

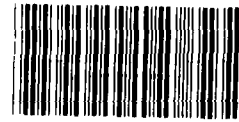
GAO

Report to the Chairman,
Subcommittee on Foreign Operations,
Committee on Appropriations
House of Representatives

March 1986

FOREIGN
ASSISTANCE

How the Funds
Are Spent



129637

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**National Security and International
Affairs Division****B-222050****March 7, 1986**

The Honorable David R. Obey
Chairman, Subcommittee on
Foreign Operations
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

In your letter dated April 18, 1985, you asked us to review the fiscal year 1984 foreign assistance program to determine how funds were actually spent and who benefited. As you requested, we concentrated on identifying specific payees, their locations, and purpose of expenditures.

We found that U.S. suppliers of goods and services benefit from the major economic and military assistance programs. In 1984

- less than one-half of Agency for International Development (AID) disbursements were made to initial payees in the United States,
- about 10 percent of the procurement by multilateral development banks was attributed to U.S. sources,
- most foreign military sales contracts were awarded to U.S. companies, and
- virtually all Export-Import Bank (Eximbank) disbursements were made to U.S. suppliers.

Although literally thousands of suppliers located throughout the United States and overseas are recipients of the funds, a few companies tend to dominate within certain programs.

Appendix I summarizes data on suppliers receiving funds under the major foreign economic assistance and related programs, including disbursements made by AID, Eximbank, the multilateral development banks (the World Bank, the Asian Development Bank, the Inter-American Development Bank, and the African Development Bank), the United Nations Development Program (UNDP), and the United Nations Children's Fund (UNICEF). Appendix II provides similar information for the major military assistance programs (foreign military sales loans and grant assistance). Detailed information supporting the appendixes—including foreign government payees and listings of individual suppliers, contractors, and other payees by state, amounts received, and

purpose, where available—is being provided to you under separate cover.

There were a number of limitations on our ability to fully achieve the specific objectives set forth in your request (appendix IV). For example, all fiscal year 1984 foreign assistance funds had not been expended at the time of our review; fiscal year 1984 military assistance funds and cash transfers to foreign governments under the Economic Support Fund were commingled with other funds, thus losing their identity; and agency records often identified only the initial payees such as prime contractors, but not subcontractors or subsequent recipients of the funds. These conditions, which varied by program, are described in the relevant sections of appendixes I, II, and III.

These limitations, as well as others, were discussed with your office during the early phases of our work and agreements were reached modifying our approach. For the most part, we examined foreign assistance expenditures in 1984, which included fiscal year 1984 funds, as well as prior years. Again, the specific types of expenditures examined are identified in the appendixes.

Our work was accomplished during the period June 1985 through February 1986 at AID, Eximbank, the Department of Defense, the multilateral banks, UNDP, and UNICEF. We did not obtain formal agency comments, but discussed the information contained in this report with agency officials and incorporated their views where appropriate.

Generally, because of the sheer volume of data, we did not attempt to verify the accuracy of the information provided by these agencies. We did, however, develop a major part of the Eximbank data. Data problems, such as gaps or inconsistencies, are noted as appropriate in the discussion of each program.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to appropriate congressional committees and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director

Contents

Letter Report	1
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Appendixes	Appendix I: Foreign Economic Assistance and Related Programs	6
	Appendix II: Analysis of Contractors Involved in U.S. Military Sales to Foreign Governments	23
	Appendix III: Objectives, Scope, and Methodology	34
	Appendix IV: Letter From Chairman, Subcommittee on Foreign Operations, House Appropriations Committee	37

Tables	Table I.1: Economic Assistance and Related Programs, Appropriations, and Disbursements Included in This Review	7
	Table I.2: Major Recipients of AID Funds in Fiscal Year 1984	12
	Table I.3: Major Payees for Principal Development Assistance Programs in 1984 (Fiscal Year 1984 Appropriated Funds Only)	13
	Table I.4: Number of Payees and Major Recipients for AID Disbursements—Top 10 States	14
	Table I.5: Eximbank Loan Disbursements to Suppliers in Fiscal Year 1984—Top 20 States	16
	Table I.6: Total and U.S. Source Procurement by the Multilateral Banks in 1984	17
	Table I.7: Major Sources of 1984 Multilateral Bank Procurement in the United States by State	18
	Table I.8: Sources for UNDP Contracts Awarded and Equipment Orders and Governmental Contributions to UNDP in 1984	21
	Table II.1: Top 25 Companies Ranked by FMS Contract Value	30
	Table II.2: Top 10 FMS Companies Compared to DOD-Wide Ranking	31

Figures	Figure I.1: Geographical Distribution of U.S. Payees for Foreign Economic Assistance and Related Program Disbursements in 1984	9
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Figure I.2: Comparison of Initial Payees Having a U.S. Address for All 50 States and the District of Columbia	10
Figure I.3: Top 10 Eximbank Suppliers in Fiscal Year 1984	15
Figure I.4: Graph Comparing Cumulative U.S. Source Procurement and U.S. Contributions to the World Bank, the Inter-American Development Bank, and the Asian Development Bank (Cumulative as of 1984)	19
Figure II.1: Fiscal Year 1984 FMS Contract Awards Made to Companies in the United States (Top 10 Compared to the Rest of the Country)	26
Figure II.2: Distribution by Location of Fiscal Year 1984 FMS Contract Awards	27
Figure II.3: Top 10 Companies Receiving Fiscal Year 1984 FMS Awards Compared to All Other Companies	28
Figure II.4: Distribution by Contractor of Fiscal Year 1984 FMS Contract Awards	29
Figure II.5: Top 10 States Plus Israel for Commercial Military Sales	33

Abbreviations

ADB	Asian Development Bank
AFDB	African Development Bank Group
AID	Agency for International Development
DA	Development Assistance
DIOR	Directorate for Information Operations and Reports
DOD	Department of Defense
DSAA	Defense Security Assistance Agency
DTCD	U.N. Department of Technical Co-operation for Development
ESF	Economic Support Fund
Eximbank	Export-Import Bank
FAO	U.N. Food and Agriculture Organization
FMS	Foreign Military Sales
IDB	Inter-American Development Bank
IMET	International Military Education and Training
MAP	Military Assistance Program
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund

Foreign Economic Assistance and Related Programs

This appendix identifies suppliers of goods and services and recipients of funds derived from major foreign economic assistance and related programs during fiscal year 1984. During our review, we (1) examined the fiscal year 1984 foreign assistance programs to determine how funds were expended and to whom and (2) identified expenditures of fiscal year 1984 programs by supplier, address, amount and purpose, where available.

We reviewed activities which included approximately \$4.386 billion in disbursements identified by the Agency for International Development (AID); \$1.781 billion in regular-loan generated disbursements of the Export-Import Bank (Eximbank); and about \$1.6 billion in procurement attributed to U.S. sources by the multilateral development banks and selected international organizations.

The multilateral banks and international organizations covered were the World Bank, the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), the African Development Bank Group (AFDB), the United Nations Development Program (UNDP), and the United Nations Children's Fund (UNICEF). Because of the time that would be required to document all disbursements of UNDP funds which are channeled through over 25 specialized agencies of the U.N. system, we focused on the U.S. source procurement activities of the three largest users of UNDP funds in 1984—UNDP headquarters, the U.N. Food and Agriculture Organization (FAO), and the U.N. Department of Technical Co-operation for Development (DTCD).

The following table shows the foreign economic assistance and related programs, appropriations, and disbursements covered in this report.

**Appendix I
Foreign Economic Assistance and
Related Programs**

**Table I.1: Economic Assistance and
Related Programs, Appropriations, and
Disbursements Included in This Review**

Dollars in millions		
Agency	Appropriations^a	Disbursements^b
Agency for International Development	\$5,264	\$4,386
Export-Import Bank	1,424	1,781
World Bank	1,025	1,173
Inter-American Development Bank	118	230
Asian Development Bank	113	71
African Development Bank Group	68	6
United Nations Development Program	160	60 ^c
United Nations Children's Fund	53	48
Total:	\$ 8,225	\$ 7,755

^aAmounts represent fiscal year 1984 appropriations for AID, authorizations for Eximbank regular loan programs, and U.S. government voluntary contributions to the multilateral banks and international organizations.

^bAmounts represent disbursements identified by AID and the regular loan disbursements by Eximbank. Disbursements from programs of the multilateral banks and international organizations include only procurement attributed to U.S. sources.

^cDisbursements of UNDP funds by UNDP headquarters, the U.N. Food and Agriculture Organization, and the U.N. Department of Technical Co-operation for Development. Disbursement data for other agencies implementing UNDP programs are not included.

