential imports needed for its economic development. In fiscal years 1968, 1969, and 1970, an average \$224 million annually was loaned by the Agency for International Development (AID) to the Government of India, to help finance such commodities as iron and steel products, fertilizer, chemicals, pharmaceuticals, and machinery.

The General Accounting Office (GAO) has reviewed various aspects of AID's management of the Commodity Import Program because of its size and importance.

Because it is the declared policy of the Congress to assist American business--particularly small business--in participating in U.S.-financed commodity export sales, the report deals primarily with AID's small business notification and bid solicitation procedures and the effect of these procedures on the commodity procurement cycle in India.

FINDINGS AND CONCLUSIONS

AID's Office of Small Business Procedures

Indian importers consider AID's small business notification requirement to be a serious impediment to conducting normal trade transactions with U.S. suppliers.

Importers claim that the requirement has been of minimum value in securing responsive bids or establishing reliable sources of supply. Because of the added delays and administrative problems that the notification requirement creates, Indian importers avoid it, when possible, by obtaining waivers or by using foreign-exchange financing from other sources. (See pp. 8 to 10 and 12.)

Virtually all importer transactions are accomplished through overseas agents or representatives. Most of the larger, more experienced suppliers and importers have agents or established affiliations. AID could render

a valuable service in this area by helping the small U.S. supplier to establish agency relationships in AID-assisted countries. (See pp. 10, 11 and 18.)

AID Mission auditors have found that AID's business notification procedure is so ineffective as to cause serious delays and poor responses from bidders. (See p. 12.)

An AID procurement survey group also has found that the small business notification procedure is clearly ineffective. The group has found also that the small business notification procedure has become the most serious problem in AID's Commodity Import Program. (See p. 13.)

As of March 31, 1971, many of the proposals and recommendations made in the procurement group's report had been adopted by subsequent AID working groups in cooperation with the Department of Commerce and the Small Business Administration and had been approved by the AID Deputy Administrator with the reservation that fundamental changes would be subject to appropriate congressional liaison. Actual implementation of significant recommendations concerning small business, however, had not yet taken place as of that date. (See pp. 15 and 16.)

GAO believes that it may be some time before the recommendations actually are implemented on a worldwide basis and that therefore AID should proceed without delay to alleviate the commodity procurement impediments in India. Any modification of existing procedures or adoption of alternative procedures, however, should take into account the requirements and intent of the Foreign Assistance Act of 1961, as amended, with respect to assisting U.S. small business firms and providing information to importers abroad on commodities produced by U.S. small business firms. (See p. 19.)

#### Small business participation

AID practices are not fully consistent with congressional intent regarding assistance to U.S. small business, as expressed in section 602 of the Foreign Assistance Act of 1961, as amended, and as reaffirmed in recent congressional hearings.

AID has made no significant changes in its procedures to assist U.S. small business, regardless of congressional criticism and widespread dislike of AID's business notification requirements. (See pp. 21 to 29.)

AID has placed no special emphasis on assisting small business. AID contends that small business is not able to participate in the majority of AID-financed transactions, because, in many cases, small business does not produce the commodities required.

AID nevertheless has continued to publish procurement information and conduct activities under the small business label and has indicated, at least on the surface, that particular emphasis is being directed to the small business community. (See pp. 21 and 22.)

AID has changed the title of its principal business publication, deleting the reference to small business; however, the titles of Office of Small Business and Special Assistant for Small Business remain the same. GAO feels that AID has the responsibility for resolving the contradictions suggested by the titles when compared with the actual activities being performed. (See pp. 21, 22, and 28.)

Surveys and interviews with importers generally confirmed that AID's small business circular was ineffective in providing Indian importers with responsive bids and in providing U.S. small business with a fair share of AID-financed transactions. (See pp. 23 to 25.)

On the basis of the results of an AID Office of Small Business questionnaire, AID officials concluded that existing Office of Small Business procedures to assist U.S. business concerns, including small business, had been well received and effective.

GAO believes that such positive conclusions cannot be made because:

- No statistics were kept in Washington or at the Missions, prior to September 1970, to measure small business participation.
- The questionnaire did not present adequately the issues involved or the possible alternatives.

In April 1971 AID officials explained that AID's Office of Small Business had changed its views regarding the effectiveness of its business notification procedures and now supported the worldwide adoption of a general procurement information bulletin for all negotiated procurement. (See pp. 22, and 26 to 28.)

AID has made recent efforts to compile statistics regarding small business participation. GAO believes that AID should analyze this data, to measure the effectiveness of AID efforts to assist small business and to identify areas and means of increasing assistance to small business firms. (See pp. 22, 23, 28, and 29.)

#### Commodity procurement cycle in India

The long commodity procurement cycle in India, which averages 14 months, tends to adversely affect the benefits derived from U.S. financing of imports to India. Importers find that the long cycle increases costs of financing and requires the maintenance of larger inventory levels.

AID's business notification requirements contribute about 2 months to the procurement cycle. Normal import license processing by the Government of India takes about 4 months. The subsequent business notice publication procedures average 2 months.

To alleviate some of the problems inherent in the long procurement cycle, the AID Mission in India requested approval from AID/Washington to allow importers to submit advance notices of intended procurements. Thus far AID/Washington's reaction to the request has been negative, because there is no assurance of some control over the flow of notifications.

GAO believes that license processing and business notification, provided that the latter continues to be required, should take place concurrently and thus would shorten the procurement cycle by about 2 months. (See pp. 30 to 35.)

#### RECOMMENDATIONS OR SUGGESTIONS

The AID Administrator should:

- Modify current business notification procedures applicable to Indian importers, to make the present requirements optional with importers. (See p. 19.)
- Adopt for India, on a trial basis, the alternative procurement information bulletin procedure now used in several other countries. (See p. 19.)
- Prescribe procedures to specifically assist U.S. small suppliers in establishing agent relationships in India and to ensure a flow of information to prospective purchasers abroad concerning commodities available from U.S. small suppliers. (See p. 19.)
- Publish information on all waivers that are granted, including commodities involved, contract amounts, importers, suppliers, and reasons for granting waivers. In the event that the procurement information bulletin procedure is adopted, the AID Administrator should identify in this bulletin or in a separate business memorandum all waivers that are granted, including the existing sole agency and proprietary relationships between importers and suppliers. (See p. 19.)
- Resolve the contradictions suggested by the titles of Office of Small Business and Special Assistant for Small Business when compared with the actual activities being performed. (See p. 29.)
- Ensure that a continuing effort is made to collect data on small business participation in AID-financed transactions, to analyze the data, and to identify effective ways of increasing assistance to small business concerns. (See p. 29.)

In the event that the current business notification requirement remains unchanged, the AID Administrator should seek to have the Government of India process and forward to AID the required procurement notifications concurrently with the processing and issuance of import licenses. (See p. 34.)

