

GAO

Report to the Chairman, Subcommittee  
on Foreign Operations, Export Financing  
and Related Programs, Committee on  
Appropriations, House of  
Representatives

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January 1994

## EASTERN EUROPE

# AID's Indefinite Contracts Assist Privatization Efforts but Lack Adequate Oversight



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**National Security and  
International Affairs Division**

B-252444

January 19, 1994

The Honorable David R. Obey  
Chairman, Subcommittee on Foreign Operations,  
Export Financing and Related Programs  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

As requested, we have reviewed the Agency for International Development's (AID) use of indefinite quantity contracts (IQC) as a mechanism to provide technical assistance on privatization to the new democracies of Eastern Europe. Our overall objective was to evaluate the efficiency and effectiveness of this contracting approach. Specific objectives were to (1) determine whether host country governments are satisfied with the assistance they have received under IQCs, (2) compare this contracting approach with those of other major donors, (3) assess the role of the host governments and contractors in the development and approval of project task proposals, and (4) evaluate AID's oversight of IQCs. We focused our review in three countries—Poland and the Czech and Slovak Republics.

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**Results in Brief**

AID's indefinite quantity contracts have proven to be an effective mechanism for responding to the needs of Eastern Europe for technical assistance on privatization. Although host government officials expressed some concerns about the contracting process and their lack of involvement in monitoring performance, they said that the work of the contractors was generally satisfactory and that they valued the advice and services they received. IQCs also appear to compare favorably with the approaches of other donors' privatization programs in terms of their cost and responsiveness.

Although we could find no evidence that the host governments played a role in AID's selection of the IQC contracting mechanism and the three contractors, the host governments have subsequently developed close working relationships with the contractors in developing project task proposals. These relationships have raised questions about potential conflicts of interest. AID has acknowledged these concerns but believes that no actual conflicts of interest exist because AID staff must review and approve all proposals.

One significant area of weakness has been AID's oversight of contractor performance. Adequate oversight is necessary to ensure that tasks are progressing satisfactorily and project objectives are being met. In a March 1993 review of the privatization project, AID officials in Washington acknowledged that their staff had not been able to adequately oversee project activities. Yet, the Washington office is not taking full advantage of the agency's field staff to assist in monitoring contractor performance.

## Background

Under the Support for East European Democracy Act of 1989 (P.L. 101-179), the United States is providing assistance to several countries in the region as they continue their transition from communism to democracy and market-oriented economies. A primary focus of U.S. assistance has been private sector development, which includes economic stabilization and restructuring and the privatization of state-owned enterprises. The Deputy Secretary of State is the overall coordinator of U.S. assistance. AID has been designated as the lead agency for delivering U.S. assistance, although many other agencies also provide aid.

AID documents show that, as of September 1993, \$84 million had been obligated for AID's Enterprise Restructuring and Privatization Project. The goals of the project are to (1) assist in establishing a legal and institutional framework governing the process of privatization and (2) provide assistance to individual firms in addressing managerial deficiencies and adjusting to the free market. The project was authorized in August 1990 to provide assistance to Poland, Czechoslovakia (now the Czech and Slovak Republics), Hungary, and Yugoslavia. Project funds are allocated on a regional basis, rather than by country, so that resources can be directed to those countries moving the fastest on reforms.

AID implements the privatization project through IQCs awarded to three major U.S. accounting firms: Deloitte and Touche, KPMG Peat Marwick, and Coopers and Lybrand. The contracts were awarded on a competitive basis in July 1991. Each firm represents a consortium of subcontractors having expertise in several critical disciplines, such as the legal and financial management areas. (App. I lists the consortia members.) According to AID officials, the IQC approach was chosen because, at the time, the East European governments' commitment and approach to privatization were subject to uncertainty and change. IQCs, these officials said, provided the necessary flexibility in terms of when, where, and how much assistance could be provided.

The main feature of the IQCs used in Eastern Europe is that fixed daily rates are set for functional labor categories. Each rate includes the salary cost or consulting fee of the individuals performing the service plus other costs, such as benefits and per diem (lodging and meals). This differs from AID's standard IQC, which computes daily rates using a multiplier formula for each delivery order. The standard IQC also excludes such costs as the per diem from the daily rates, with the agency reimbursing these costs separately. (App. II lists the fixed daily rates for each of the three contractors.)

With the basic contracts in place, AID may award a delivery order for a project task to any of the three contractors. A delivery order represents the agreement between the agency and the contractor on what is to be done, the level of effort involved, and the key personnel who will carry out the work. Upon AID's approval of the delivery order, the contractor is authorized to bill at the specified daily rates. Originally, each contractor had a funding ceiling of \$15 million, but AID subsequently authorized its contract office to raise the ceiling for each firm to \$30 million because of the growing demand for U.S. assistance. (App. III shows the number of projects and cumulative obligations in the countries we reviewed.)

Management of the U.S. assistance effort, including the privatization project, is centralized at AID headquarters in Washington, D.C. The Bureau for Europe and the Regional Mission for Europe, which are collocated in Washington, jointly manage the work. The arrangement is a departure from AID's usual practice of managing assistance through missions in recipient countries. U.S. officials believed that this structure was necessary in order to be responsive and provide quick support for the rapidly evolving economic and political reforms occurring in the region. AID has gradually established an in-country presence to implement projects, although the field staff continue to have a subordinate role to Washington project managers who retain management responsibility and decision-making authority.