U.S. Suppliers Directly Benefit From Foreign Economic Assistance Expenditures

Based on our analysis of fiscal year 1984 disbursements, significant portions of AID assistance funds were disbursed in the United States to a variety of private and public entities, which directly benefitted the U.S. economy, the organizations concerned, and the recipient countries involved. Similarly, the data show that a broad section of the U.S. private sector benefitted from the export promotion and loan programs of Eximbank, as well as from the procurements resulting from operations of the multilateral banks and international organizations. More specifically:

- Disbursements of approximately \$1.5 billion were traced by AID to payees having a U.S. address. Data provided by AID indicated that several thousand U.S. suppliers benefitted from AID disbursements in fiscal year 1984. Disbursements to U.S. payees were identified for all 50 states and the District of Columbia. Data provided by AID also showed (1) disbursements through commercial banks of about \$400 million for which the ultimate recipients' addresses were not complete, (2) over \$2.1 billion in disbursements to payees having a foreign address, and (3) approximately \$363 million in AID operating expenses by object class (e.g., basic pay, education allowances, health insurance, and residential

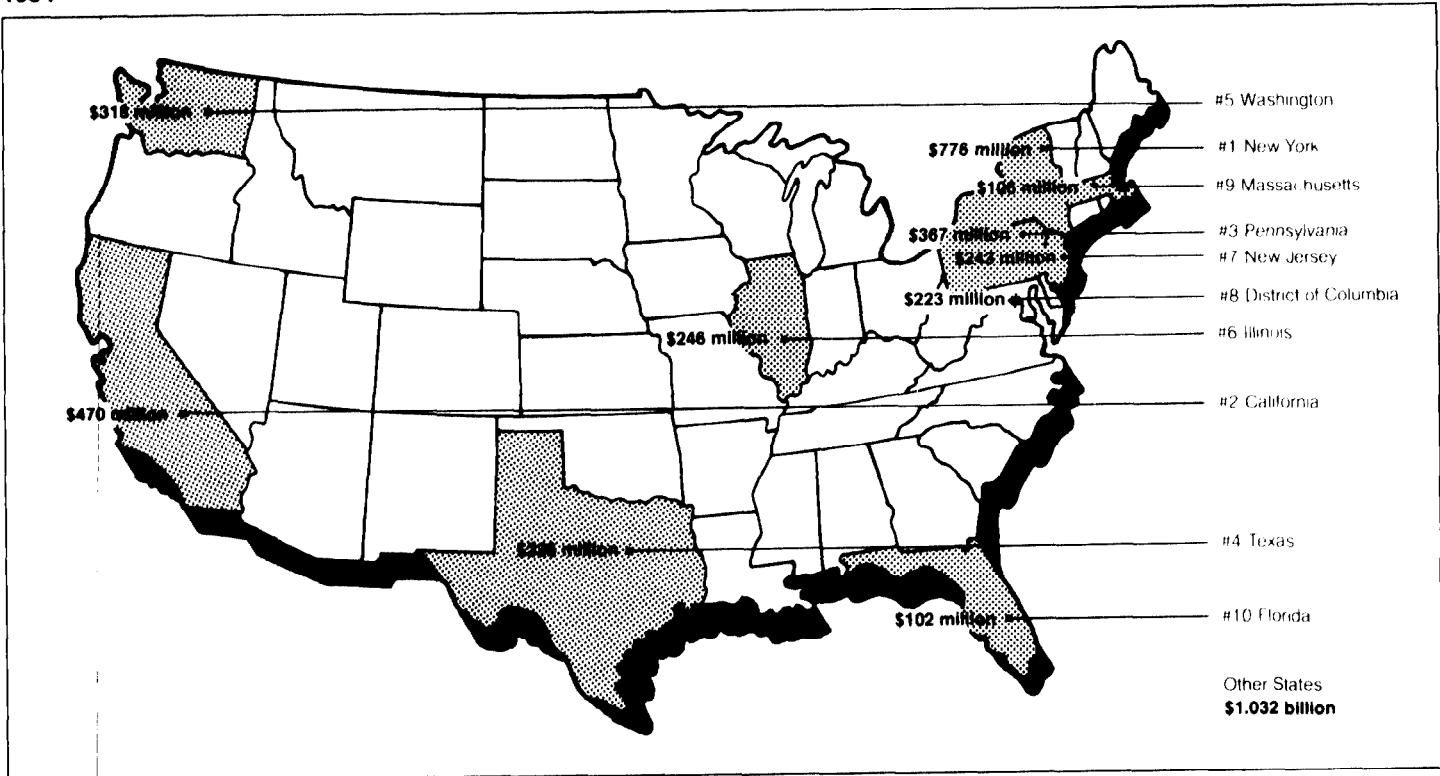
rent and utilities). AID officials noted that the \$2.1 billion in disbursements to payees with a foreign address included substantial sums of direct cash transfers to foreign governments. Such transfers, they said, are often part of agreements with foreign governments that include provisions for U.S. source procurement. However, cash transfers are commingled with other monies and there is no systematic documentation of their actual use.

- Eximbank regular loan-generated disbursements totaling \$1.78 billion were traced to approximately 1,600 U.S. suppliers in over 45 states and the District of Columbia. Of the \$1.78 billion total, Eximbank data included (1) \$23.7 million in disbursements for which the supplier address was not available and (2) \$1.5 million to suppliers with a foreign address.
- The multilateral development banks and international organizations included in this review identified procurements from U.S. sources totaling about \$1.6 billion, which represented broad participation by a wide spectrum of U.S. suppliers in numerous states.

The states with recipients that accounted for significant amounts of foreign economic assistance and related program disbursements are identified in the following two figures. Figure I.1 shows disbursements by state on a dollar basis, and figure I.2 provides a percentage breakdown of those disbursements.

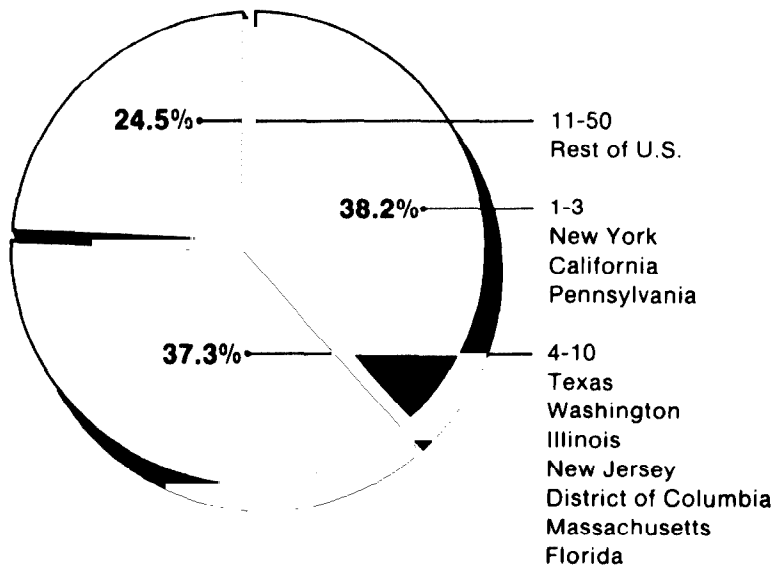
**Appendix I
Foreign Economic Assistance and
Related Programs**

Figure I.1: Geographical Distribution of U.S. Payees for Foreign Economic Assistance and Related Program Disbursements in 1984*



*Data based on AID disbursements totaling about \$1.5 billion having a U.S. address for the initial payee; Eximbank loan disbursements totaling \$1.7 billion having a complete supplier address; World Bank disbursements totaling \$816 million having a complete supplier address; IDB disbursements over \$50,000, totaling \$64.9 million; ADB disbursements over \$50,000, totaling \$55 million; AFDB disbursements totaling \$4.4 million; UNDP headquarters disbursements totaling \$36.9 million; FAO disbursements for equipment totaling \$949,000; DTCD disbursements over \$10,000 for equipment and contracts, totaling \$4.0 million; and UNICEF disbursements for program supplies and equipment, totaling \$10.1 million.

Figure I.2: Comparison of Initial Payees Having a U.S. Address for All 50 States and the District of Columbia



AID Disbursements

Excluding Public Law 480 food assistance programs, AID's assistance to foreign countries in fiscal year 1984 was administered primarily under the Development Assistance (DA) program and the Economic Support Fund (ESF). These programs are designed to contribute to the economic and political stability of less developed countries and, at the same time, accelerate U.S. economic activity through sales of U.S. goods and services abroad.

AID officials stated that because the Agency implements its programs through overseas missions located throughout the developing world, its accounting and reporting is decentralized with only summary information provided to AID/Washington. Although AID is upgrading its computerized accounting systems to expand its centralized reporting capability, the existing AID/Washington information systems were incapable of generating detailed data on DA and ESF disbursements by payee. To meet the Subcommittee's needs, AID used contractor personnel to review the Agency's disbursement records and develop a disbursement file for fiscal year 1984 payments.

AID provided information on approximately \$4.386 billion in fiscal year 1984 disbursements under its financial control. Those disbursements included

- \$1.005 billion in DA program funds, made up of \$131.8 million in fiscal year 1984 appropriations, \$246 million in no-year funds, and \$627.2 million in prior-year funds. An additional \$363 million and \$40.6 million in disbursements for operating expenses and Foreign Service Retirement and Disability Fund accounts, respectively, were identified.
- \$2.93 billion in ESF accounts, made up of \$1.52 billion in fiscal year 1984 funds, \$34 million in no-year funds, and \$1.37 billion in prior-year funds.
- \$51.45 million in non-AID appropriated funds (e.g., \$35.01 million in revolving funds and \$10.29 million in Trade and Development Program accounts).