## C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
2 AID'S OFFICE OF SMALL BUSINESS PROCEDURES	8
Business notification requirements	8
Findings of AID auditors and AID pro- curement survey group	12
Coordination with Department of Commerce and Small Business Administration	15
Conclusions	17
Recommendations	19
3 SMALL BUSINESS PARTICIPATION IN AID-FINANCED PROCUREMENTS	21
Conclusions	28
Recommendations	29
4 COMMODITY PROCUREMENT CYCLE IN INDIA	30
Conclusions	34
Recommendation	34
5 SCOPE OF REVIEW	36
APPENDIX	
I Principal officials of Agency for Interna- tional Development having management re- sponsibilities for matters discussed in this report	39

### ABBREVIATIONS

AID Agency for International Development

GAO General Accounting Office

D I G E S T

WHY THE REVIEW WAS MADE

A large part of U.S. economic assistance to India is in the form of loans to help provide essential imports needed for its economic development. In fiscal years 1968, 1969, and 1970, an average \$224 million annually was loaned by the Agency for International Development (AID) to the Government of India, to help finance such commodities as iron and steel products, fertilizer, chemicals, pharmaceuticals, and machinery.

The General Accounting Office (GAO) has reviewed various aspects of AID's management of the Commodity Import Program because of its size and importance.

Because it is the declared policy of the Congress to assist American business--particularly small business--in participating in U.S.-financed commodity export sales, the report deals primarily with AID's small business notification and bid solicitation procedures and the effect of these procedures on the commodity procurement cycle in India.

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Indian importers consider AID's small business notification requirement to be a serious impediment to conducting normal trade transactions with U.S. suppliers.

Importers claim that the requirement has been of minimum value in securing responsive bids or establishing reliable sources of supply. Because of the added delays and administrative problems that the notification requirement creates, Indian importers avoid it, when possible, by obtaining waivers or by using foreign-exchange financing from other sources. (See pp. 8 to 10 and 12.)

Virtually all importer transactions are accomplished through overseas agents or representatives. Most of the larger, more experienced suppliers and importers have agents or established affiliations. AID could render

a valuable service in this area by helping the small U.S. supplier to establish agency relationships in AID-assisted countries. (See pp. 10, 11 and 18.)

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An AID procurement survey group also has found that the small business notification procedure is clearly ineffective. The group has found also that the small business notification procedure has become the most serious problem in AID's Commodity Import Program. (See p. 13.)

As of March 31, 1971, many of the proposals and recommendations made in the procurement group's report had been adopted by subsequent AID working groups in cooperation with the Department of Commerce and the Small Business Administration and had been approved by the AID Deputy Administrator with the reservation that fundamental changes would be subject to appropriate congressional liaison. Actual implementation of significant recommendations concerning small business, however, had not yet taken place as of that date. (See pp. 15 and 16.)

GAO believes that it may be some time before the recommendations actually are implemented on a worldwide basis and that therefore AID should proceed without delay to alleviate the commodity procurement impediments in India. Any modification of existing procedures or adoption of alternative procedures, however, should take into account the requirements and intent of the Foreign Assistance Act of 1961, as amended, with respect to assisting U.S. small business firms and providing information to importers abroad on commodities produced by U.S. small business firms. (See p. 19.)

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AID practices are not fully consistent with congressional intent regarding assistance to U.S. small business, as expressed in section 602 of the Foreign Assistance Act of 1961, as amended, and as reaffirmed in recent congressional hearings.

AID has made no significant changes in its procedures to assist U.S. small business, regardless of congressional criticism and widespread dislike of AID's business notification requirements. (See pp. 21 to 29.)

AID has placed no special emphasis on assisting small business. AID contends that small business is not able to participate in the majority of AID-financed transactions, because, in many cases, small business does not produce the commodities required.

AID nevertheless has continued to publish procurement information and conduct activities under the small business label and has indicated, at least on the surface, that particular emphasis is being directed to the small business community. (See pp. 21 and 22.)

AID has changed the title of its principal business publication, deleting the reference to small business; however, the titles of Office of Small Business and Special Assistant for Small Business remain the same. GAO feels that AID has the responsibility for resolving the contradictions suggested by the titles when compared with the actual activities being performed. (See pp. 21, 22, and 28.)

Surveys and interviews with importers generally confirmed that AID's small business circular was ineffective in providing Indian importers with responsive bids and in providing U.S. small business with a fair share of AID-financed transactions. (See pp. 23 to 25.)

On the basis of the results of an AID Office of Small Business questionnaire, AID officials concluded that existing Office of Small Business procedures to assist U.S. business concerns, including small business, had been well received and effective.

GAO believes that such positive conclusions cannot be made because:

- No statistics were kept in Washington or at the Missions, prior to September 1970, to measure small business participation.
- The questionnaire did not present adequately the issues involved or the possible alternatives.

In April 1971 AID officials explained that AID's Office of Small Business had changed its views regarding the effectiveness of its business notification procedures and now supported the worldwide adoption of a general procurement information bulletin for all negotiated procurement. (See pp. 22, and 26 to 28.)

AID has made recent efforts to compile statistics regarding small business participation. GAO believes that AID should analyze this data, to measure the effectiveness of AID efforts to assist small business and to identify areas and means of increasing assistance to small business firms. (See pp. 22, 23, 28, and 29.)

#### Commodity procurement cycle in India

The long commodity procurement cycle in India, which averages 14 months, tends to adversely affect the benefits derived from U.S. financing of imports to India. Importers find that the long cycle increases costs of financing and requires the maintenance of larger inventory levels.

AID's business notification requirements contribute about 2 months to the procurement cycle. Normal import license processing by the Government of India takes about 4 months. The subsequent business notice publication procedures average 2 months.

To alleviate some of the problems inherent in the long procurement cycle, the AID Mission in India requested approval from AID/Washington to allow importers to submit advance notices of intended procurements. Thus far AID/Washington's reaction to the request has been negative, because there is no assurance of some control over the flow of notifications.

GAO believes that license processing and business notification, provided that the latter continues to be required, should take place concurrently and thus would shorten the procurement cycle by about 2 months. (See pp. 30 to 35.)

#### RECOMMENDATIONS OR SUGGESTIONS

The AID Administrator should:

- Modify current business notification procedures applicable to Indian importers, to make the present requirements optional with importers. (See p. 19.)
- Adopt for India, on a trial basis, the alternative procurement information bulletin procedure now used in several other countries. (See p. 19.)
- Prescribe procedures to specifically assist U.S. small suppliers in establishing agent relationships in India and to ensure a flow of information to prospective purchasers abroad concerning commodities available from U.S. small suppliers. (See p. 19.)
- Publish information on all waivers that are granted, including commodities involved, contract amounts, importers, suppliers, and reasons for granting waivers. In the event that the procurement information bulletin procedure is adopted, the AID Administrator should identify in this bulletin or in a separate business memorandum all waivers that are granted, including the existing sole agency and proprietary relationships between importers and suppliers. (See p. 19.)
- Resolve the contradictions suggested by the titles of Office of Small Business and Special Assistant for Small Business when compared with the actual activities being performed. (See p. 29.)
- Ensure that a continuing effort is made to collect data on small business participation in AID-financed transactions, to analyze the data, and to identify effective ways of increasing assistance to small business concerns. (See p. 29.)