In addition to IQCs, AID has funded other efforts to provide private sector assistance to Eastern Europe. The Peace Corps, the International Executive Service Corps, and the MBA Enterprise Corps are all providing expert services to the countries in the region. (These efforts are discussed in app. IV.)

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## Host Governments Generally Satisfied With IQC Assistance

Host government officials we interviewed in Poland and the Czech and Slovak Republics were generally satisfied with the quality and performance of the consultants. In the Slovak Republic, for example, officials of a chemical company told us that they were very satisfied with the work of the contractor in helping them to develop a plan for the restructuring and privatization of the company and that the company had, on its own, signed a contract with the same contractor for further work. In another case, National Bank of Poland officials told us that training and seminars provided by the contractor were of practical use, considering the needs of bank personnel. A July 1993 evaluation of AID's privatization project conducted for the agency by an outside consultant noted that with a few exceptions, the work performed has been technically competent and acceptable.

Despite their overall satisfaction with the assistance they have received, host government officials had several complaints about the IQC process:

- some delivery orders took too long to be approved,
- the process lacked sufficient flexibility in making project adjustments,
- the contractors did not always explain in detail how the work was to be implemented, and
- the host governments did not receive adequate information to measure contractor performance.

As discussed below, a privatization project undertaken for the Polish government illustrates the problems identified by the host governments.

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## Delays in Assistance and Lack of Flexibility

Among the primary reasons AID selected IQCs to implement the privatization project were to provide assistance quickly and to maintain flexibility. However, our interviews with host government officials suggest that the agency has not always met these goals. For example, the Polish Ministry of Privatization requested assistance for a privatization project in February 1992; however, the delivery order was not awarded until September 1992. This delay was due in large part to the time AID spent reviewing the merits of the proposal.

Because of the delay in approving the delivery order, the Ministry sought changes in the scope of work. But the contractor and AID opposed these changes, stating that they would incur additional costs and require further agency review. The contractor did ask AID to reprogram \$20,000 for an expanded promotional campaign in response to the Ministry's concerns

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that the contractor was not promoting the project enough. However, while the contractor submitted its request to AID in October 1992, the reallocation was not approved until 4 months later, in February 1993.

According to the AID-commissioned study of the privatization project, project activities are consistently delayed because all decisions are made in Washington. In a previous report, we expressed concerns that centralized decision-making had caused coordination problems and delayed assistance, but we stated that the experimental mission-in-Washington approach deserved a fair test under conditions of an ongoing rather than start-up program.<sup>1</sup> During our current review, we raised this issue with a senior Regional Mission for Europe official. The official agreed that some decision-making could and should be delegated to the in-country staff. He said this would be considered for the next phase of the assistance program.

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### Contractors Not Required to Develop Detailed Implementation Plans

AID guidance requires that the project officer knows what services are to be performed under a contract in as much detail as possible. However, the basic IQCs do not require the contractors to prepare detailed implementation plans, and as a result, host government officials are not always aware of how the scope of work is to be carried out.

For instance, the scope of work document for the privatization project in Poland included a promotion campaign, but no implementation plan was prepared to specify how the campaign would be conducted or how extensive it would be, causing misunderstandings between the Ministry and the contractor. According to AID officials in Washington, an implementation plan for this project could have helped prevent some of the misunderstandings and delays that occurred.

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### Host Governments Do Not Receive Important Project Documentation

Polish officials at the Ministry of Privatization and the Securities Commission told us that they were not provided copies of delivery orders, contractors' quarterly progress and financial reports, or contract invoices. They would like to receive these documents to participate in monitoring contractor progress and to anticipate potential problems. Ministry officials responsible for the privatization project were frustrated because of the lack of project information they received. They said they had no way of knowing how much had been spent on a contract in relation to the work provided. Ministry officials have suggested to AID that they be more

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<sup>1</sup>Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992).

involved in assessing the quality and utility of IQC assistance, and they have raised the question of whether they could be involved in reviewing contractor invoices.

AID is not opposed to providing most project documents to the host governments. In response to the Ministry's request, for instance, AID officials agreed to ensure that contractors provide their progress and financial reports to the Ministry so that the Ministry may review them and provide comments to AID. However, AID is reluctant to provide host governments with contractor invoices showing detailed expenditure data. Agency officials in Washington believe that providing invoice data on consultant fees could cause problems because of the great differences between the daily fixed rates and what host government managers earn.

AID field officials in Warsaw, however, said the host government should receive the invoices along with the other documents to participate meaningfully in monitoring contractor performance. According to these officials, progress and financial reports do not contain sufficient data by themselves to adequately monitor contractor performance. On the basis of our review of contractor invoices, we believe the information they contain would enable the host governments to assist AID in identifying any discrepancies between reported expenditures and actual work performed.

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## **IQCs Appear to Compare Favorably With Other Donors' Programs**

To the extent that valid comparisons were possible, the IQCs compared favorably to the private sector assistance programs of the United Kingdom and the European Community. Both of these programs, like the U.S. program, give a high priority to enterprise restructuring and privatization in Eastern Europe. (See app. V for a description of these programs.)