Excluding the \$51.45 million in non-AID appropriated fund disbursements, AID's disbursement file developed for this request totaled \$4.334 billion for DA and ESF accounts—which is approximately \$382 million less than the total \$4.716 billion in AID disbursements reported in its Fiscal Year 1986 Congressional Presentation. AID officials attributed the difference, in part, to allocations of funds to other agencies, the inclusion of other than actual disbursement data in the Congressional Presentation, and the lack of a centralized computer information system for documenting detailed disbursements by payee.

Because of time limitations, the volume of the disbursement transactions involved, and weaknesses in the AID computer information system, the AID/Washington disbursement file had gaps in information concerning individual payees, their addresses, and the purpose of the transactions. With these caveats in mind, table I.2 shows the top 30 recipients of AID funds in fiscal year 1984, which includes disbursements from fiscal year 1984 appropriated funds and other year accounts. Disbursements to the top 30 recipients, which represented about 50 percent of the total disbursements identified by AID, were primarily ESF. To further illustrate the diversity and nature of AID payees, tables I.3 and I.4 show, respectively, (1) the top five payees from fiscal year 1984 funds for the major DA programs and (2) the number of payees in each of the top 10 states, the major payee in each state, and the major payee's percentage of the total disbursement for the state.

**Appendix I
Foreign Economic Assistance and
Related Programs**

**Table I.2: Major Recipients of AID
Funds in Fiscal Year 1984**

Payee Name	Amount	Purpose
Treasury-Government of Israel	\$910,000,000	Cash Transfer
Government of Turkey	138,500,000	Cash Transfer
National Planning Council (Jordan)	95,977,242	Construction Material, etc.
Jordan Valley Authority (Jordan)	77,683,860	Technical Services
Government of El Salvador	75,000,000	Cash Transfer
Treasurer/The Philippines	58,700,605	Reimbursements
Government of Costa Rica	58,000,000	Cash Transfer
International Fund for Agriculture Development	55,440,000	Contribution
Cargill Inc.	54,497,340	Yellow Corn
Government of Jamaica	50,000,000	Cash Transfer
Howard Harbert Jones Co.	49,411,791	Technical Services
Government of Egypt	43,073,687	Basic Village Services
Government of Honduras	42,000,000	Cash Transfer
Foreign Service Retirement and Disability Fund	40,620,000	Fund Payment
Government of Portugal	40,000,000	Cash Transfer
El Salvador Central Bank	38,000,000	Cash Transfer
General Electric	33,840,495	Equipment & Services
Central Bank of Peru	30,000,000	Cash Transfer
National Bank of Liberia	30,000,000	Cash Transfer
U.S. Dept. of Agriculture	29,024,570	Technical Services
Agrico Chemical Co.	27,911,420	Equipment/Fertilizer
International Planned Parenthood	27,772,598	Contraceptives/Technical Assistance
Central Bank of Honduras	26,100,000	Cash Transfer
American Cast Iron Pipe Co.	25,664,960	Cast Iron Pipe
Westinghouse Electric	25,628,069	Equipment & Services
America-Mideast Educational and Training Services	25,145,632	Technical Services
Government of Bangladesh	24,690,104	Project Payment
AT&T International	23,052,673	Telephone Equipment
Caterpillar Tractor	21,526,470	Construction Equipment
Consortium for International Development	21,296,879	Technical Assistance
Total	\$2,198,558,395	

**Appendix I
Foreign Economic Assistance and
Related Programs**

Table I.3: Major Payees for Principal Development Assistance Programs in 1984 (Fiscal Year 1984 Appropriated Funds Only)

	Payee	Amount
Agriculture, Rural Development, and Nutrition	Government of Bangladesh	\$24,284,712
	International Center for Tropical Agriculture	5,600,000
	International Institute of Tropical Agriculture	5,367,168
	International Center for Agricultural Research	4,198,000
	Agrico Chemical	4,042,125
Education and Human Resources Development	American Institute for Free Labor Development	\$1,357,043
	African-American Institute	939,706
	INCAE (Central American Business School)	548,606
	Pan African Institute for Development	500,000
	Creative Associates, Inc.	324,737
Health	World Bank	\$2,000,000
	International Center/Diarrheal Disease Research	1,423,000
	Camp/Dresser/McKee	1,061,423
	Haitian National Service for Endemic Diseases	975,702
	Project Concern International	339,848
Population Planning	International Planned Parenthood	\$6,000,000
	U.S. Dept. of Health and Human Services	596,140
	Population Services International	509,434
	The Futures Group	488,168
	Family Hygiene Direction and Nutrition	374,850
Technical Assistance, Energy R&R	Coopers & Lybrand	\$1,473,377
	International Executive Service Corps	1,467,492
	U.S. Dept. of Agriculture	1,462,851
	National Academy of Sciences	1,244,407
	Computer Data Systems	1,085,322

**Appendix I
Foreign Economic Assistance and
Related Programs**

Table I.4: Number of Payees and Major Recipients for AID Disbursements—Top 10 States

State	Amount Per State	Number of Payees ^a	Major Payee In State ^a	Payee Amount	Percent Of State
New York	\$363,254,521	752	Cargill, Inc.	\$52,262,391	14.4
Washington, D.C.	176,303,321	862	America-Mideast Educational & Training Services	25,145,632	14.3
Illinois	92,364,128	200	Caterpillar Tractor	17,565,961	19.0
Pennsylvania	84,110,419	212	Jones & Laughlin Steel Co.	10,190,142	12.1
California	78,989,233	424	Calcot LTD	17,985,292	22.8
Massachusetts	66,930,125	268	Perini Avoubco Joint Venture	8,463,109	12.6
Alabama	62,549,860	39	American Cast Iron Pipe Co.	25,664,960	41.0
New Jersey	57,444,017	203	AT&T International	20,315,458	35.4
Oklahoma	53,255,898	16	Agrico Chemical Co.	27,911,420	52.4
North Carolina	51,045,282	71	Howard Harbert Jones Co.	24,446,044	47.9
Total	\$1,086,246,804	3,047		\$229,950,409	

^aBecause of the wide variation in spelling for payees in the AID disbursement file, the number of payees is approximate and major payee amounts may vary somewhat from actual payments.

Export-Import Bank Loan Disbursements

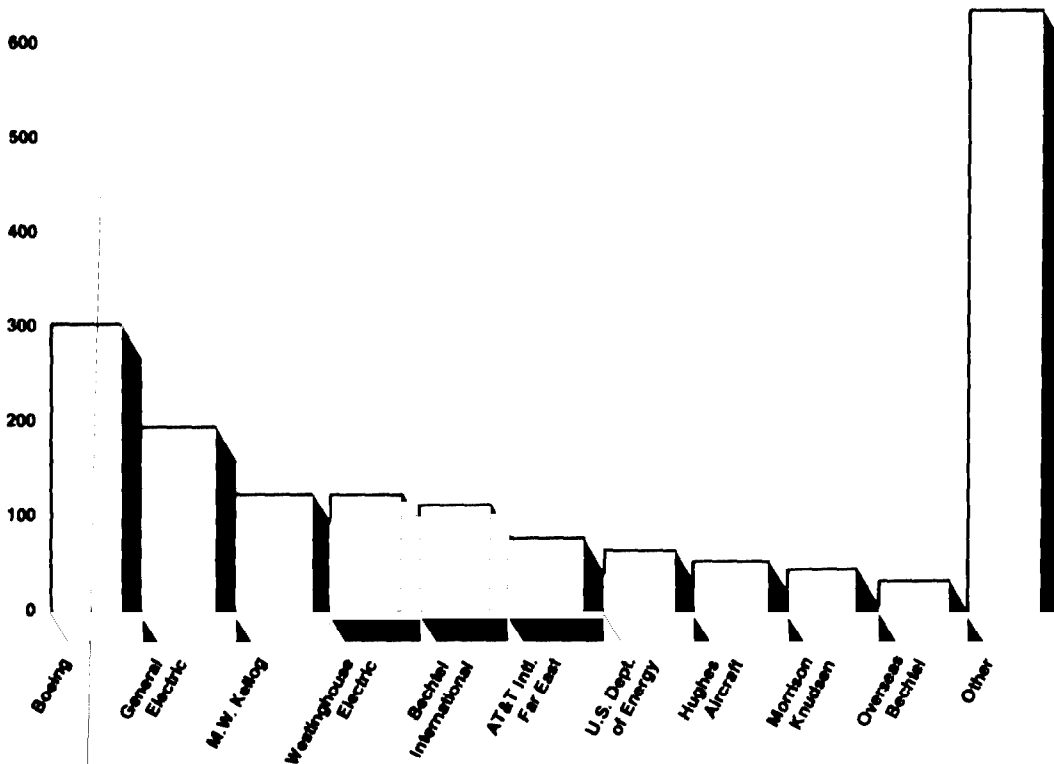
The Export-Import Bank of the United States was established to support U.S. export sales through loans and related programs with foreign borrowers. We were able to develop detailed supplier data on \$1.781 billion in regular loan disbursements in fiscal year 1984.

Figure I.3 shows the top 10 Eximbank suppliers which received about 64 percent of the \$1.78 billion in regular loan-generated disbursements documented in fiscal year 1984.