In the event that the current business notification requirement remains unchanged, the AID Administrator should seek to have the Government of India process and forward to AID the required procurement notifications concurrently with the processing and issuance of import licenses. (See p. 34.)

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has reviewed selected practices followed by the Agency for International Development in the administration of the Commodity Import Program in India. This report deals with AID's procedures to assist U.S. small business and with the delay in the procurement cycle for AID-financed commodities caused by the procedures.

Our review of AID's management practices related to the subjects covered in this report was focused primarily on AID's program in India. Some of our observations and comments, however, may, and probably do, have applicability to other countries receiving AID-financed commodity assistance.

Congress has specifically expressed its policy with respect to assisting small business interests in section 602, entitled "Small Business," of the Foreign Assistance Act of 1961, as amended, which reads as follows:

"(a) Insofar as practicable and to the maximum extent consistent with the accomplishment of the purposes of this Act, the President shall assist American small business to participate equitably in the furnishing of commodities, defense articles, and services (including defense services) financed with funds made available under this Act--

(1) by causing to be made available to suppliers in the United States, and particularly to small independent enterprises, information, as far in advance as possible, with respect to purchases proposed to be financed with such funds;

(2) by causing to be made available to prospective purchasers in the countries and areas receiving assistance under this Act information as to such commodities, articles, and

services produced by small independent enterprises in the United States; and

(3) by providing for additional services to give small business better opportunities to participate in the furnishing of such commodities, articles, and services financed with such funds.

"(b) There shall be an Office of Small Business, headed by a Special Assistant for Small Business, in such Agency of the United States Government as the President may direct, to assist in carrying out the provisions of subsection (a) of this section."

The matters discussed in this report have been given considerable attention by the Subcommittee on Government Procurement of the House Select Committee on Small Business. Hearings were held on May 15 and on July 10 and 31, 1969, and House Report 91-777, entitled "The Position and Problems of Small Business in Procurements Financed by the Agency for International Development," was issued on December 19, 1969. The Subcommittee's report contains eight recommendations, most of which AID has implemented or has agreed to implement. AID believes that the recommendation concerning class set-asides--restricting bidding on designated classes of items to prequalified U.S. small business firms--is not practicable.

An AID procurement survey group has performed a worldwide analysis of AID's program assistance procurement practices with the objective of bringing together the various policies and procedures which bear upon AID's commodity import programs. A comprehensive report was prepared and submitted to the AID Deputy Administrator in July 1970. AID officials informed us that certain of the recommendations had been acted upon or were no longer applicable.

A large part of U.S. economic assistance to India is in the form of program loans to help provide essential imports needed to maintain and stimulate India's economic development. In fiscal years 1968, 1969, and 1970, AID annually loaned the Government of India an average \$224 million to

help finance essential imports, including iron and steel products, fertilizer, chemicals, pharmaceuticals, and machinery. As of April 22, 1971, \$170 million had been committed to the Government of India for fiscal year 1971 commodity program assistance.

## CHAPTER 2

### AID's OFFICE OF SMALL BUSINESS PROCEDURES

#### BUSINESS NOTIFICATION REQUIREMENTS

To carry out the small business provisions in the Foreign Assistance Act, AID has promulgated regulations that--unless waived by AID--require importers to submit copies of invitations-for-bids or notifications of proposed procurements to AID's Office of Small Business in Washington for publication. Importers cannot accept or place orders until after 30 days of circularization have elapsed (45 days for formal bids or advertisements over four pages long).

Information concerning proposed procurements, including descriptions of the commodities in terms of U.S. standards, are conveyed to U.S. suppliers and other interested parties through the AID publication "AID Financed Export Opportunities" (formerly "AID Small Business Circular"). Interested suppliers can submit their price quotations or bids directly to the importer or through their local agents in India. The importer evaluates the offers received, selects a supplier, and places his order after the normal waiting period or other bid deadline set by AID/Washington. When the mailing time and processing time are added to the circularization period, the total waiting time for the importer is almost always 60 days, and often much longer.

Indian importers find the small business notification requirement to be cumbersome and of minimal value. AID auditors, however, have found that the importers generally have complied with the requirement. Further tests by GAO showed general compliance by Indian importers.

AID's notification procedure covers both formal bid procurements by foreign government purchasers and directly negotiated procurements between private importers and their suppliers. If the procurement is to be by formal competitive bid or if numerous items of various descriptions are included, 50 copies of the invitation-for-bid and 50 copies of drawings, details, and other applicable data must be mailed to AID's Office of Small Business in Washington.

(An AID procurement survey group found that a typical spare-parts order from India required the air shipment of 110 pounds of paper at a cost of \$145, not including the cost to the importer for the preparation and reproduction of the material.)

A test we performed at AID's Office of Small Business in Washington showed that Indian importers accounted for most of the published items requiring the submission of detailed data. We reviewed 111 items, published in AID business circulars during an 8-month period ended in January 1971, that required the importers to prepare and ship to AID/Washington 50 sets of detailed data for each item. Of these 111 items, 86 were being procured by Indian importers. Moreover we estimated that only about 10 percent of such detailed material had been requested by prospective suppliers and sent out to them by AID.

AID's notification procedure implies that the supplier offering the lowest price for a given commodity can expect to receive the order. This inference seems to run throughout the notification procedure. Only in formal procurement must the award be given to the lowest responsive bidder. In negotiated procurement lowest price is not necessarily the major factor in the purchase decision. Most of AID-financed procurement is done on a negotiated basis, which normally does not require copies of bid invitations or numerous copies of detailed specifications; yet in many instances the notification procedure requires an importer to prepare and submit 50 copies of complete specifications, at his own expense, regardless of the number of possible or interested suppliers.

Indian importers have found the notification procedure to be very difficult. Whenever possible they avoid using it by obtaining waivers or by using other foreign exchange financing. As noted in chapter 4, we found that in India the notification procedure added an average 64 days to the commodity procurement time. Responsible AID officials have pointed out that an importer's last preference often is for an AID-financed license. He would much prefer to import his commodities by using, for example, European or Japanese foreign exchange credits, when available.

In regard to waivers, our test showed that over one third of the importer transactions in India had been waived with respect to AID's notification requirements. (See p. 23.) Certain firms obtained blanket waivers for all transactions. Transactions for which waivers are granted are not subject to AID's notification procedure and are not published in AID business circulars. Thus waived transactions are not subject to the same, open competition among circular recipients that would otherwise occur if waivers were not granted.