Our analysis of programs funded by the United Kingdom and the European Community indicate the daily rates paid to consultants under the AID IQCs were equivalent to or less than those paid consultants retained by those programs, although data was not available to verify this. AID also has the capability to provide assistance on a more timely basis because the IQCs are pre-negotiated. All the agency has to do is choose which of the three contractors will perform the work. In contrast, the United Kingdom and European Community generally compete their projects separately and negotiate rates with the selected contractor each time. As noted earlier, however, host government officials have complained about delays in awarding IQC delivery orders.

## AID's Standard IQC Also Used in Eastern Europe

AID's Bureau of Private Enterprise uses standard IQCs to provide privatization assistance to various recipients. For example, a standard IQC buy-in was awarded by AID to a fourth accounting firm, Price Waterhouse, to provide privatization assistance quickly to East European countries. However, the three IQCs are less costly than this contract. AID can incur higher costs under the Price Waterhouse contract because the daily rate does not include all costs. For instance, the fixed daily rate of an attorney under the three IQCs ranges from \$700 to \$1,350, depending on the contractor. Under the Price Waterhouse contract, the daily rate for an attorney is \$953, but this rate excludes per diem costs and other costs, which are reimbursed separately. Thus, the total cost for services obtained under the Price Waterhouse contract is potentially higher than the costs of the other contracts.

## Contractor and Host Government Involvement in Developing Proposals Has Raised Conflict of Interest Concerns

The three IQC contractors are heavily involved in the development of project task proposals, which has led to questions about possible conflicts of interest. AID has encouraged the contractors to work with the host governments to identify potential tasks, develop requests for assistance, and submit the requests to the agency for consideration. As part of this non-paid task development phase, the contractors, usually in cooperation with the host government, often prepare the scope of work and set the time frames for the duration of the delivery order. One AID official, characterizing the contractors as "surrogate staff," said they seem to be in the best position to identify potential tasks. With time and experience, the host governments have become more aware of their needs and more involved in developing project proposals. They assist AID in selecting the contractors to carry out the work.

The AID Assistant Inspector General for Audit has raised questions about the contractors' roles in developing proposals. According to the Inspector General, the practice of encouraging the contractors to work with the host governments in each country in soliciting and developing potential tasks to be financed under the IQCs gives the appearance of a conflict of interest. As we understand the Inspector General's concern, the development of proposals for work to be performed under the IQCs appears to be governmental functions under the Office of Management and Budget Circular A-76, which should be performed by government employees.

AID's Director of the Regional Mission for Europe believes no conflicts of interest exist because AID staff review and approve project task proposals. Nevertheless, he said that the Inspector General's concerns would be

addressed by the addition of staff, reducing AID's dependence on contractor-initiated proposals. Additionally, he said that in planning for the next generation of privatization projects, the contract design will more explicitly address conflict of interest perceptions.

We identified several tasks where the host government asked for a specific contractor. AID generally will compete the delivery order only if there is no clear indication that one firm is the best choice for performing the task. When one firm invests its own time to help a host country identify and better define its request for assistance during the task development phase, that firm often establishes a "comparative" advantage over the others. The firm, however, is taking a financial risk because the task may not be approved by AID. But should the task be approved, the host country is likely to request that this firm perform the work. In the Czech Republic, for instance, the firm that worked with the country in developing the scope of work for the privatization of nonferrous metallurgy companies was requested to implement the project.

We have not reviewed the appropriateness of AID's awarding task orders on a sole-source basis or otherwise funding contractor generated proposals. We recognize that this is an area that could be problematic. We believe the changes being undertaken to the current IQC structure provide an opportunity for AID to address this matter.

## Oversight of Contractor Performance Is Inadequate

AID has been concerned that it is not exercising adequate oversight of the IQC contractors to safeguard U.S. interests. A March 1993 Project Implementation Review by the Regional Mission and the Bureau for Europe found that the project staff in Washington are not able to fully monitor project activities. According to AID, staffing constraints and a large work load have hampered the ability of project managers to travel from Washington to Eastern Europe to the extent that was anticipated, restricting their ability to oversee projects. As of July 1993, the Regional Mission's office handling the privatization project had two full-time direct hire staff, two direct hire vacancies, and two personal services contractors. These staff, according to a senior project official, do not even have enough time to read every contractual deliverable. The Project Implementation Review stated that because of the staffing constraints in Washington, it was uncertain whether project monitoring would improve.

We have discussed AID's work force problems in a previous report, concluding that better work force planning and management would help

ensure that the agency is making the best use of its available staff.<sup>2</sup> Such improvements probably would benefit the East European assistance program as well. Furthermore, AID has not taken full advantage of its field staff to monitor projects. These staff are better positioned than the Washington-based staff to develop working relationships with host government officials and to visit project sites. Although the field offices have had a substantial work load, officials we interviewed believed that increased staff levels and experience will enable the offices to significantly increase project monitoring.

AID has taken some steps to give the field offices more responsibility. However, AID has not ensured that these staff are receiving all the project documents they need to adequately monitor projects. The AID Inspector General reported in June 1993 that the agency did not require contractors to keep the field staff informed about project developments or to send them periodic reports, such as progress and financial reports. Field staff told us they did not always receive copies of delivery orders and reports, although the situation was improving.