Appendix I
 Foreign Economic Assistance and
 Related Programs

Figure I.3: Top 10 Eximbank Suppliers in Fiscal Year 1984

700 Millions of Dollars



The following analysis of Eximbank loan-generated disbursements in fiscal year 1984 shows (1) the total amount received by address of suppliers in the top 20 states; (2) the total number of suppliers per state; and (3) the major supplier in each state, the amounts received by each major supplier in the state, and the major supplier's percentage of the total disbursements to suppliers in the state.

**Appendix I
Foreign Economic Assistance and
Related Programs**

Table I.5: Eximbank Loan Disbursements to Suppliers in Fiscal Year 1984—Top 20 States

State	Amount Per State	Number of Suppliers	Major Supplier In State	Supplier Amount	Percent of State
Washington	\$305,427,344	31	Boeing	\$302,933,387	99.2
California	277,579,837	476	Bechtel International	109,284,874	39.4
Pennsylvania	228,861,430	82	Westinghouse Electric	112,343,067	49.1
New York	211,799,501	164	General Electric	126,225,988	59.6
Texas	191,799,837	124	M.W. Kellog	121,496,935	63.3
New Jersey	131,226,355	97	AT&T International Far East	79,927,503	60.9
Tennessee	68,077,765	3	U.S. Dept. Of Energy	68,075,662	99.9
Illinois	66,212,327	93	Great Lakes Dredge & Dock	34,230,298	51.7
Idaho	45,297,919	7	Morrison-Knudsen	45,154,626	99.7
Ohio	42,120,022	67	Babcock & Wilcox International	16,221,734	38.5
Connecticut	33,580,226	43	Combustion Engineering	13,885,400	41.3
Florida	31,658,795	60	General Electric	9,575,765	30.2
Louisiana	22,162,981	17	McDermott International	11,907,342	53.7
Washington, DC	18,274,305	13	NASA	11,326,091	62.0
Wisconsin	16,959,002	22	Harnischfeger Corp.	5,669,036	33.4
Minnesota	13,463,045	21	Johnson Brothers Corp.	9,880,809	73.4
Massachusetts	11,137,936	27	GTE International	8,666,591	77.8
Georgia	8,526,338	20	Southwire Co.	5,828,264	68.4
Mississippi	5,252,141	4	Marathon Le Tourneau Offshore	4,358,979	83.0
Michigan	4,593,748	29	Clark Construction	1,677,493	36.5
Total	\$1,734,010,854	1,400		\$1,098,669,844	

U.S. Source Procurement by the Multilateral Banks

The common objective of the multilateral development banks is to promote economic growth and development in the developing world through their lending and technical assistance programs. These institutions typically have programs which involve (1) capital lending financed through borrowing on world capital markets against donor pledges of callable capital and (2) concessional lending to low-income countries from direct donor contributions.

Total disbursements in 1984 by the World Bank, IDB, ADB, and the AFDB for procurement of goods and services were about \$14.2 billion, of which \$1.48 billion or approximately 10 percent was identified as being from U.S. sources. The following two tables show (1) U.S. source procurement in 1984 in comparison to each bank's total procurement and (2) the major sources of U.S. procurement in 1984 by state. It should be

**Appendix I
Foreign Economic Assistance and
Related Programs**

noted that, according to Treasury officials, the larger share of multilateral bank procurement occurs in borrowing countries rather than donor countries.

**Table I.6: Total and U.S. Source
Procurement by the Multilateral Banks
in 1984**

Dollars in millions			
Bank	Total Procurement	U.S. Source Procurement	U.S. Percentage
World Bank ^a	\$11,050	\$1,173	10.6
IDB	1,801	230 ^b	12.8
ADB ^c	1,043	71	6.8
AFDB	288	6	2.1
Total	\$14,182	\$1,480	10.4

^aWorld Bank fiscal year 1984 (July 1983-June 1984).

^bEstimated procurement—records at IDB provided detailed disbursement data on \$68 million.

^cU.S. fiscal year 1984 (October 1983-September 1984).

**Appendix I
Foreign Economic Assistance and
Related Programs**

Table I.7: Major Sources of 1984 Multilateral Bank Procurement in the United States by State

Dollars in millions

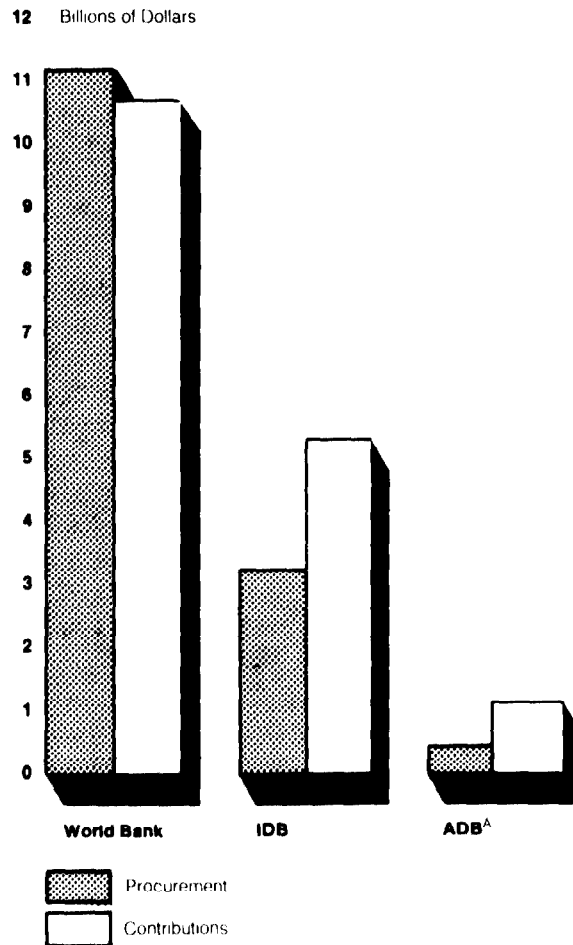
Multilateral Bank	Major States	Total Amount Per State ^a	Total Number of Suppliers in the State ^b	Major Supplier in the State and Amount
World Bank	New York	\$160.1	175	NCR Corp. \$16.4
	Texas	91.6	141	Geophysical Services Inc. 9.1
	California	73.5	130	Franrica 28.2
	Illinois	72.1	91	John Deere & Co. 23.5
	New Jersey	46.6	62	Louis Berger International 14.8
IDB	Florida	14.5	47	Layne Dredging Co. 5.2
	California	11.3	9	Atkinson Development 9.2
	New York	9.5	17	Tams Integral 2.0
	Illinois	9.1	10	Harza Engineering Co. 4.9
	Pennsylvania	3.5	13	McGraw Edison Co. 1.2
ADB	California	27.8	24	Union Oil Co. California 13.1
	New York	5.9	10	Corning Glass 2.4
	Pennsylvania	3.5	6	Westinghouse Electric 1.4
	Massachusetts	3.1	8	Charles T. Main International 1.0
	New Jersey	1.9	9	KCC Computer Service .5
AFDB	New York	1.7	5	Agri-Business Consultants .9
	Illinois	.7	4	Wabco Trade Co. .3
	New Jersey	.5	1	Louis Berger International .5
	Pennsylvania	.4	2	Gannett Fleming Transp. Eng. .4
	District of Columbia	.4	1	Medical Care Development .4

^aTotal amount per state shown for ADB does not include disbursements to U.S. consultants as part of its Technical Assistance Fund.

^bTotal number of suppliers in the state shown for IDB and ADB are for disbursements over \$50,000.

On a historical basis, figure I.4 shows cumulative U.S. source procurement as of 1984, in relation to cumulative U.S. contributions to the World Bank, IDB, and ADB. Data on cumulative procurement by AFDB was not available; however, we note that U.S. source procurement by AFDB totaled about \$6 million in 1984, which represented 9 percent of the \$68 million in U.S. fiscal year 1984 paid-in contributions.

Figure I.4: Graph Comparing Cumulative U.S. Source Procurement and U.S. Contributions to the World Bank, the Inter-American Development Bank, and the Asian Development Bank (Cumulative as of 1984)



^AContract awards

Figure I.4 shows that (1) cumulative U.S. source procurement by the World Bank as of 1984 was roughly equivalent to cumulative paid-in U.S. contributions and (2) cumulative U.S. source procurement by both IDB and ADB was less than cumulative U.S. contributions. IDB officials expressed concern over the comparison of cumulative U.S. procurement and contributions. They noted that contribution figures represent 100 percent of funds received as of December 1984, whereas only about 65 percent of approved loan amounts had actually been disbursed. Complete disbursement for approved loans, they said, could be expected to result in additional procurement from U.S. sources. In addition, the temporarily idle balances waiting to be disbursed are often invested in U.S.

capital markets. IDB officials also said that cumulative IDB disbursement figures represent only the direct costs of goods and services procured by their borrowers and do not reflect indirect cost activity (e.g., IDB loans that often result in local procurement of goods having U.S. origin but not reported to IDB). Treasury officials said that the same comments would be applicable to the other banks, to the extent disbursements lag loan commitments. Treasury officials also noted that indirect cost activity is hard to document for the other banks.