We believe that AID should publish information on all waivers that are granted in a periodic publication or business memorandum that would include the types of commodities involved, amount of transactions, names of importers and suppliers, and reasons for granting waivers. We feel that this information would give AID publication subscribers the opportunity to more fully evaluate prospects for export sales. In addition, it would provide interested firms with data and criteria for establishing overseas importer relationships, including relationships on an affiliate, a sole-agency, or a proprietary basis.

It generally is recognized that almost all international trade is conducted through overseas representatives or agents. AID officials have pointed out to us that approximately 99 out of 100 transactions for India are effected on this basis. Almost all U.S. firms engaged in international export business have affiliates or agents abroad through whom all such business is conducted. In many instances overseas agents represent more than one supplier. Many of them work on commission bases whereby little expense or no expenses are incurred by the suppliers unless sales are made. We believe that overseas agents would be willing to represent U.S. small suppliers who need representation on bases similar to those on which they represent their large clients.

As a rule the larger, more experienced firms are better able to cope with AID's administrative requirements which are imposed in addition to the normal commercial procedures of international trade. It is the small U.S. exporter, manufacturer, and producer, without established contacts,

who need more assistance in obtaining a fair share of export business.

AID lists various methods by which it implements the requirement for providing additional services to afford small business better opportunities to participate in the AID-financed commodity market. Assisting small business firms in establishing agent relationships, however, does not appear to be one of them. We believe that the lack of an agent relationship is one of the significant impediments to small business participation abroad.

With respect to section 602(a)(2) of the Foreign Assistance Act of 1961, as amended (see p. 5), AID is required to make available to prospective purchasers in AID-assisted countries information concerning commodities produced by small independent enterprises in the United States. AID has publicized requests that suppliers send in copies of their brochures, catalogs, descriptive literature, and price lists to its overseas Missions for inclusion in their commercial libraries. AID also has published requests for catalogs and descriptive material covering specific products or commodity categories which have been requested by its overseas Missions or foreign purchasers. In addition, a directory of U.S. small business firms was published once in 1950; AID has considered the subsequent revision and publication of such a directory to be too expensive and time-consuming.

Our review of these activities and discussions with AID officials indicate that, contrary to the intent of the legislation, no material efforts are made by AID to elicit and make available to importers information specifically from small U.S. producers and suppliers. In our view efforts that have been made have been aimed at all business firms, large and small, and any benefits to small business have been incidental. In commenting on special efforts to assist small business, AID's Assistant for Small Business explained that AID was making an effort, through the Department of Commerce and the Small Business Administration, to provide information on U.S. small suppliers to importers in aid-recipient countries. This idea has been incorporated in an internal AID recommendation approved by the AID Deputy Administrator on March 31, 1971.

FINDINGS OF AID AUDITORS AND  
AID PROCUREMENT SURVEY GROUP

AID Mission auditors reported in late 1968 that small business notification procedures had caused a variety of problems, including backlogs necessitating temporary waivers, poor response to published notices, and long delays caused by the mandatory waiting period--delays which were further extended by recipient-government processing. The auditors noted that, in several countries, especially in Latin America, the small business notification procedures had been effectively waived or replaced with alternative procedures, such as general procurement information bulletins. (Under the Colombia Plan a procurement information bulletin is issued after a loan agreement is signed. This bulletin contains data on commodities to be procured, probable importers and their addresses, and other information aimed at assisting U.S. exporters.)

Mission audit experience in India showed that response to small business publications had been generally poor and indicated that there was a need for changes in the prescribed system. To effect an import transaction, Indian importers generally contacted a number of Indian agents for bids. They considered the small business procedure to be a bothersome requirement which did not result in any significant response from U.S. suppliers. Importers were required to send their procurement notifications to AID/Washington through the Government of India, which would result in about 10 days' being added to the standard 45-day waiting period. (See ch. 3 for a more detailed discussion of delays in the procurement cycle.)

AID auditors concluded that a review of the small business notification procedure was necessary, to determine if procedures should be changed to develop a more practicable and acceptable system of complying with the requirements of the Foreign Assistance Act.

As part of a survey of AID procurement, a report on AID program loan commodity procurements was completed by AID's Office of Management Planning in July 1970 and submitted to AID's Deputy Administrator. We were advised that action had been deferred on this procurement survey report

pending implementation of the President's September 1970 directive to untie aid. In September 1970 AID's Deputy Administrator established a procurement working group having the responsibility for (1) implementing the President's directive and (2) implementing the recommendations in the AID procurement survey report.

The AID report identified the small business notification procedure as the most serious problem in AID's Commodity Import Program. The procurement notification, which is required by AID and publicized to all subscribers regardless of size or business activity, was found to be clearly ineffective in carrying out the legislative requirement to help small independent enterprises participate equitably in AID-financed export sales.

The procurement survey group found that the small business notification procedure caused ordering delays of 60 to 90 days in AID-financed transactions and that it was disliked by many of the parties concerned--including the House Select Committee on Small Business, both large and small U.S. exporters, foreign importers and their governments, trade groups, and AID overseas Missions.

The procurement survey report suggested several ways that AID could increase small business participation. These included (1) curtailing the present circular and making participation voluntary, (2) expanding the use of the Colombia Plan, (3) reducing the extreme AID administrative impediments to small business participation, and (4) establishing a flow of information to foreign buyers about U.S. producers.

The report contains views expressed by responsible officials close to the AID program in India. AID Mission officials say that AID's Office of Small Business notification procedure is not practicable for the Indian program and generates very little response. The U.S. Embassy's commercial attache has received major complaints from U.S. and Indian businessmen concerning the length of time required to process an AID application owing to the notification procedure.

Government of India officials consider the notification procedure to be a serious bottleneck in the development of their economy and would welcome liberalization or complete waiver of the procedure. Indian importing and manufacturing-firm officials cite a variety of serious problems caused by the notification procedure, including ordering delays of 3 to 5 months, difficulty in obtaining waivers, and difficulty in obtaining bids or finding U.S. suppliers willing to supply needed commodities under AID rules.

We noted that trade associations and others had gone on record against the small business circular notification system and had recommended the substitution of the procurement information bulletin. The representative of one trade group composed of approximately 300 companies of all sizes, appearing before a congressional subcommittee, testified that a major contribution toward the entry of small business in the export market would be made if AID modified or eliminated the small business advertising requirement which had been found to be wasteful, inefficient, and difficult to keep up to date. This group suggested that advertising should be made optional and that AID should furnish potential bidders with information on importers classified by commodity groups, as had been done in other cases.

COORDINATION WITH DEPARTMENT OF COMMERCE  
AND SMALL BUSINESS ADMINISTRATION

AID internal correspondence in mid-1970 indicated that AID was seeking to enlist the cooperation and support of the Department of Commerce and the Small Business Administration in promoting small business export participation. This was being done within the framework and objectives of the Cabinet Committee on Export Expansion chaired by the Department of Commerce.