The agency also has not kept complete records of project activities to ensure adequate oversight. No central project files have been established, and none of the offices we visited, with the exception of the Warsaw office, maintained complete records. We were told that, because of lack of space, equipment and personnel, the Washington office had been instructed to turn its records over to a contractor, but the contractor also did not maintain complete project files. For example, the contractor did not maintain files relating to decision papers, authorizations, waivers, correspondence, implementation reports, audits and evaluations, or trip reports.

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## Recommendations

We recommend that the Administrator, AID, take actions to improve the implementation and oversight of IQC project activities. The Administrator should ensure that AID is making full use of the resources available at its field offices and the host governments. Specifically, we recommend that the Administrator

- delegate decision-making authority to field staff, as necessary, to improve the responsiveness of the privatization project;

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<sup>2</sup>Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).

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- direct contractors to provide host government officials copies of their quarterly progress and financial reports, as well as delivery orders and invoices after deletion of any compensation rate information considered to be sensitive;
  - require contractors to develop implementation plans and provide them to AID and host government officials;
  - ensure that field staff receive the project documents they need for project monitoring, including progress and financial reports, delivery orders, implementation plans, and invoices; and
  - establish a record-keeping system to adequately document project activities.

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## Agency Comments and Our Evaluation

In commenting on a draft of this report, AID concurred with our recommendations with one exception. The agency did not agree that copies of delivery orders and invoices should be provided to the host governments. AID stated that these documents contain certain sensitive compensation rate information that could impair the professional relationship between the consultant and the host government. AID also believes that disclosure of such information will not assist in the general achievement of project objectives. AID's comments are reprinted in their entirety in appendix VII.

We believe that most of the information in delivery orders and invoices is necessary to help ensure that project objectives are being met. Data pertaining to project objectives, level of effort, and time and money programmed and spent on a project is needed by the host government to help it measure contractor performance. If the documents contain compensation rate information deemed by AID to be too sensitive to be shared with the host country, it could be removed from these documents before they are provided to the host government. The documents would still provide the pertinent data that is needed. We have modified our recommendation accordingly.

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Our scope and methodology are discussed in appendix VI.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At the time, we will send copies to other appropriate congressional committees, the Secretary of State, the AID Administrator, and the Director of the Office of

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Management and Budget. Copies will also be made available to others upon request.

I can be reached on (202) 512-4128 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix VIII.

Sincerely yours,

A handwritten signature in cursive script that reads "Harold J. Johnson".

Harold J. Johnson  
Director, International  
Affairs Issues

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**Abbreviations**

AID	Agency for International Development
EC	European Community
IESC	International Executive Service Corps
IQC	indefinite quantity contract
MBA	MBA Enterprise Corps

# IQC Consortia Members

<b>Contractor</b>	<b>Members of consortium</b>
Deloitte and Touche	Development Alternatives, Inc. Multinational Strategies, Inc. American Manufacturer's Export Group Dames and Moore International East Europe Law Geonomics International Executive Service Corps KRC Research (Sayer/Miller Group) Milbank, Tweed, Hadley Crimson Capital
KPMG Peat Marwick	Hogan and Hartson State Street Bank and Trust Gleacher Morgan Grenfell Lehman Bros. Sibley International Regis McKenna Versar, Inc. Applied Learning ODR, Inc.
Coopers and Lybrand	Chemonics International MidAmerica Committee Center for Financial Engineering in Development Science Applications International Corp. Steptoe and Johnson

Source: AID.

# Fixed Daily Rates by Functional Labor Category

Labor category	Fixed daily rate		
	Deloitte and Touche	KPMG Peat Marwick	Coopers and Lybrand
Attorneys	\$700	\$1,350	\$848
Economists	650	975	508
Financial planners and managers	950	800	854
Industrial engineers	350	900	806
Marketing and export promotion specialists	600	650	850
Management and labor relations experts	700	500	847
Product design and quality assurance specialists	350	500	852
Human resources development experts	350	650	508
Accountants/auditors	750	450	588
Capital money market specialists	900	975	845

Source: AID.

# IQC Contract Activity (as of August 1993)

Dollars in millions

IQC	Poland		Czech Republic		Slovak Republic		Total	
	Number of projects	Cost	Number of projects	Cost	Number of projects	Cost	Number of projects	Cost
Deloitte and Touche	4	\$2.6	3	\$12.8	3	\$2.0	10	\$17.4
KPMG Peat Marwick	3	3.3	5	2.9	1	2.0	9	8.2
Coopers and Lybrand	1	0.1	1	0.2	1	0.3	3	0.6
To be awarded	2	10.0	0	0	2	3.0	4	13.0
<b>Total</b>	<b>10</b>	<b>\$16.0</b>	<b>9</b>	<b>\$15.9</b>	<b>7</b>	<b>\$7.3</b>	<b>26</b>	<b>\$39.2</b>

Source: AID.