Other data provided by the banks also suggests that the U.S. share of bank procurement in relation to its contributions to the banks has not been as favorable in comparison to other developed country contributors. For example, cumulative disbursements to U.S. sources and U.S. contributions are roughly equivalent at the World Bank as of June 30, 1984, whereas World Bank procurement from Japan, West Germany, the United Kingdom, France, and Italy is greater than those countries' contributions. Treasury officials emphasize, however, that based on their calculations, the United States is the largest single source of procurement for the multilateral banks as a group.

UNDP Procurement Activities

The U.N. Development Program is a major multilateral instrument for grant technical assistance to the developing world. UNDP implements its program through its New York headquarters and several field offices and through over 25 specialized agencies of the U.N. system. The UNDP system does not, however, provide reports on actual disbursements of UNDP funds by supplier but rather by contract and equipment order information.

We developed detailed information on actual disbursements by the three largest users of UNDP funds in 1984—UNDP headquarters and DTCD, both located in New York, and FAO which is located in Rome. FAO is the largest U.N. organization providing agricultural technical assistance to developing countries, and DTCD is the main U.N. technical cooperation agency. Disbursements of UNDP funds by these three organizations represented about one-half of the UNDP total in 1984.

- UNDP headquarters expenditures totaled \$171 million, of which approximately \$40 million (23 percent) went to U.S. suppliers of goods and services.
- DTCD expenditures of UNDP funds totaled \$68 million, of which \$12 million (18 percent) went to U.S. suppliers of goods and services.

- FAO expenditures of UNDP funds totaled \$115 million, of which approximately \$8 million (7 percent) went to U.S. suppliers. The relatively low procurement share for U.S. suppliers was, according to FAO officials, due to (1) the strength of the U.S. dollar in 1984, which made many foreign goods and services more economical, and (2) FAO's extensive work in Africa where U.S. firms have difficulty competing with European concerns.

As another indicator, we obtained data reported by UNDP which shows that U.S. suppliers received approximately \$35 million of the contracts awarded and equipment ordered by UNDP and its implementing agencies in 1984. Table I.8 identifies (1) the countries that received the largest amount of contract awards and equipment orders in 1984 and (2) those countries' contributions to UNDP in 1984.

Table I.8: Sources for UNDP Contracts Awarded and Equipment Orders and Governmental Contributions to UNDP in 1984

Country	Awards and Orders Placed		Contributions	
	Amount (\$1,000)	Percent	Amount (\$1,000)	Percent
United States	\$35,084	22.1	\$155,000 ^a	23.8
United Kingdom	21,140	13.3	26,805	4.1
Japan	13,322	8.4	38,400	5.9
West Germany	11,361	7.2	41,324	6.3
France	9,420	5.9	27,479	4.2
Italy	9,111	5.7	26,257	4.0
Switzerland	7,527	4.7	16,969	2.6
Netherlands	3,509	2.2	46,478	7.1
Canada	3,306	2.1	49,953	7.7
Others	44,936	28.4	222,471	34.3
Total	\$158,716	100.0	\$651,136	100.0

^aPaid-in contributions as of December 1984—appropriations in fiscal year 1984 were \$160 million.

The contracts awarded and equipment orders placed with U.S. suppliers in 1984 represented about 22 percent of the \$160 million in U.S. appropriations for voluntary contributions to UNDP in fiscal year 1984.

UNICEF Procurement

UNICEF is a voluntary fund which encourages and assists in the development and welfare of poor children in developing countries. UNICEF's reported 1984 procurement expenditures in the United States included \$39.5 million for supplies, freight, and other services, and \$8.4 million for its Greeting Card operations, for a total of \$47.9 million.

Because of time constraints and limitations in its computer system, UNICEF was not able to provide a full listing of U.S. suppliers of goods, freight, and other services. For general comparison purposes, U.S. voluntary contributions to UNICEF were about \$53 million in fiscal year 1984.

Analysis of Contractors Involved in U.S. Military Sales to Foreign Governments

This appendix discusses the contractors, by city and state, involved in the Foreign Military Sales (FMS) financing program (loans) and the grant Military Assistance Program (MAP)—the two principal military assistance programs. In fiscal year 1984, the Congress approved about \$5.7 billion for FMS loans, and \$.7 billion for MAP grants, all of which was available for military sales purchases.

We concentrated on FMS loans and MAP grants because the other significant military assistance programs—the International Military Education and Training Program and Peacekeeping Operations—do not directly involve contractors. The military training program (\$52 million appropriated in fiscal year 1984) is military-service-provided training for foreign personnel in the United States. Peacekeeping Operations (\$44 million appropriated in fiscal year 1984) provides military personnel and grant funds for U.S. support of peacekeeping efforts, such as the Multinational Force in the Sinai and the United Nations Forces in Cyprus.

FMS loan and MAP grant funds (and a country's cash) can be used for purchasing defense articles and services through government-to-government sales (usually referred to as foreign military sales or FMS). Such sales are agreements between the U.S. government and a foreign government or international organization with the United States acting as an "agent." These sales can involve numerous contractors and take several years to complete. According to the Department of Defense (DOD), FMS agreements totaled \$14.6 billion in fiscal year 1984 and averaged \$12.9 billion a year during fiscal years 1977 through 1984. DOD estimated that about 55 percent of the 1984 sales were financed by FMS loan or MAP funds; the remainder of the 1984 sales were on cash terms (that is, the country did not use U.S. financing or grant assistance).

FMS loans (but not MAP funds) can also be used to finance commercial military sales. Unlike FMS arrangements, the foreign government makes the sales agreement directly with the contractor. These sales are usually less complex and do not involve the most sophisticated types of defense articles, such as fighter aircraft. The U.S. government must approve export licenses for the sales, which totaled \$1.6 billion in 1984, and, when FMS loans are used, oversee the loan's disbursement. At the time of our review, about \$1.2 billion in fiscal year 1984 FMS loans had been disbursed for commercial military sales.

Funding Sources for Foreign Military Sales Contractor Payments Cannot Be Identified

DOD's and the military services' finance and accounting systems do not specifically identify whether contractors are paid with military assistance funding or a country's own cash. When a country enters into an FMS agreement, the Defense Security Assistance Agency's (DSAA) Security Assistance and Accounting Center establishes a trust fund for the country (if one is not already in place). In the trust fund, FMS loan and MAP grant funds are commingled with a country's cash payments. The Center uses funds from the trust fund, without regard to their source, to reimburse the military services (or other DOD agencies) for payments made to contractors on behalf of the foreign country. This commingling of funds makes it impossible to trace the specific military assistance funds through the trust fund, to the military service, and to the ultimate contractor.

Also, FMS loans are not necessarily used in the same fiscal year that the funds are approved by the Congress, which further complicates the problem of identifying specific military assistance funding to a specific contractor payment. Essentially, the FMS loan amounts approved by the Congress each fiscal year represent credit limits and not actual military assistance funds expended until the country decides to draw upon its loans and the funds are disbursed. A foreign country has up to 2 years to begin drawing on an FMS loan from the end of the fiscal year for which the loan is approved, and then may apply for 1-year extensions to extend its life indefinitely. As of January 1986, about 56 percent of the fiscal year 1984 loan amounts approved by the Congress had been disbursed to the countries' trust funds or for commercial military sales.

Because there was no way to trace contractor payments to fiscal year 1984 military assistance funding, we expanded our examination to include fiscal year 1984 FMS contracts awarded or modified, regardless of the financing arrangement. We used data compiled by the Department of Defense, Directorate for Information Operations and Reports (DIOR). DIOR collects certain data on all FMS contracts awarded or modified, including deobligations,¹ over \$25,000. The information includes the contractor's name, work location, and product type. After deleting the reported deobligations, the DIOR data base represented "new" FMS obligations reported during fiscal year 1984.

The DIOR data base contained FMS obligations or contract awards which could have been financed with fiscal year 1984 FMS loan or MAP funds,

¹Deobligations as used in this report are downward adjustments over \$25,000 to the contracts reported by DIOR.

other fiscal years' FMS loan or MAP funds, or a country's cash. We are reasonably satisfied that contractors in DIOR's data base would not change significantly if just those contracts financed by military assistance funds could be identified. One notable exception involves the major construction companies doing business in Saudi Arabia on an all-cash basis. That exception aside, DSAA officials agreed that cash customers and customers using military assistance funds buy the same types of defense equipment from the same contractors.

FMS Loans Used to Finance Commercial Sales Can Be Traced to Contractors

Commercial military sales are transactions between a foreign government and the contractor. The U.S. government approves FMS-financed sales but is not directly involved in negotiations as it is for FMS agreements. When FMS loans are used to finance a commercial sale, DSAA authorizes loan disbursements based on the foreign country's request. DSAA (or, in the case of Israel, the Israeli Defense Mission) keeps records on sales financed through FMS loans by year. Thus, we were able to identify specific payments to contractors from fiscal year 1984 funds.

We obtained detailed data on commercial sales agreements totaling about \$1.2 billion. Egypt and Israel accounted for more than 94 percent of this total, \$330.0 million and \$771.8 million, respectively. These sales were awarded to contractors in the United States, with the exception of Israel which awarded contracts totaling \$154.9 million in Israel for its Lavi aircraft development program.²

Analysis of FMS Contract Awards Made During Fiscal Year 1984

We analyzed the fiscal year 1984 data for FMS contract awards by location and by company. The DIOR data totaled about \$7.5 billion and included information on over 6,000 FMS contract transactions. We identified 1,146 companies that were awarded FMS contracts that year in 46 states, the District of Columbia, Puerto Rico, and 45 foreign countries.