In December 1970 the AID Deputy Administrator authorized informal and exploratory discussions to begin with the Cabinet Committee on Export Expansion concerning the problems of small business as they related to exports. AID was to present to the Committee a five-point program developed primarily from the recommendations made by the AID procurement survey group in July 1970. The objective was to implement the program through the joint efforts of AID, the Department of Commerce, and the Small Business Administration.

Basically AID's proposed small business assistance program calls for (1) periodically publishing updated listings of major importers in all AID-assisted countries, (2) publishing in recipient countries listings of interested U.S. small producers, (3) substituting the Colombia Plan for the present transaction-by-transaction notification procedure, (4) distributing to U.S. producers timely and informative data on projected procurement opportunities relating to AID loans or grants, and (5) cooperating more aggressively with interested U.S. small producers through such activities as special AID seminars.

In January 1971 AID received informal assurance from the Cabinet Committee on Export Expansion that it would stand ready to assist AID in working out measures to improve the access of U.S. exporters to AID-financed procurements. The Committee indicated that it would have no objection should AID decide to adopt the proposed five-point program and seek congressional support for it.

As of March 31, 1971, recommendations incorporating the five-point program had been finalized and approved by the

AID Deputy Administrator. In addition to approving incorporation of the original five points, the Deputy Administrator approved the retention of the circular "AID Financed Export Opportunities," but only for the continued advertisement of formal bid transactions, which represent about 5 percent of total transactions.

Recommendations for substituting the procurement information bulletin for the existing small business notification system and retention of the circular only for the continued advertisement of formal bid transactions, however, were approved subject to appropriate congressional liaison. The Deputy Administrator also directed that consideration be given for a set-aside to small business for direct AID/Washington procurement contracts. Prior to the final development of these recommendations for the Deputy Administrator, a joint AID-Commerce-Small Business Administration group had been working to coordinate the facilities of these three agencies so as to effectively implement the new program. As of March 31, 1971, the significant recommendations affecting small business had not been implemented.

## CONCLUSIONS

AID's business notification requirements have been found to be of little, if any, value in promoting U.S. small business participation or in securing responsive bids and establishing reliable sources of supply for Indian importers. Instead, the procedures have caused procurement delays in India averaging 64 days and have resulted in additional procurement costs. There is little doubt, in our opinion, that the delays and costs attributable to the existing business notification requirements outweigh the benefits, if any, which result from their use.

In some countries the business notification procedure has been waived or replaced by general procurement information bulletins. We believe that it would be desirable to use general procurement information bulletins in India in lieu of the existing business notification requirements. Because of the size of AID program loan agreements and the large number of Indian importers, the bulletins should be tailored more specifically to types and quantities of commodities likely to be procured; to probable importers of each commodity on the basis of available data, including past procurements; and to approximate time periods when certain importer procurements can be expected to take place.

For example, in loan programs involving upwards of \$100 million to \$150 million and several thousand possible importers, merely providing lengthy listings of possible importers would be of little value to many U.S. suppliers, particularly small business firms. Most suppliers could benefit from the identification of 20 or 30 solid prospects from longer listings, but many suppliers could not afford the resources and effort necessary for establishing contact and soliciting business from hundreds of only possible importers.

We believe that, when many procurements over a long period are anticipated under a particular loan agreement, AID periodically could issue supplemental bulletins summarizing procurement activity to date, including the importers, the suppliers, and the commodities involved. Moreover particular effort should be made to provide specific information in these bulletins that would assist and encourage

U.S. small business firms to participate in supplying the commodities required.

Because AID Mission experience in India and our work in India indicate that an overseas agent is almost an absolute necessity in export-import transactions, we believe that AID assistance to the small U.S. supplier can best be rendered by specifically assisting him in establishing agent relationships in AID-assisted countries. Assisting in the establishment of such relationships may best be accomplished in conjunction with the Department of Commerce and the Small Business Administration. Larger, more experienced firms generally have agents or affiliates.

If procurement information bulletin procedures are adopted, it still will be necessary to grant certain kinds of waivers, primarily to exempt certain classes of transactions from normal competition. We believe that recipients of the bulletins could benefit from the publication of such waivers, especially those granted for sole-agency and proprietary relationships between listed importers and their respective suppliers. In such cases suppliers could seek the business of listed importers on a more fully informed basis and without unknowingly committing time and money to obtaining business from less likely prospects.

AID offers to place suppliers' catalogs and other information in overseas Mission libraries, but otherwise AID has not actively or fully complied with the legislative requirement that information to foreign buyers about products produced by small U.S. independent enterprises be provided.

We recognize that recommendations designed to revise and improve AID small business procedures were approved by the AID Deputy Administrator on March 31, 1971, subject to appropriate liaison with certain congressional committees. AID officials are uncertain about when full implementation of these recommendations will occur. AID officials have expressed the belief that, subject to successful congressional liaison and coordination with the Small Business Administration and the Department of Commerce, the recommendations should be fully implemented, worldwide, no later than December 1971. India is to receive the highest priority in the implementation process; other major aid-

recipient countries are to receive the next highest priorities.

In our view it may take some time before implementation plans are completed and agreed to by all parties concerned and before implementation actually occurs on a worldwide basis. Therefore we feel that AID should proceed as soon as possible in India to reduce or eliminate the impediments caused by the burdensome business notification requirements.

Any modification of existing procedures or the adoption of alternative notification procedures should take into full account the requirements and intent of the Foreign Assistance Act of 1961, as amended, with respect to assisting U.S. small business firms and providing a continuing flow of information to prospective purchasers abroad concerning commodities available from U.S. small business.

#### RECOMMENDATIONS

We recommend that the AID Administrator:

- Modify current business notification procedures applicable to Indian importers, to make the present requirements optional with an importer.
- Adopt for India, on a trial basis, the alternative procurement information bulletin procedure now used in several other countries. AID should make every effort to provide as much detailed information as possible on commodities to be procured, probable importers, procurement periods, and specific information which would benefit U.S. small business firms.
- Prescribe, under the authority of section 602 of the Foreign Assistance Act of 1961, as amended, procedures to specifically assist U.S. small suppliers in establishing agent relationships in India and to ensure a flow of information to prospective purchasers abroad concerning commodities available from U.S. small suppliers.
- Publish information on all waivers that are granted, including commodities involved, contract amounts,

importers, suppliers, and reasons for granting waivers. In the event that the procurement information bulletin procedure is adopted, the AID Administrator should identify in this bulletin or in a separate business memorandum all waivers that are granted, including the existing sole agency and proprietary relationships between importers and suppliers.

## CHAPTER 3

### SMALL BUSINESS PARTICIPATION

#### IN AID-FINANCED PROCUREMENTS

AID functions primarily as a financing agency and normally does not engage in direct commodity purchases from U.S. suppliers. Within the confines of existing AID regulations and procedures, AID is not in a position to ensure that a fair share of AID-financed importer purchases are placed with small business enterprises. It is the continuing congressional policy, however, as expressed in small business legislation and reaffirmed in subcommittee hearings and reports, that all agencies of the Government have responsibilities for encouraging American small business to participate fully in the furnishing of goods and services purchased either by the agencies or by others through federally funded or financed projects and programs.