# Other AID-Funded Efforts to Assist Eastern Europe in Private Sector Development

Through its Voluntary Assistance to Private Enterprise Development Program, AID has provided grant assistance to nine organizations that are active in Eastern Europe. This appendix describes the activities of three of the organizations—the Peace Corps, the International Executive Service Corps (IESC), and the MBA Enterprise Corps—that have provided expert advisers.

## Peace Corps

The Peace Corps has established a European Business Development Program for selected countries in the region. The goal of the program, which began in Poland in 1990, is to contribute to the development of free market economies by providing technical assistance, training, and business information through local public and private organizations. In April 1992, AID and the Peace Corps signed an interagency agreement that is intended to provide \$2.4 million over a 3-year period. About \$684,000 of this amount (subject to availability of funds) is budgeted for Poland and the Czech and Slovak Republics. The assistance activities financed by the agreement focus on three common problem areas: (1) the lack of business management expertise and experience, (2) the lack of privatization strategies and expertise at local government levels, and (3) the lack of financial services for the private sector in state-dominated banking systems.

The Peace Corps program is managed and monitored from Washington; however, training, technical assistance, and business information are disseminated at the Peace Corps posts in the field. The Peace Corps negotiates host country agreements, helping to ensure that its programs reflect host countries' needs and priorities. This, according to a recent evaluation report, has facilitated work and regular discussions with host government officials and has provided a means for channeling volunteer experiences into national decision-making. For example, according to Peace Corps officials in Warsaw, two volunteers are in the Ministry of Privatization's Mass Privatization Planning Office. They specialize in investment banking, evaluation of enterprises, and management.

The Peace Corps budget for fiscal years 1992 to 1994 for the Business Development Program is estimated to be \$540,000 in Poland and \$144,000 in the Czech and Slovak Republics. The funds will defray the cost of salaries, benefits, travel, per diem, and other direct costs. These costs include about \$50,000 for the use of consultants. The Peace Corps enters contracts with U.S.-based and indigenous consultants to meet requests that cannot be met by the Corps for reasons of staff availability or the

specific nature of the request. Examples of such requests are training design and delivery, sector assessments, and project-specific technical assistance.

A Peace Corps post was formally opened in Poland in 1990. A small business development project was established, and the first volunteer specializing in environmental issues arrived in November 1991. During fiscal years 1993 to 1995, volunteers are to provide management assistance to the Ministry of Local Government in preparing economic development plans, identifying investment needs and opportunities, and designing programs to assist in the establishment and expansion of small- and medium-sized businesses. The Peace Corps has attracted a more mature volunteer with significant business or banking experience. The average age of the volunteers is in the mid-forties. Some highly qualified volunteers provide technical assistance in specific areas such as housing development, public utilities, municipal finance, and tourism development.

As of August 1993, 215 Peace Corps volunteers were in Poland. By November 1993, the first group of volunteers working in the area of small business development were to arrive in the Czech and Slovak Republics. The volunteers would serve as advisers assisting with small business start-ups and management.

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## International Executive Service Corps

IESC is a private, nonprofit organization whose basic mission is to provide assistance to private enterprises around the world by drawing upon the experience and expertise of volunteer U.S. business executives and other professionals, most of whom are retired. IESC provides nonfinancial assistance that can take the form of technical and managerial assistance, trade and investment services, and access to market and technology information. It consists principally of more than 12,500 retired volunteers. IESC is primarily involved at the enterprise level to provide business services to companies that were recently privatized or are in the process of privatizing.

In March 1991, IESC signed a 3-year cooperative agreement with AID. Under the agreement, AID will provide \$20.6 million and IESC \$28.6 million. The purpose of the agreement is to provide support for recipients' programs, contribute to private sector development, and furnish management and technical expertise to businesses in selected countries in Eastern Europe. There are several specific elements of the program. Some of these are management and technology transfer, small business, microenterprises,

women-owned businesses, privatization of state-owned enterprises, and institution building.

The IESC country director for Poland told us that at varying times IESC has up to 140 volunteer executives in the country for up to 3 months or more. The volunteers assist private companies that do not have adequate marketing, accounting, and service skills. The director said that they work with the public sector only when the intent is to privatize and that none of the volunteers work in the large state-owned enterprises.

In recent years, IESC has become aware that the needs of the private sector extend beyond the usual technical assistance project. Since 1983, IESC has developed a marketing program, and new services were established leading to the formation of the American Business Linkage Enterprise. This is a business information service created to link foreign companies with U.S. markets, to network U.S. and foreign companies, and to provide a bridge for technology transfer. For example, the IESC director for Poland told us that the group provides linkage to American businesses, joint ventures, and investment services. Typically, a U.S. company is willing to invest in and matchup with a company in Poland that has a sound program, business plan, and marketing orders, but needs capital in order to proceed.

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## The MBA Enterprise Corps

The MBA Enterprise Corps was initiated in 1990 by a consortium currently comprised of 22 U.S. business schools. The Corps places recent graduates with degrees in master of business administration in enterprises in the former centralized planned economies to provide management assistance in the transition to free-market decision-making. Corps members accept 1- to 2-year assignments to work with privatizing state-owned enterprises, private companies, or entrepreneurial start-ups. The MBA Corps was formed through the initiative of the Kenan Institute for Private Enterprise at the University of North Carolina and is managed by the Kenan Institute.