Awards by Location

In fiscal year 1984, about \$6,022.3 million in FMS contract awards went to companies in the United States. About 84.1 percent of these awards went to companies located in 10 states. Companies in Texas received the highest value of FMS awards, which totaled \$1,030.8 million or 17.1

²As authorized by P.L. 98-151, and subsequently implemented by the necessary administrative determination to permit offshore procurement with FMS funds, Israel was allowed to spend up to \$250 million in 1984 FMS loans in Israel on the Lavi development program.

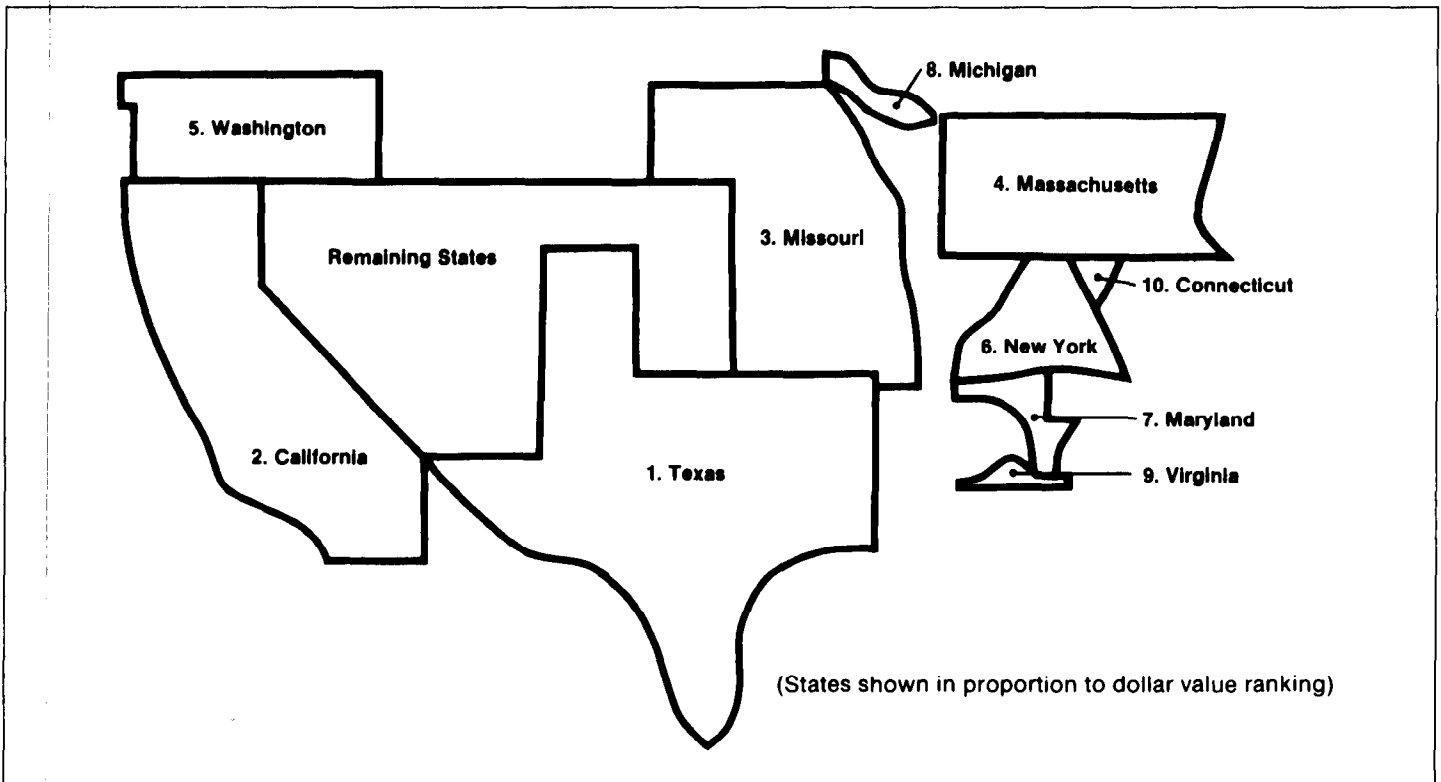
**Appendix II
Analysis of Contractors Involved in U.S.
Military Sales to Foreign Governments**

percent of awards made in the United States. The top three states in terms of FMS awards to companies (Texas, California, and Missouri) totaled \$2,864.9 million, or 47.6 percent.

Awards for work performed in locations outside the United States totaled \$1,436.3 million, or 19.3 percent. Most of this (\$1,228.0 million, 85.5 percent) was for work done in Saudi Arabia. All of this was paid for with Saudi government funds, that is, no U.S. military assistance funding. Most of the work done there was construction. Egypt was the second ranked country with \$61.1 million (4.3 percent of all countries), and Great Britain was third with \$37.4 million (2.6 percent). About 92.4 percent of the overseas FMS awards was performed in these three countries.

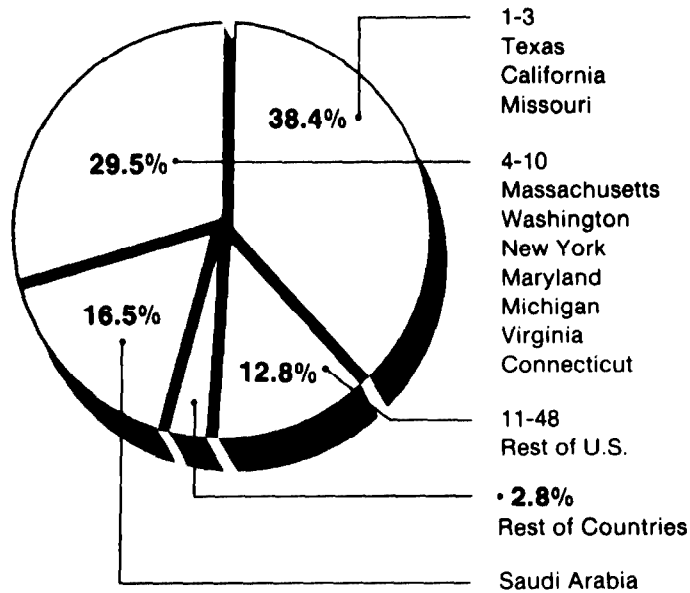
Figures II.1 and II.2 illustrate the relative standing of the top 10 states and compare them to the rest of the states and countries where FMS work was performed.

Figure II.1: Fiscal Year 1984 FMS Contract Awards to Companies in the United States (Top 10 Compared to Rest of the Country)



**Appendix II
Analysis of Contractors Involved in U.S.
Military Sales to Foreign Governments**

Figure II.2: Distribution by Location of Fiscal Year 1984 FMS Contract Awards



Awards by Contractor

Distribution among the 1,146 companies receiving FMS contract awards showed that a few companies dominate the FMS business. The top two companies, McDonnell Douglas Corporation and General Dynamics Corporation, totaled almost \$2.2 billion (or 29.0 percent) of all awards made. The top 10 received almost \$4.4 billion (or 59.0 percent) of total awards. However, much of this amount is subcontracted to thousands of other companies throughout the United States and overseas. The top two companies not only received over one-fourth of the awards given, but also received one-half of those awarded the top 10 companies. Figures II.3 and II.4 identify the top 10 companies and compare them to all other companies receiving FMS awards in fiscal year 1984.

**Appendix II
 Analysis of Contractors Involved in U.S.
 Military Sales to Foreign Governments**

Figure II.3: Top 10 Companies Receiving Fiscal Year 1984 FMS Awards Compared to All Other Companies