AID's Office of Small Business does not distinguish between the large and small business firms it assists. Any individual or firm having a U.S. address may subscribe to AID's Small Business Circular without charge. Subcommittee hearing testimony, records of discussions with responsible AID officials, and other data we have examined indicate that, until recently, the title of AID's Small Business Circular was a misnomer.

AID admits that much of the material included in the circular is not pertinent to small business participation. AID estimates that small business is excluded from about 75 percent of the total value of AID-financed commodities, primarily because of commodity types and quantities not produced or supplied by small business. Nevertheless AID has elected to fulfill its statutory responsibility under section 602 of the Foreign Assistance Act by providing, on an equal basis, the same information on all procurements to all U.S. suppliers and other interested parties who subscribe to the circulars. As a result of hearings held by the House Subcommittee on Government Procurement and the subsequent report issued thereon on December 19, 1969, AID changed the title of its Small Business Circular to "AID Financed Export Opportunities," as of January 2, 1970.

AID's Office of Small Business was established and named pursuant to specific provisions in section 602 of the Foreign Assistance Act of 1961, to assist in carrying out the small business provisions of the act. Although AID has changed the name of its circular, deleting the reference to small business, AID has retained the originally designated name "Office of Small Business"--although the Office has provided no special services or guidance exclusively for U.S. small business firms. The Office continues to publish information, making it available without distinction to all firms interested in exporting. In AID's opinion, this is consistent with the provisions of section 602 of the Foreign Assistance Act and serves the interests of many small independent enterprises.

Until September 1970 AID's Office of Small Business did not maintain statistical data or records on small business participation in AID-financed transactions. Neither did the AID Mission in India maintain such records. Consequently AID remained virtually uninformed, on a current basis, as to the extent of small business participation. AID's failure to keep records has precluded it from measuring the effectiveness of its notification and bid solicitation procedures and its effectiveness in carrying out the responsibility for assisting and encouraging U.S. small business and for participating in AID-financed commodity transactions.

As of September 1, 1970, AID had required the U.S. supplier to indicate on a revised AID Form 11 (Application for Approval of Commodity Eligibility) whether the producing firm, or the supplier if he is the producer, is considered to be a small business concern for the purpose of U.S. Government procurement. AID's instructions for responding to the question state that a small business concern generally is a firm that (1) is not dominant in its field of operations and, with its affiliates, employs fewer than 500 employees or (2) is certified as a small business concern by the Small Business Administration.

AID believes that this information will enable it to compile more complete data concerning American small business participation in the total AID program. AID originally planned to accumulate data and have a first report on small

business participation by June 30, 1970. Because of delays in obtaining clearance for the revised AID Form 11, AID planned to have an initial report by December 31, 1970.

As of March 30, 1971, data had been accumulated and a machine test run had been made for the last 4 months of 1970. The resulting AID statistics--after adjustment for some of the more obvious misclassifications between large and small firms--indicated that small firms had participated in \$19.6 million, or 10.4 percent, of \$187.6 million worth of commodities approved for financing during the 4-month period. We did not attempt to test or verify these preliminary statistics. Periodic machine reports are planned for subsequent 6-month periods. Such information on small firm participation was not available on a country-by-country basis.

To determine the effectiveness of small business notification and bid solicitations through AID's Office of Small Business for commodity procurement for India, we sent questionnaires to 330 of about 3,000 Indian firms who imported AID-financed commodities. The questionnaires sought information from January 1, 1968, on licenses received, bids received, awards made, and time elapsed as a result of the present procurement notification procedure.

We received replies, in full, from 42 importers who had been issued 152 AID-financed import licenses valued at about \$34.5 million. Of the 152 import licenses, 55, or over one third, were exempted from AID's notification requirements by AID waivers. (AID may waive notification requirements for importers under certain conditions, including (1) special supplier-importer business relationships on the order of sole-agency agreements, (2) proprietary procurements, (3) emergency procurements, and (4) certain other special situations.)

For the remaining 97 licenses, amounting to about \$15 million, an average two bids were received for each license. Total sales by U.S. suppliers stemming from AID's notification procedure involved 19 licenses, amounting to \$7,192,000. Of this amount, over \$7 million represented export sales by generally recognized large U.S. suppliers,

leaving less than \$160,000 in which U.S. small business may have participated.

Among reasons given by importers for not always accepting bids submitted in response to AID's small business notices were: (1) it was preferable to buy from suppliers who had representatives in India, (2) it was desirable to buy from suppliers who through experience could be relied upon to provide good quality goods at competitive prices, (3) the prices bid were not competitive, and (4) the bids did not meet the importers' specifications. Comments of importers follow.

--An importer of petroleum products:

"Very few U.S. suppliers respond to the small business notice, and the prices quoted by those who do respond are not competitive. Also, the terms and conditions of supply, and service after sale are not satisfactory. This compels us to seek offers from local agents of U.S. suppliers who quote very competitive prices."

--An alloys importer:

"It is our experience that the notice to U.S. small business does not result in many worthwhile offers. Nearly all of our awards are to U.S. suppliers that we have contacted ourselves."

--An importer of iron and steel:

"The suppliers in the U.S. show little interest in submitting bids in response to the small business notice."

--An importer of chemicals and plastics:

"Submission of the small business notice has not been of any use to us in locating suppliers, and compliance with this requirement unnecessarily delays the placement of orders."

--An importer of various chemicals:

"Suppliers contacted directly by us quote

prices that are very much lower than prices quoted by suppliers responding to the small business notice."

--A paper manufacturer:

"Because the response to the small business notification is poor we continue to deal with the same suppliers as we have in the past."

--A manufacturer of fountain pens:

"Offers and samples received through the small business notice were for materials unsuitable for our purpose. As we had contacted no other suppliers, our license expired and had to be revalidated."

--An importer of metals and alloys:

"Issuance of the notice to small business unnecessarily delays the placement of orders."

--A pharmaceutical manufacturer:

"It has been our experience that most of the quotations received through the small business notice contain the condition that prices are subject to final confirmation at the time the order is placed. Manufacturers contacted directly by us quote a firm offer valid for a certain period. For this reason, and also because we have no experience concerning the quality of the product offered by small business, we prefer to place our orders with firms contacted directly by us."

We recognize that the number of Indian importers responding to our questionnaire was not large. The responses received, however, together with the results of interviews with importers and other data examined, in our opinion, support the contention that the present small business notification procedure in India results in very few awards to U.S. small business firms.

Until early in 1971 AID/Washington officials in the Office of Small Business believed that the small business circular should have been continued as in the past, except for changing the title to eliminate the "small business" reference, which was done. (See p. 21.) These officials held that the Foreign Assistance Act required equal assistance to all businesses, large and small.

