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Report to the Chairman, Committee on Agriculture, House of Representatives

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FOOD AID

Improving Economic and Market Development Impact in African Countries

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National Security and
International Affairs Division

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December 21, 1987

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we examine the economic and market development impact of Public Law 480 food aid to African countries. It highlights opportunities for management improvements in the program.

We are sending copies of this report to the Secretaries of State and Agriculture, the Director of the Office of Management and Budget, the Administrator of the Agency for International Development, appropriate congressional committees, and other interested parties upon request.

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

The United States provides food aid to African countries to combat hunger and malnutrition, encourage economic development, expand export markets for U.S. agricultural commodities, and promote U.S. foreign policy goals. This assistance is provided primarily under the Agricultural Trade Development and Assistance Act of 1954, commonly referred to as Public Law 480. For fiscal year 1987, food aid to African countries totaled $297.7 million, or 38 percent of U.S. economic aid to the region.

The Chairman, House Committee on Agriculture, requested GAO to review Public Law 480's contribution to African countries' economic development and to the expansion of U.S. commercial markets. GAO reviewed Public Law 480's Title I sales programs and Title II donations programs in Ghana, Kenya, Madagascar, and Senegal for fiscal years 1984-86.

Background

Title I authorizes, among other things, low-interest, long-term credits for friendly developing countries to purchase agricultural commodities which are sold in-country. The countries agree to use local currency generated by the commodities' sale and to take additional self-help measures to promote their economic development. Title II authorizes food donations to alleviate hunger and malnutrition and to promote economic and community development in friendly developing areas. These commodities are usually distributed free or for a small fee through (1) maternal and child health programs, (2) school feeding programs, and (3) food for work projects implemented by U.S. private voluntary organizations (PVO) and through other programs implemented by organizations such as cooperatives.

Several agencies participate in Public Law 480 through the Food Aid Subcommittee of the Development Coordination Committee, which coordinates the development policies and programs of various government agencies. The Agency for International Development (AID) designs and implements economic development provisions, and the Department of Agriculture oversees U.S. agricultural interests.

Results in Brief

Title I programs have provided balance-of-payments support and have achieved some economic development benefits. However, developmental benefits have been limited by U.S. agricultural and foreign policy interests, weak agreement provisions, and recipient governments' failure to fully implement some agreement provisions. Title II programs have provided needed humanitarian assistance, but their contribution to alleviate malnutrition and poverty was limited by inadequate PVO management capabilities and AID attention, funding problems, and other factors. Improvements in AID's planning and oversight of both programs could enhance their economic development benefits but will require AID missions to better focus on food aid management. Severe economic problems, including external debt and government policies that hamper economic growth, have precluded the African countries from progressing to the point of financing imports on commercial terms.

Principal Findings

Title I Program

Madagascar urgently needed the Title I program and cooperated with AID in implementing self-help measures and allocating local currency to high-priority development projects. Kenya perceived the program as serving U.S. interests and had not fully accepted and implemented agreed self-help measures and joint programming of local currency. Ghana's and Senegal's programs were relatively new, and implementation of provisions was mixed. Economic development benefits were dependent on (1) the balance achieved among competing U.S. program objectives, (2) the recipient governments' need for food aid and attitudes toward Title I economic development provisions, and (3) the consistency between U.S. and recipient government policy reform and development agendas.

Such factors will continue to influence the program's developmental benefits, but improved design and monitoring of self-help and local currency provisions by AID can enhance the probability of these programs contributing to economic development. Some self-help measures were not specific and measurable and did not require actions that would directly benefit the needy. Some provisions for depositing and using local currency were inadequate, and the AID Inspector General reported that this has jeopardized AID's ability to jointly negotiate the use of local currencies equivalent to "millions of dollars." AID missions have not fully complied with AID requirements for monitoring and reporting on recipient governments' implementation of self-help measures nor have they established adequate systems for verifying that African governments use local currencies as intended.

Title II Program

Enhancing the developmental impact of Title II programs administered by PVOs will require a sustained effort by AID and PVOs to improve program design, establish more effective systems of oversight, and resolve funding problems.