The MBA program is jointly funded by AID, foundations, and corporate contributions, with substantial in-kind and overhead support from the member schools and the Kenan Institute. Salaries and lodging are paid by the host enterprises. Corps members are working in the East European countries of Hungary, Poland, and the Czech and Slovak Republics. In each country, a country manager acts as the Corps' in-country representative. The manager, among other things, finds and interviews host companies or institutions and helps in matching companies with MBA

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**Appendix IV  
Other AID-Funded Efforts to Assist Eastern  
Europe in Private Sector Development**

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graduates. Substantive corporate involvement is key to the Corps' success. Each Corps member is paired with a corporate business mentor, generally an alumnus of one of the Corps' member schools who works in a U.S. corporation operating in the same field as the MBA's host company in Eastern Europe. The mentor serves as a source of market information, business contacts, and management advice.

According to the MBA Corps Manager for Poland, there were 15 MBA graduates in the country in 1991-92 and 22 in 1992-93. The Manager believes that the Polish companies are getting some high quality people at a low price. He said that while there are several sources of funding, the program still is underfunded and there is no potential for more funding in-country. The MBAs now are paid about \$300 a month, after taxes, by the companies assisted and also receive a free apartment. The Manager told us that this is close to the average Polish salary. In fiscal year 1993, AID's funding for the program for 40 MBA members was \$1.2 million (Poland \$630,000, Czech Republic \$240,000, Slovak Republic \$180,000, and Hungary \$150,000).

# Privatization Assistance Provided by the United Kingdom and the European Community

Like the United States, the United Kingdom and the European Community (EC) established assistance programs to help the former communist countries of Eastern Europe make the transition to market-oriented economies, based on private enterprise and initiative. The programs began around the same time as the U.S. program and supports a number of sectors, with a focus on enterprise restructuring and privatization. The U.K. program is managed from London and the EC program from Brussels. The U.K. program maintains representative offices at the embassies in-country, while the EC program has a larger in-country presence.

## The U.K. Program

Program documents show that the U.K. program, referred to as the "Know How Fund," concentrates on banking, insurance, accounting, privatization, management training and development, and industrial restructuring. The program began in June 1989 in Poland and was later extended to Hungary (1989) and Czechoslovakia (1990). Since its inception, the program has provided assistance totaling \$165.7 million.

To determine which projects to undertake, program officials perform a preliminary analysis of the needs of the host countries and then hold discussions with host country officials. According to program sources, no systematic methodology is applied, and there are no government-to-government agreements. The host government submits official requests for assistance, but most initiatives come from the proactive efforts of program officials.

Program officials said that projects costing more than 50,000 British pounds (about \$82,000 based on May 1993 exchange rates) are generally competed. Normally, solicitations are sent to four or five firms, drawn from contractor lists maintained by the London office. Each contract stipulates a cost ceiling and the number of days required to complete the project. Daily fee rates are negotiated for each contract. One U.K. official told us that the daily rates average about \$321 to \$962 (based on the May rate of exchange), but documents supporting this were not made available to us.

Program officials said it was difficult to estimate the average response time to a request. One official told us that a large project should take about 1 month but that this rarely happens. Response time often may take several months or longer.

## The EC Program

The EC program was initiated in December 1989 to assist Poland and Hungary and was subsequently expanded to other eligible countries in Eastern Europe and to the newly independent states of the former Soviet Union. Between 1990 and 1992, the program provided assistance amounting to about \$2.5 billion, but only a very small portion of this total was apportioned to privatization and restructuring. For example, in 1990 Poland received \$15.6 million for this purpose and Hungary \$6 million. These amounts increased in 1991 to \$60 million and \$48 million, respectively.

With respect to identifying host country needs, the EC program is much more structured than either the U.K. or the AID programs, and it has stronger in-country ties between the host government and project management. An agreement is reached with each recipient country on assistance objectives and priorities. Within the parameters of this agreement, specific programs and projects are identified.

Program documents show that, under program guidelines, identifying, implementing, and managing projects are the ultimate responsibility of the recipient governments. These functions are generally carried out by project management units set up within the appropriate ministry or agency of the beneficiary country. These units are staffed by both host government officials and technical experts funded through the EC program.

As a general rule, contracts exceeding 50,000 European Currency Units (about \$60,000 based on the May 1993 exchange rate) must be competed. The process for awarding the contracts is essentially the same as that of the U.K. program. One EC program official told us that daily rates average about \$720 (at the May exchange rate), but we could not confirm this.

Program officials also stated that it is difficult to estimate average response time. One official said that in an urgent situation the program could field the necessary staff within 1 week, but other situations can require months. Delays can often occur in the negotiation process and in the contract review process, depending on the complexity and quality of the terms of reference.

# Scope and Methodology

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To evaluate the efficiency and effectiveness of the indefinite quantity contracts used to provide privatization assistance to Eastern Europe, we interviewed AID officials at the agency's Washington, D.C., offices and at field offices and project sites in Poland and the Czech and Slovak Republics. We also reviewed program documents, internal and independent studies of AID's assistance efforts, including AID Inspector General reports; contract files; and other pertinent documents. As discussed in the report, however, AID has not kept complete records of project activities.