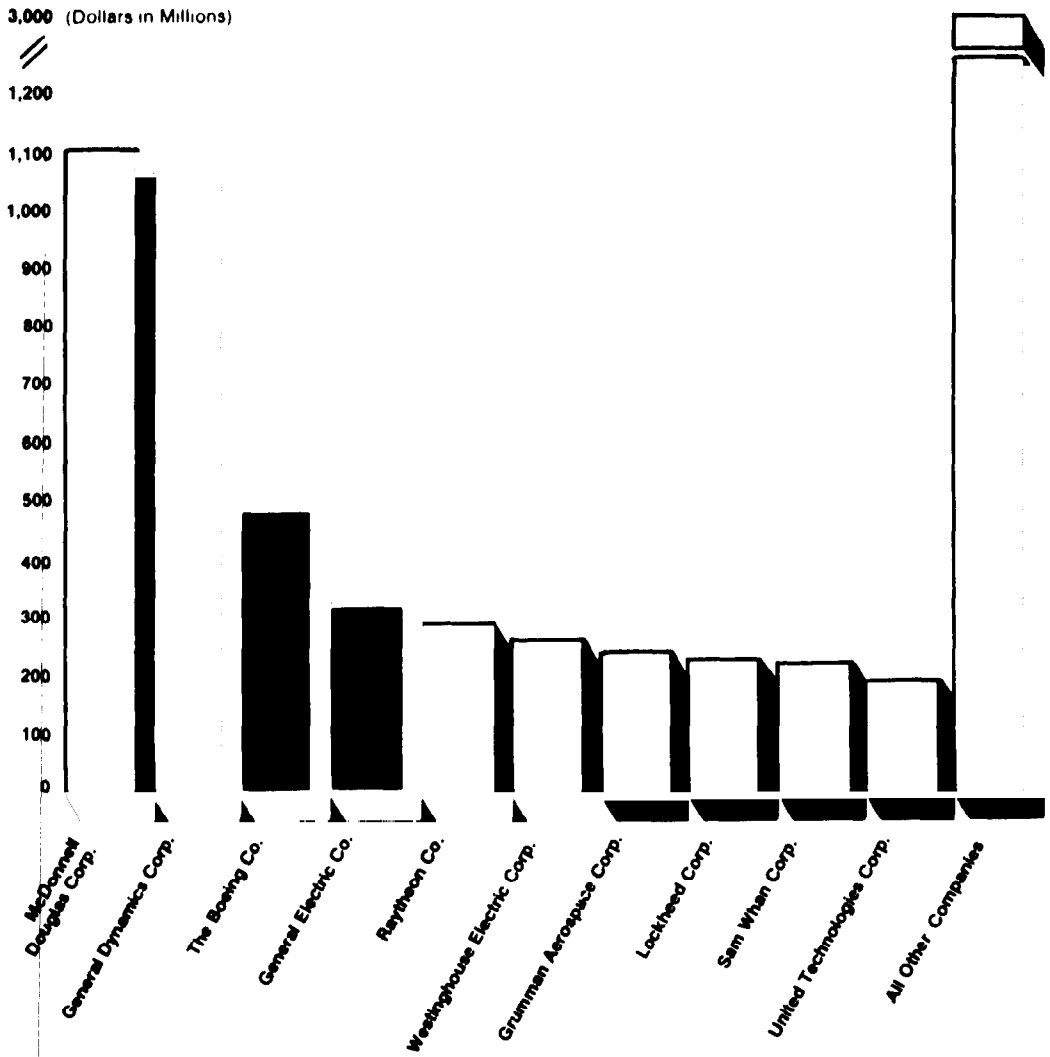
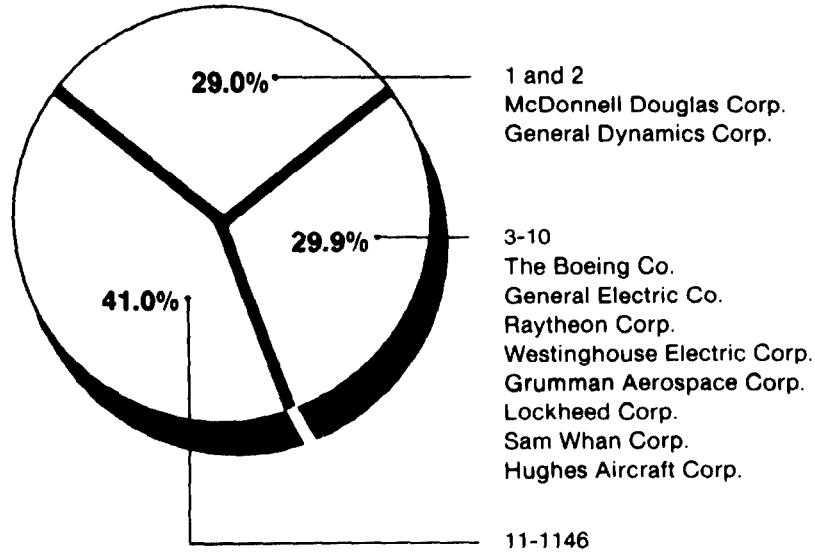


Figure II.4: Distribution by Contractor of
Fiscal Year 1984 FMS Contract Awards



**Many of the Same
Companies Received FMS
Contracts in 1984 and Prior
Years**

The major FMS contractors have not changed much in recent years—just their relative ranking. In 1982, we reported on the top 25 companies receiving FMS awards in fiscal year 1981.³ Overall, 15 of the top 25 companies receiving FMS awards in 1981 appear in the top 25 for 1984 and 6 of the top 10 are the same (see table II.1).

³U.S. Security and Military Assistance: Programs and Related Activities (GAO/ID-82-40, June 1, 1982).

**Appendix II
Analysis of Contractors Involved in U.S.
Military Sales to Foreign Governments**

**Table II.1: Top 25 Companies Ranked
by FMS Contract Value**

Company	Ranking by fiscal year	
	1984	1981
McDonnell Douglas Corporation	1	1
General Dynamics Corporation	2	4
The Boeing Company	3	a
General Electric Company Inc.	4	9
Raytheon Corporation	5	8
Westinghouse Electric Corporation	6	7
Grumman Aerospace Corporation	7	13
Lockheed Corporation	8	11
Sam Whan Corporation ^b	9	a
United Technologies Corporation	10	2
Northrop Corporation	11	10
Hughes Aircraft Company	12	6
FMC Corporation	13	14
Yow One Construction Company Ltd. ^b	14	a
Sperry Corporation	15	18
Rockwell International Corporation	16	a
Al Huseini A D A ^b	17	5
Vought Corporation	18	a
Kuk Dong Construction Company Ltd. ^b	19	a
The Singer Company	20	a
Teledyne Industries Inc.	21	17
Oscho Pae Somc ^b	22	a
C R S Group & Metcalf Eddy ^b	23	a
Harsco Corporation	24	a
Saudi Maintenance Company ^b	25	23

^aDoes not appear in top 25 companies.

^bThese contractors provide construction and other services only in Saudi Arabia under FMS (cash) agreements.

**Many FMS Contractors Also
Have Other DOD Contracts**

Of the top 100 companies receiving 1984 FMS contract awards, 48 were also among the top 100 companies receiving DOD-wide contracts. The top 10 FMS companies are compared to their DOD-wide ranking in table II.2. Only a small proportion of the value of the DOD-wide contracts awarded was for FMS. Of \$133.6 billion in DOD contracts awarded in fiscal year 1984, just \$7.5 billion (5.6 percent) was FMS related.

**Appendix II
Analysis of Contractors Involved in U.S.
Military Sales to Foreign Governments**

**Table II.2: Top 10 FMS Companies
Compared to DOD-Wide Ranking**

Dollars in millions

	FMS ^a		DOD ^b	
	Rank	Value	Rank	Value
McDonnell Douglas Corporation	1	\$1,104.1	1	\$7,684.2
General Dynamics Corporation	2	1,061.3	3	5,951.5
The Boeing Company	3	493.2	5	4,563.8
General Electric Company	4	318.8	6	4,514.5
Raytheon Corporation	5	274.0	9	3,093.0
Westinghouse Electric Corporation	6	246.1	13	1,943.5
Grumman Aerospace Corporation	7	239.5	11	2,419.0
Lockheed Corporation	8	238.1	4	4,967.5
Sam Whan Corporation	9	226.5	76	226.5
United Technologies Corporation	10	196.9	8	3,206.8

^aObligations only.

^bDOD figures are net obligations (obligations minus deobligations). Rankings include parent companies and subsidiaries.

**Funds Further Distributed
From Prime Contractors to
Subcontractors**

We asked 9 of the top 10 FMS companies (the ninth ranked company is foreign) for information on their subcontracts to help illustrate that payments to prime contractors are further distributed to other contractors and geographic areas. Overall, the information we received showed that at least part of the FMS payments to these prime contractors are further distributed to subcontractors throughout the United States, Puerto Rico, Canada, and eight other foreign countries. These subcontractors provided a wide range of components and subsystems—from aircraft engines to nuts and bolts—for major systems sold through FMS.

**Payments to
Contractors for
Commercial Sales
Using FMS Loans**

DSAA identified the commercial sales contracts with fiscal year 1984 FMS loans disbursed against them as of June 12, 1985. Except for commercial sales agreements entered into by Israel, we obtained from DSAA's files disbursements against the contract, the contractor name, billing address (not necessarily the work location), and the product or service provided. The Israeli Defense Mission in New York City maintains (rather than DSAA) detailed data on commercial sales to Israel because of the tremendous volume of transactions which DSAA estimated as equal to that of all other countries combined. Israeli Mission officials provided disbursements from fiscal year 1984 loans against commercial sales contracts as of September 21, 1985, and identified the contractor, state, and product or service provided for those contracts over \$25,000. Using the \$25,000 contract selection criteria for Israel reduced the volume of data