AID uses PVO operational plans to evaluate the feasibility and potential benefits of Title II programs. Plans for 22 programs in Africa for fiscal years 1987-89 required by new AID guidance represented a significant improvement over prior years' plans but did not fully adhere to requirements relating to specific and measurable goals, adequate financial information, and monitoring and evaluation.

Missions' oversight of PVO programs has traditionally focused on documenting commodity use and not on assessing PVOs' management of Title II programs and documenting program results and benefits. AID guidance does not establish specific mission requirements for assessing program management and results, and mission staff assigned to monitor programs often have other duties that they perceive as higher priority.

Inadequate funding of logistics and other costs adversely affected PVOs' Title II programs. To aid in funding PVO costs, Public Law 480 was amended in December 1985, explicitly authorizing nonprofit voluntary agencies to generate local currencies by selling, in recipient countries, Title II commodities equal to at least 5 percent of the aggregate value of commodities distributed under nonemergency programs each year. The law does not specify the use of funds so generated, but it does require nonprofit agencies to describe intended uses in their requests for food assistance agreements. Food Aid Subcommittee guidelines require that such local currency be used to support direct feeding programs. PVOs said this requirement discourages them from developing sales proposals for innovative developmental projects not including a direct feeding component. Cooperatives were not explicitly mentioned in the December 1985 Title II amendment and thus, according to AID, were not covered, even though they were in a similar provision amending section 416 of the Agricultural Act of 1949 relating to surplus commodities. Clarification of these matters may enhance Title II's developmental potential. Guidelines under development by AID and close oversight are needed to guide PVOs in arranging for sales and accounting for local currency proceeds.

Market Development Impact

U.S. officials believe food aid can help to develop markets for U.S. agricultural commodities, but many other factors influence developing countries' economic growth and progress in becoming commercial buyers. Although many African countries have received Public Law 480 assistance for 10 or more years, U.S. officials could not cite any examples in which food aid played a major role in enabling African countries to progress from food aid recipients to commercial customers. Economic problems limit most African countries' ability to make significant commercial purchases.

Matters for Congressional Consideration

If the Congress concludes that local currencies generated by sales of Title II commodities in recipient countries should be used to support community and rural development projects that do not include a direct feeding component, it may want to expressly direct such use while, at the same time, ensure that traditional feeding programs receive priority. Also, the Congress may want to amend sections 202, 206, and 207 of Title II, making the provisions expressly applicable to cooperatives. Bills have been introduced in the Congress which would essentially accomplish these purposes.

Recommendations

GAO recommended that the Administrator of AID take several actions to improve planning, oversight, and operation of the Titles I and II programs.

Agency Comments and GAO's Evaluation

AID said that food aid will play an important role in the President's End Hunger in Africa Initiative, and will encourage more rigorous and relevant self-help measures. It intends to launch food aid management plans in the missions on a pilot basis during fiscal year 1988. These plans will pinpoint who has responsibility for what aspects of food aid management, including deposit of local currency, follow-up on self-help measures, and assistance to voluntary agencies in developing sound multiyear program operational plans. GAO believes AID's planned actions are steps in the right direction.

The Department of Agriculture agreed with the description of the Public Law 480 programs and provided some general comments, including its support of efforts to increase the economic benefits of Titles I and II through improved planning and oversight.

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Abbreviations

AID	Agency for International Development
FAS	Foreign Agricultural Service
GAO	General Accounting Office
PVO	Private voluntary organization

Introduction

The United States provides eligible developing countries food assistance to help them meet their immediate food needs and to enhance their development. This assistance is provided primarily under the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1691 et. seq.), commonly referred to as Public Law 480. However, since 1982, limited amounts of surplus commodities under the control of the Department of Agriculture's Commodity Credit Corporation have been provided under section 416 of the Agricultural Act of 1949. For fiscal years 1984-86, Sub-Saharan Africa[1] was provided about 20 percent of the total food aid. Other assistance and the proportion of food aid is shown in table 1.1.