In Washington, we interviewed officials of the three IQC contractors: Deloitte and Touche, KPMG Peat Marwick, and Coopers and Lybrand. We also met with representatives of these contractors in the countries we visited. In addition, we reviewed available documents and met with officials of Advanced Resource Technologies, Inc., which AID has contracted with to provide administrative support and data base management for the privatization project.

In Poland and the Czech and Slovak Republics, we interviewed host government officials to obtain their views of the assistance they have received under the IQCs. We also met with officials of enterprises that had received or were receiving U.S. assistance.

In Brussels, we met with EC officials to discuss the EC assistance program. In London, we interviewed an official of the Joint Assistance Unit of the British Foreign and Commonwealth Office, which administers Britain's bilateral technical assistance program to Central and Eastern Europe and the former Soviet Union. We met with resident officials of both programs during our visits to Poland and the Czech and Slovak Republics. While in-country, we also met with representatives of the Peace Corps, IESC, and the MBA Enterprise Corps to obtain information on the privatization services they were providing.

We performed our review from October 1992 through June 1993 in accordance with generally accepted government auditing standards.

# Comments From the Agency for International Development



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

December 2, 1993

Mr. Frank C. Conahan  
Assistant Comptroller General  
United States General  
Accounting Office  
441 G Street, N.W., Room 5055  
Washington, D.C. 20548

Dear Mr. Conahan:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled "EASTERN EUROPE: A.I.D.'s Indefinite Quantity Contracts Assist Privatization Efforts But Lack Adequate Oversight" (November 1993).

USAID accepts the recommendations of the report with one minor modification. Regarding the recommendation to "direct contractors to provide copies of their quarterly progress and financial reports, delivery orders, and invoices to host government officials," we agree that progress and financial reports should be provided to the host country and are taking actions to ensure this distribution of material. However, we do not concur in providing the host government copies of the delivery orders and periodic invoices. The delivery orders are contracts between USAID and the contractor which contain sensitive information on rates and amounts to be paid. Contractor invoices also contain this information with specificity for work actually performed. When this information has been disclosed in the past, we have found that the professional relationship between the contractor and the host government often suffers since the differences in compensation between the contractor and the host government are so large. We do not believe that disclosure of this information will assist in the general achievement of our project objectives nor enable our host government clients to increase the effectiveness of their collaboration with USAID in project implementation. We would also like to point out that it is not standard practice in USAID to have the host government review contractor invoices where they are not a party to the contract.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

Appendix VII  
Comments From the Agency for  
International Development

We concur with the draft report's recommendation to "delegate decision making authority to field staff, as necessary, to improve the responsiveness of the privatization project." During the past year, USAID has actively pursued increased field input to the design and implementation of privatization projects. We have provided specific delegations to the field offices to add additional technical staff and have encouraged them to identify privatization activities for possible USAID financing. We fully intend to continue this increasing reliance upon our field offices with the end objective of providing formal delegations to selected field offices for decision-making on the planning, budgeting, design, and implementation of USAID-financed privatization projects.

We concur with the recommendation to "require contractors to develop implementation plans and provide them to AID and host government officials." Due to the extreme and chronic shortage of USAID staff in Washington and the field during the first year of implementation, many activities did not have the benefit of detailed implementation plans. Throughout the past year, we have been requiring our contractors to develop initial work plans to guide the deployment of their technical staff in undertaking the contract work scopes. Moreover, as a direct result of the increasingly complex privatization task areas for which USAID technical assistance is being sought, development of these work plans is now undertaken in a collaborative style by Washington-based USAID staff, USAID field staff, USAID contractors, and the concerned host government officials and professional staff. We also would like to note that we are now requiring the IQC contractors to specify their technical approach to performing the scope of work for privatization tasks when submitting proposals for a particular activity. The technical approach of the selected contractor then becomes in effect the first draft of an implementation work plan.

We concur with the draft recommendation to "ensure that field staff receive the project documents they need for project monitoring, including progress and financial reports, delivery orders, implementation plans, and invoices." We have directed our administrative support contract staff to assemble these documents for each privatization activity for mailing to our field offices.

We concur with the draft recommendation to "establish a record-keeping system to adequately document project activities." We have worked with our administrative support contractor to improve our project document files and general project records. We are developing a comprehensive database concerning important administrative information and contract reports and other outputs, and we are reorganizing our massive work files for the regional privatization project pursuant to formal file plans and the requirements of the database.

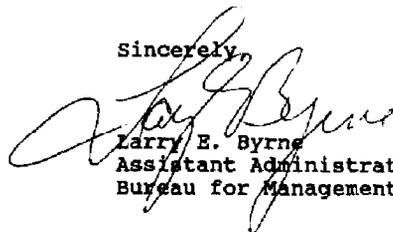
**Appendix VII  
Comments From the Agency for  
International Development**

Regarding the general issue of conflict of interest which was briefly discussed in the report, our policy regarding task identification and contractor selection is to collaborate with the field offices and host countries to identify privatization tasks which address country priorities and are consistent with USAID policy for development activities in the region. Delivery orders are awarded for a particular activity normally after competition among the three IQC contractors. In certain circumstances, contractors may propose tasks on an unsolicited basis. These proposals are reviewed by USAID staff, modified as appropriate, and either approved or disapproved. We have addressed the Inspector General's concerns on contractor-generated proposals by adding additional direct hire staff and a number of highly technically qualified personal services contractors to participate in this review and selection process. In addition, we have undertaken a broad review of conflicts of interest in our procurement process aimed at further tightening our regulations on both real and perceived conflicts.