The opinion of these officials, that subscribers to the AID Office of Small Business publications generally liked them and found them useful, resulted from responses to a questionnaire attached to a letter offering resubscription to AID's business publications. The questionnaires entitled "Do You Want to Continue to Receive A.I.D. Small Business Publications?" were sent to approximately 7,500 subscribers in September 1969, during a period of widespread criticism of AID's small business circulars.

Although resubscription may have been the primary purpose of the letter, the main issues on which subscribers' views were being solicited--essentially the questions of abolishing or retaining the circular on the basis of its usefulness or going to an alternative procedure--were not emphasized. Accompanying the questionnaire was a form for resubscribing to the AID publications. The recipients were put on notice that their subscriptions would be terminated as of December 31, 1969, unless they resubscribed.

The majority of recipients showed a lack of concern and interest in answering the questionnaire or in resubscribing. Only 3,500, or less than 50 percent, resubscribed, and 3,154 completed and returned the questionnaires. Since December 1969 the resubscriptions have increased to about 4,800, or 64 percent of the total subscribers in September 1969. Most of the increase can be attributed to former recipients who originally had not resubscribed but subsequently decided to do so.

AID's Office of Small Business could not furnish us with specific information as to the categories of subscribers, because such information was not compiled by AID. We noted, however, that many of the recipients of the publications included trade groups, banks, U.S. embassies and consulates, assisted-country and competitor-country

governments, Department of Commerce and Small Business Administration field offices, and various AID offices.

AID officials estimated that about 7,000 of the circular recipients in September 1969 were exporters or manufacturer-producer-processor firms. According to the officials' estimates, about 500 recipients were business concerns or others not engaged directly in supplying exports. On the 3,154 completed questionnaires returned, over 500 subscribers did not respond to any of the questions addressed to suppliers and exporters. This indicates that these subscribers (over 17 percent) were neither suppliers nor exporters. Considering the nonresponsiveness of over 50 percent of the circular recipients, the number of subscribers not engaged in exporting or supplying exports was possibly 1,300 in September 1969.

AID concluded that the small business publications had been successful, primarily on the basis of the response to the question "Have you found the information published in the A.I.D. Small Business Circular helpful in acquiring export business?"

Of the 2,604 responses to this question, 83 percent were affirmative. It should be noted, however, that (1) 1,034, or no more than 40 percent, of the responses to this and other questions were from respondents classified as small business concerns and (2) the 2,153 affirmative responses represented only 31 percent of the estimated 7,000 commodity suppliers receiving the questionnaire.

A more significant gauge of the usefulness of the circular can be found in the responses to two questions--"How long have you been bidding on AID-financed commodities?" and "How many awards have you received in that period?" Just over 2,500 responded to these two questions. Of these, nearly one third reported never having received awards. Of the respondents who had been bidding over 2 years, about one in seven never had received an award.

It appears that the small manufacturers have fared the worst. Although 768 small manufacturers responded that the circular had been helpful in their acquiring export business, over 43 percent of those responding never had received

awards, even though over 63 percent had been bidding for 2 years or more.

The manner in which the questions were presented gave little choice to the subscriber who wished to continue receiving the cost-free service regardless of its usefulness. The respondents were faced with the choice of (1) discrediting the publications by answering negatively and thus running the risk of receiving less information or (2) submitting the answers suggested by the questions and continuing to receive the same amount of information.

The questions concerning awards received and the length of time firms had been bidding did not specifically ask for the total number of awards received, or the number of awards obtained solely through information supplied by the circular or bulletin, or the number of awards obtained without the use of overseas agents. For example, the tabulation made no comparison or association of the responses favoring the circular and bulletin with actual awards received through these sources of information.

In discussing our report with AID in April 1971, it was explained that AID's Office of Small Business had changed its views regarding the effectiveness of the small business circular. The Office of Small Business now supports AID's efforts to adopt the general procurement information bulletins on a worldwide basis in place of the circular for all negotiated procurements as part of the complete program for assisting small business. (See p. 15.)

## CONCLUSIONS

Apparent inconsistencies exist between the titles of Office of Small Business and Special Assistant for Small Business when compared with the activities performed. These titles have been prescribed by law. Even so, we believe that AID has the duty to resolve the contradictions suggested by the titles when compared with the actual activities being performed.

Only recently has AID initiated efforts to compile and maintain statistics regarding the size of firms participating in AID-financed transactions. We believe that AID

should continue to obtain and record data on small business participation in AID-financed transactions. AID should analyze, on a continuing basis, the information obtained, for the primary purpose of measuring the effectiveness of AID efforts to help small business while identifying areas and means of increasing assistance to small business concerns.

#### RECOMMENDATIONS

We recommend that the AID Administrator resolve the contradictions suggested by the titles of Office of Small Business and Special Assistant for Small Business when compared with the actual activities being performed. This seems to require a restructuring of the duties of the Office and the Special Assistant to provide services clearly directed to assisting U.S. small business.

We recommend also that the AID Administrator ensure that a continuing effort is made to collect data on small business participation in AID-financed transactions, to analyze the data, and to identify effective ways of increasing assistance to small business concerns.

## CHAPTER 4

### COMMODITY PROCUREMENT CYCLE IN INDIA

For our examination of various aspects of the Commodity Import Program for India, we made an analysis of the procurement cycle for a representative number of AID-financed transactions over the past 3 years. An analysis of selected procurements showed that the average time from application by an Indian importer for an import license to receipt of AID-financed commodities was 432 days, or 14 months. This long processing cycle tends to adversely affect the benefits derived from U.S. financing of imports to India.

In some instances importers have had to reduce production or shut down operations while awaiting the arrival of AID-financed commodities. Importers' working-capital positions are often strained by the need to finance the long procurement pipeline. Importers find it necessary to adjust inventory levels upward, to counteract the disadvantages caused by waiting for spare parts or by running out of raw materials. Moreover delays in procurement are detrimental to the AID objective of establishing enduring importer-exporter relationships.

An Indian import license generally is valid for a 1-year period. Issuance normally takes about 4 months. During that 1-year period, an importer must go through AID's small business notification procedure, obtain a letter of authorization from the Government of India, place his order with a U.S. supplier, and trust that his goods will be shipped from the U.S. port before his license expires.

Often everything cannot be accomplished within the 1-year period; there may be delays in opening a letter of credit, in manufacturing the goods, or in arranging transportation. The only alternatives for the importer are to obtain an extension of his license or to obtain a new license--each of which requires additional lengthy processing within Government of India channels.

The following schedule is an analysis of the procurement cycle for a representative selection of AID-financed commodity transactions over the past 3 years.