Table 1.1: Economic Assistance to Sub-Saharan Africa

Dollars in millions

Type	FY 1984	FY 1985	FY 1986	FY 1987
Development assistance	$340.4	$352.2	$378.9	$328.1
Economic support fund	333.1	417.8	245.2	162.8
Food aid:				
Section 416	11.8	70.0	22.3	27.1
Public Law 480	320.8	567.3	347.6	270.6
Total assistance	**$1,006.1**	**$1,407.3**	**$994.0**	**$788.6**
Food aid as percent of total	33	45	37	38

Commodities are provided to a recipient country on favorable credit terms under Public Law 480 Title I. The country sells the commodities in-country and agrees to use the local currency proceeds for certain purposes and to carry out self-help measures to enhance its economic development. Commodities are donated under Title II to needy areas for humanitarian and development purposes. Table 1.2 shows the breakdown of Public Law 480 assistance between its Title I sales program and Title II donations program.

Table 1.2: Public Law 480 Assistance to Sub-Saharan Africa

Dollars in millions

Type	FY 1984	FY 1985	FY 1986	FY 1987
Title I sales	$127.0	$182.4	$160.2	$138.4
Title II donations:				
Regular program	86.9	84.2	76.8	72.0
Emergency assistance	106.9	300.7	110.6	60.2
Total Public Law 480	**$320.8**	**$567.3**	**$347.6**	**$270.6**

[1]Sub-Saharan Africa includes 45 countries south of Morocco, Algeria, Libya, and Egypt but excludes Namibia and South Africa.

Food aid is well known for meeting the emergency and short-term food needs of the hungry. However, recognizing that poverty is a principal cause of hunger, the Agency for International Development (AID) is making efforts to more effectively use food aid to promote longer term development in recipient countries. Public Law 480 has other objectives, such as marketing U.S. agricultural commodities and promoting U.S. foreign policy, that influence the extent and manner in which the program can be used for developmental purposes. These objectives are represented by several agencies, including the Office of Management and Budget, and the Departments of Agriculture, State, and the Treasury that share responsibility with AID for planning and implementing food aid programs through the Food Aid Subcommittee of the Development Coordination Committee.[2]

Objectives, Scope, and Methodology

The House Committee on Agriculture requested that we review U.S. efforts to enhance the economic and market development impact of Public Law 480 programs in African countries. The Committee expressed concern that the food aid programs had not been implemented in a manner that would more effectively promote recipient countries' economic development and commercial food purchases. The review focused on African countries because of (1) their large share of Public Law 480 commodities as compared to other types of U.S. assistance, (2) the magnitude of their food imports, (3) the severity of their economic problems, and (4) congressional interest in African nations becoming able to better cope with recurrent famines. Ghana, Kenya, Madagascar, and Senegal were selected for review because their Title I and II programs were relatively large; although, the Title I programs in Ghana and Senegal were relatively new. Also, these four countries were not experiencing political instability at the time of our work.

We met with officials of AID, Office of Management and Budget, the Departments of State and Agriculture, and the Special Assistant to the President for Agricultural Trade and Food Assistance. We also met with representatives of the Adventist Development and Relief Agency, Catholic Relief Services, Cooperative for American Relief Everywhere,

[2]The Development Coordination Committee was established by Executive Order pursuant section 640B of the Foreign Assistance Act of 1961, as amended, to ensure coordination of development policies and programs within the U.S. government decision-making process. The Committee includes representatives of the Departments of State, the Treasury, Commerce, Agriculture, and Labor; the Office of Management and Budget; the Agency for International Development; and others the President shall designate.

National Cooperative Business Association, Save the Children Federation, and World Vision Relief Organization. During October and November 1986, we visited Ghana, Kenya, Madagascar, and Senegal and reviewed the AID missions' planning, implementing, monitoring, and evaluating of the Title I and II programs for fiscal years 1984-86. We did limited work on local currency issues in the four countries, and our observations on local currency use relied largely on the work of AID's Inspector General, who was reviewing local currency generated under Title I agreements in Africa. We reviewed, for all African countries, the operational plans submitted by private voluntary organizations (PVO) under the new guidance issued in October 1985.