We would also like to emphasize some of the positive results which this project has achieved. Over the past two and one-half years of implementation, the feedback from our field offices and from our host country clients has been positive. The project has produced results which are visible and important to the region's efforts to transform their political economies from state direction to economies driven by free market forces. At the policy and systems levels, legal, fiscal, institutional, and regulatory frameworks have been improved in our client countries. At the enterprise level, we have assisted in the actual transfer of ownership and control of previously state-owned assets to domestic and foreign private investors. Our assistance has helped in developing the institutional support necessary to pursue the privatization process in a sustained and transparent way. We have assisted in bringing foreign investment and technology to our client governments. One significant example is a USAID project in the Czech Republic which has produced over 100 transactions involving foreign investors and has helped the country to obtain over a billion dollars in direct foreign capital investment necessary to move to market-oriented production and creation of real remunerative employment. Our next privatization project will build upon the solid and recognized achievements of the first USAID privatization project in the region.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



Larry E. Byrne  
Assistant Administrator  
Bureau for Management

# Major Contributors to This Report

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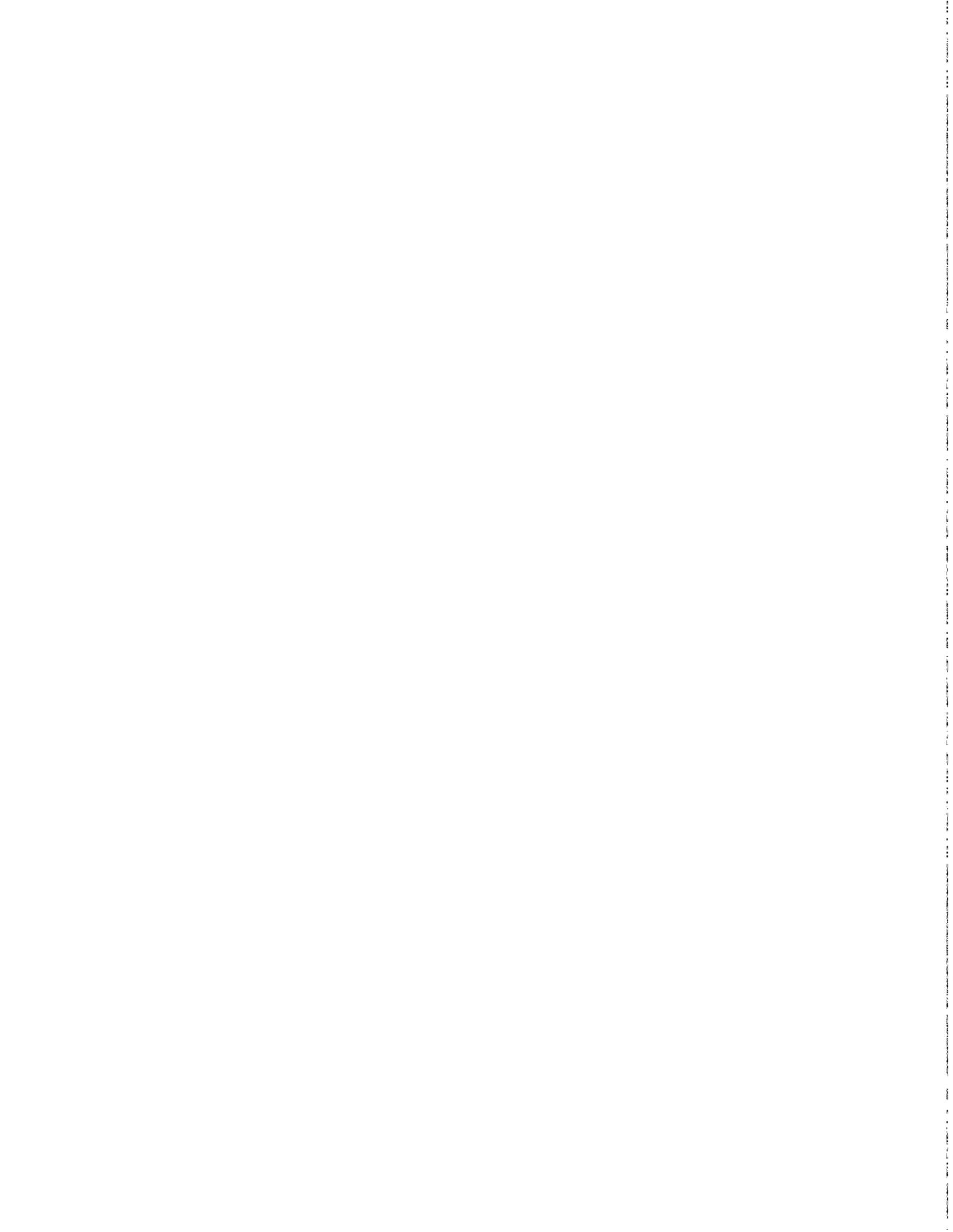
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