	<u>Days</u>	<u>Percent of total</u>
Time elapsed between:		
Application to Indian Government for license and its receipt	126	30
Submission of procurement notifi- cation to AID's Office of Small Business and bid-closing date	64	15
Application to Indian Government for letter of authorization and its receipt	22	5
Date of order from U.S. supplier and shipment from U.S. port	93	21
Shipment from U.S. port and arrival at Indian port	63	14
Time required for miscellaneous items (note a)	<u>64</u>	<u>15</u>
Total	<u>432</u>	<u>100</u>

<sup>a</sup>Including off-loading at Indian port, customs clearance, and internal transport.

Recognizing that AID has no direct control over Indian Government licensing and procurement procedures, we believe that the entire procurement cycle deserves careful analysis by AID and the AID Mission, in cooperation with the Government of India, with the objective of shortening the overall time period. In this report our discussion relates primarily to that part of the cycle concerning the submission and publication of proposed importer procurements through AID's Office of Small Business for the purpose of soliciting bids.

The bid solicitation requirement under AID Regulation 1 contributes about 64 days to the procurement cycle. Information obtained during our examination of this aspect of the Commodity Import Program for India indicates that the manner in which this requirement is being implemented unnecessarily adds about 2 months to the long procurement cycle.

Under its present licensing procedures, the Government of India fully processes license applications before processing and forwarding procurement notifications to AID's Office of Small Business in Washington. Normal processing time for the issuance of an import license varies; however, as shown in the preceding schedule, it averages 4 months. The subsequent publication procedure averages 2 months. We inquired of AID about the possibility of having the Government of India go ahead with the publication procedure on a license-pending basis, at the same time that the license application is being processed and thereby reduce the procurement cycle by about 2 months.

Generally an Indian importer is not permitted to proceed with the notification and publication requirements of AID's Regulation 1 until he has been issued an import license. (In some cases he is allowed to proceed about 2 weeks prior to receiving his license.)

An AID official in Washington pointed out that the Government of India did not favor the idea of publishing procurement notices in AID's circulars while licenses were pending, because to do so (1) could imply that licenses were issued automatically and (2) could lessen the Government's control over the rate and timing of license issues. Another AID official expressed the belief that simultaneous processing would cause unnecessary solicitation of bids on proposed purchases for which license applications eventually might be rejected.

In a letter dated April 27, 1970, the AID Mission's Chief of Industrial Resources Division requested approval from AID's Office of Small Business to institute a procedure allowing importers who normally receive or request AID-financed licenses to submit advance notices of proposed procurements. This official was convinced that such a procedure would

--provide a smooth flow of AID imports,

--take the pressure off AID's Office of Small Business and the Mission for priority publications and short bid periods,

--permit a significant reduction in emergency procurement requests, and

--expedite utilization of AID loans.

AID's Special Assistant for Small Business in Washington was not receptive to the suggested procedure. In a reply dated June 10, 1970, he cited unsatisfactory results with a similar system in Vietnam, where the volume of submissions had increased tremendously and where only a small percentage of items published actually had resulted in transactions. The AID official concluded that, unless some control was established ensuring that all submissions would be licensed by the Government of India, his reaction to the proposal would remain negative.

In Vietnam importers send in their notifications through the AID Mission prior to applying for or receiving their import licenses. The importer theoretically can submit as many notifications as he likes because neither the AID Mission nor the Government of Vietnam controls the number of submissions. The importer has no assurance that an import license will be issued in time to take advantage of the validity period of bids that he has received; so, to ensure that he has a fresh, valid bid on hand, he repeatedly advertises in the AID small business circular. Under these circumstances, according to an AID estimate in 1969, 57 percent of Vietnam notices published did not result in completed transactions.

The important difference that should be noted in our suggestion for concurrent processing in India is that the Indian Government would have full control not only over issuing licenses but also over processing and releasing for publication the required notifications to AID's Office of Small Business. Under these conditions there should be relatively few published notifications which do not result in completed transactions.

Under approved AID financing an importer or his government is not precluded from notifying AID of an intended procurement before an actual import license is issued. It is not unusual for notices to appear in the AID publications with no specific indication that an import license has been issued. In some instances procurement notices indicate that licenses are pending. AID publication procedures are

flexible enough to readily handle cancellations, deletions, additions, and other changes affecting proposed procurements after the initial submission for publication has been made.

The AID Mission already has suggested controls that would limit the submission of advance procurement notices to importers who fully intended to use AID-financed licensing. Moreover information we have obtained indicates that approximately 98 to 99 percent of all license applications eventually are approved and result in procurements.

The concurrent processing of license applications and AID notifications for bid solicitations by the Government of India should not adversely affect the Government of India's control over the issuance of import licenses. That control, in our view, would remain undiminished, simply because the Government of India still would be the sole determinant of the number and categories of licenses to be issued and requests for procurement notifications to be published, as well as the timing of such issues and publications.

### CONCLUSIONS

We believe that the long commodity procurement cycle in India can and should be reduced by having the business notification requirement and related procurement publication by AID take place concurrently with the import license processing by the Government of India. Although there may be some disadvantages in doing this, as noted earlier in this chapter, we believe that the benefits to be gained far outweigh the disadvantages.

In the event that the business notification requirement is modified and made optional, as recommended earlier in this report, the long commodity procurement cycle in India will be reduced by the amount of time that the requirement and related procurement publication by AID now take.

### RECOMMENDATION

We recommend that, in the event that the current business notification requirement remains unchanged, the AID

Administrator seek to have the Government of India process and forward to AID the required procurement notifications concurrently with the processing and issuance of import licenses.

## CHAPTER 5

### SCOPE OF REVIEW

Our review of AID's procedures for assisting U.S. small business and maintaining an efficient procurement cycle included an examination of AID's policies, regulations, and procedures as they relate to applicable legislation. It included also the analysis of data from Indian importers, reviews of transaction records and associated documents, examination of AID audit reports, and discussions with AID Mission officials and AID/Washington officials.

APPENDIX

PRINCIPAL OFFICIALS OF  
 AGENCY FOR INTERNATIONAL DEVELOPMENT  
 HAVING MANAGEMENT RESPONSIBILITIES FOR  
 MATTERS DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR:		
John A. Hannah	Mar. 1969	Present
William S. Gaud	Aug. 1966	Jan. 1969
David E. Bell	Dec. 1962	July 1966
OFFICE OF CONTROLLER, AID/WASHINGTON:		
Charles F. Flinner	Oct. 1964	Present
Edward F. Tennant	Oct. 1962	Sept. 1964
MISSION DIRECTOR, AID/INDIA:		
L. Paul Oechsli (acting)	Jan. 1971	Present
Leonard J. Saccio	Oct. 1969	Dec. 1970
John H. Funari (acting)	June 1969	Oct. 1969
John P. Lewis	Nov. 1964	June 1969
C. Tyler Wood	Nov. 1959	Nov. 1964
SPECIAL ASSISTANT FOR SMALL BUSINESS:		
Edward E. Kunze	Aug. 1963	Present