**Appendix II
Analysis of Contractors Involved in U.S.
Military Sales to Foreign Governments**

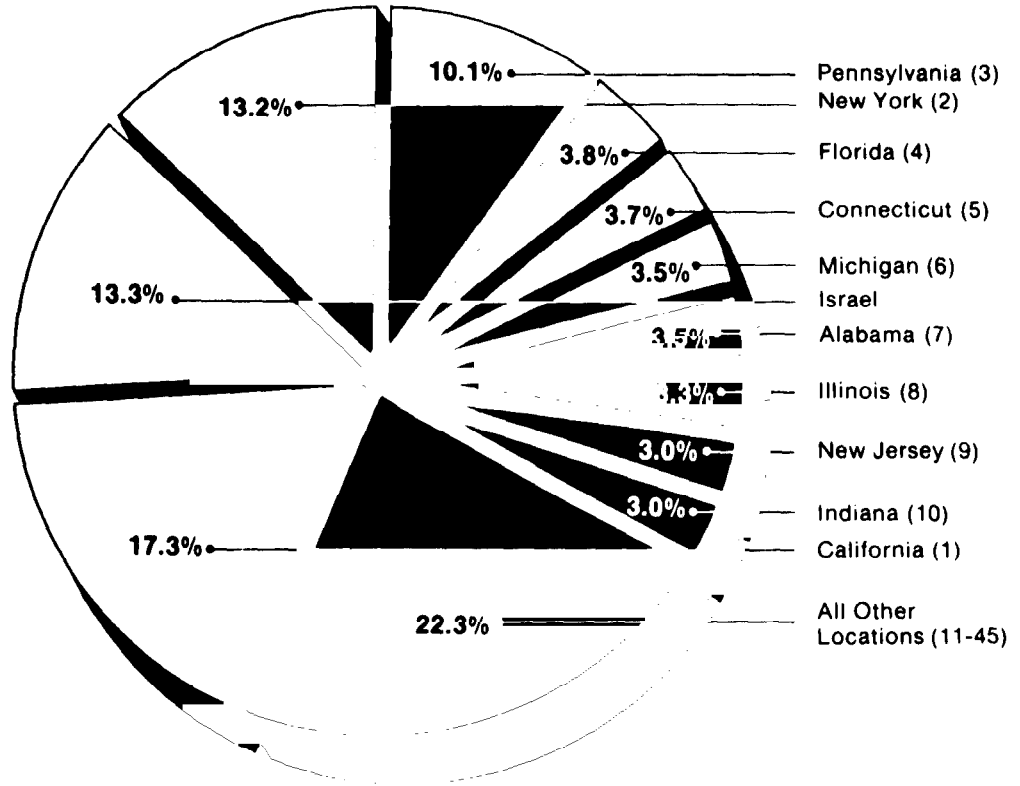
reviewed by 80 percent but only lost contractor detail for \$45 million of contracts awarded in the United States (or 6.8 percent).

These data show that 10 countries financed commercial military sales totaling about \$1.2 billion with 1984 FMS loans. Israel accounted for 66.2 percent of this amount (\$771.8 million) and Egypt nearly 28.3 percent (\$330.0 million). The remaining 5.5 percent involved eight other countries: Tunisia (\$19.8 million), El Salvador (\$16.4 million), South Korea (\$6.9 million), Jordan (\$6.8 million), Peru (\$6.3 million), Panama (\$5.0 million), Morocco (\$2.9 million), and Botswana (\$.2 million).

The prime U.S. contractors for these commercial military sales using FMS loans were in 43 states, the District of Columbia, and Puerto Rico. California had the largest concentration of the total value of commercial contracts in the United States (\$201.7 million). New York was second (\$154.0 million) followed by Pennsylvania (\$117.3 million). In addition, Israel contracted with Israeli Aircraft Industries in Israel for its Lavi aircraft. As illustrated in figure II.5, three states (California, New York, and Pennsylvania) and Israel were dominate, accounting for 53.8 percent of the FMS loan amounts we examined for commercial military sales.

**Appendix II
 Analysis of Contractors Involved in U.S.
 Military Sales to Foreign Governments**

**Figure II.5: Top 10 States Plus Israel for
 Commercial Military Sales**



Objectives, Scope, and Methodology

In a letter dated April 18, 1985, the Chairman, Subcommittee on Foreign Operations, House Committee on Appropriations, requested that we review the fiscal year 1984 foreign assistance programs and determine how those funds were expended and to whom. The requestor specifically asked us to cover programs relating to FMS financing, military assistance, economic support fund, development assistance, the Export-Import Bank, as well as contributions to multilateral institutions.

Because of the many activities covered, the differences in availability of expenditure data and in the ways records are maintained, and our access to multilateral institution data, we devised separate approaches to the various programs. The methodology used in developing this report is discussed in appendixes I and II. This section provides additional information to more fully describe how our work was accomplished.

We conducted our review from June 1985 through February 1986. For the most part, we did not independently test the reliability of the various information systems used to generate the data for this report, due to the volume of the data.

Economic and Related Programs

We performed our work at AID, Eximbank, the World Bank, and IDB in Washington, D.C.; UNDP headquarters, DTCD, and UNICEF in New York; FAO in Rome; AFDB in Abidjan, the Ivory Coast; and ADB in Manila, the Philippines.

Because many of the agencies do not routinely computerize their disbursement data by supplier, data gathering procedures involved both manual documentation of individual expenditures from payment vouchers and reprogramming of existing computer files. AID used contractor personnel to develop much of its data from individual payment vouchers, which required (1) approximately 5 months to complete during the period October 1985 to February 1986 and (2) review and documentation of expenditures totaling over \$2 billion, which were not available in existing computer systems, covering both AID/Washington and most overseas mission accounts.

Eximbank was able to provide detailed data on approximately \$800 million in disbursements made under letters of credit. However, information on direct disbursements was not computerized. We (1) manually documented approximately \$980 million in payments to individual U.S. suppliers as a part of the Eximbank direct disbursement process and

(2) computerized this material and combined it with the Eximbank computer data base on letters of credit disbursements. Also, Eximbank had not computerized \$96 million in small business loan disbursements. Because of time limitations and the relatively small amount involved, we did not include the \$96 million in our review.

In many cases we rounded off the disbursement figures to the nearest appropriate dollar. Supplier names and addresses provided by the agencies and shown in this report were usually those listed on the voucher or similar accounting record, i.e., who received the payment and where the payment was sent. Because of the volume of the data developed, we did not attempt to verify the spelling of payee names. The addresses were frequently those of the corporate headquarters or business offices and do not necessarily reflect where the goods were manufactured or the service performed. Vouchers also did not usually indicate the subcontractors, if any, that assisted the supplier in producing or providing the goods or service. Information we obtained from vouchers related to multinational corporations often did not reveal the origin of the goods or services which could have been provided through local subsidiaries or through independent vendors.

Military Programs

We conducted our review of foreign military sales at DSAA headquarters and its Security Assistance and Accounting Center, Denver, Colorado; DIOR, Washington, D.C.; and the Israeli Defense Mission, in New York City. We also contacted the Department of the Navy, Naval Air Command, Naval Sea Systems Command, Naval Space and War Command, Naval Supply Systems Command, and Chief of Naval Operations, Washington, D.C.; the Department of the Army Security Assistance Center, Alexandria, Virginia, and the New Cumberland Army Depot, New Cumberland, Pennsylvania; and the Department of the Air Force Systems Command, Wright-Patterson Air Force Base, Dayton, Ohio, and its Logistics Command, Andrews Air Force Base, Washington, D.C.

We concentrated on the FMS financing program and MAP grants because other significant programs—Peacekeeping Operations and the International Military Education and Training Program—do not directly involve contractors. For government-to-government sales, the best information available was compiled by DIOR and included FMS contracts awarded or modified (over \$25,000) during fiscal year 1984 whether they were funded with FMS loans, MAP grants, or directly by the recipient country. The DIOR data listed contractors, the work locations, product or service, and contract value. This data (\$7.5 billion for fiscal year 1984)

is less than the average value of FMS agreements entered into each year (\$12.9 billion) primarily because (1) not all sales are placed on contract, such as administration, training, and items provided by the services; (2) only contracts over \$25,000 are reported by DIOR; and (3) once DIOR stopped its 1984 data collection (December 1984) late arriving information was not added to the data base. For commercial military sales, we obtained data on sales financed with fiscal year 1984 FMS loans. This data included disbursements made to the prime contractor, address (but not necessarily the work location), and a brief description of the product or service.

Letter From Chairman, Subcommittee on Foreign Operations, House Appropriations Committee

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The Honorable Charles A. Rowsher
 Comptroller General of the
 United States
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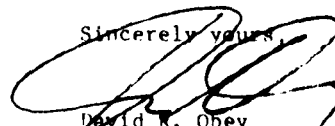
Dear Mr. Rowsher:

For many years, the Congress has spent substantial time looking into how our foreign assistance funds are programmed to be spent. Less attention has been given to determine how the billions of dollars in funds have actually been spent and who benefits from the program.

As part of our responsibility to oversee the use of foreign assistance, we wish to acquire a more complete understanding of precisely what these expenditures entail. Therefore, we are requesting that the General Accounting Office examine the fiscal year 1984 foreign assistance programs to determine how those funds were expended and to whom. This should include the programs for FMS financing, Military Assistance, Economic Support Fund, Development Assistance, and the Export-Import Bank. The expenditure of funds given as contributions to multilateral institutions should also be included if possible.

It is understood that this will be a major undertaking for your office and that we should not expect your results during this year's deliberations. We do wish, however, to have your report for consideration during our review of next year's budgetary proposals. You may contact Terry Peel of the Subcommittee staff on 225-2041 to discuss questions concerning this request.

Sincerely yours,



David R. Osey
 Chairman
 Subcommittee on
 Foreign Operations



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General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

Bulk Rate,
Postage & Fees Paid
GAO
Permit No. G100

7