We provided a draft of this report to the Departments of Agriculture and State, the Office of Management and Budget, and AID for review. Spokespersons for the Department of State and the Office of Management and Budget commented orally, and their comments have been considered in preparing the report. Written comments from the Department of Agriculture and AID are in the appendixes and also have been considered in preparing the report. Our work was conducted in accordance with generally accepted government auditing standards.

Other reports that assess U.S. international food assistance activities are listed at the end of this report.

Implementation of Title I Economic Development Provisions

Under the Title I program, the United States enters into agreements with developing countries for sales of U.S. farm products on credit terms that are more favorable than normal market terms. In addition to providing balance-of-payments relief through favorable credit terms, the program contributes to development primarily through recipient countries' implementation of self-help and local currency use provisions in the agreements. The self-help measures are actions the country agrees to undertake to expand food production, improve food storage and distribution facilities, and contribute directly to the development progress in poor rural areas. Local currency generated from the sale of Title I commodities within the recipient country may be used to implement the self-help measures or other agreed purposes.

AID has the primary responsibility for developing, implementing, and monitoring Title I agreement self-help and local currency use provisions. AID missions in the recipient countries develop the provisions and forward them to AID, Washington for approval. After approval, they are then incorporated in draft Title I agreements. The agreements are forwarded to the Food Aid Subcommittee for review and approval by the other participating agencies.

While Title I agreements may be either single or multiyear, multiyear agreements have been used rarely because Food Aid Subcommittee representatives could not agree on their use. The philosophy of multiyear commitments is based on the assumption that U.S. commodities could be used, particularly in African countries, to promote policy reforms. By assuring food aid over the first few years of greatest risk, the United States may be more successful in obtaining agreements to implement reforms. Some officials believe multiyear agreements would enhance U.S. leverage; however, other officials oppose them because they believe that the use of such agreements would reduce budget flexibility and the administration's ability to adjust programs in changing political and economic conditions.

Country Overview

The long-term impacts of Title I programs on countries' overall economies and agricultural sectors are difficult to measure, according to AID evaluations which have attempted to assess these impacts. Even in countries that have received Title I assistance for many years, AID has had difficulty in determining impacts on changes in consumer tastes, agricultural production, nutrition levels, and overall economic conditions. Despite these problems, AID officials believe that the program is more likely to contribute to development if recipient countries implement self-help measures and use local currencies for high priority development purposes.

The implementation of Title I economic development provisions in Ghana, Kenya, Madagascar, and Senegal for fiscal years 1984-86 varied by country. Implementation depended on the combined effect of such factors as the balance achieved between competing program objectives, host-government attitudes, and consistency between U.S. views and host-government policy reform and spending priorities. The following table shows program amounts for the four countries.

Table 2.1: Title I Amounts for Countries Reviewed

Dollars in millions

Country	FY 1984	FY 1985	FY 1986	FY 1987
Ghana	$ •	$5.9	$6.0	$14.0
Kenya	5.0	10.0	10.0	8.0
Madagascar	8.0	11.0	8.0	8.0
Senegal	•	•	9.5	10.0
Total	**$13.0**	**$26.9**	**$33.5**	**$40.0**
Sub-Saharan Africa	$127.0	$182.4	$160.2	$138.4

The government of Madagascar had implemented most self-help provisions and cooperated closely with the United States in programming local currency. Most self-help measures supported the government's public investment program aimed at rehabilitating badly deteriorated facilities, such as irrigation canals covering about 247,000 acres and 1,300 miles of roads and bridges connecting agricultural production and market points. Local currency generated by Title I commodity sales was deposited in a special account to support the self-help measures and other agreed upon development activities.

The government of Kenya had not fully implemented the self-help measures for any of the 3 years nor had it cooperated with the AID mission in programming local currency generated by Title I commodity sales. Some progress was made toward marketing Title I commodities through private sector channels and some action was taken on other measures, but for the most part, the actions taken did not fully comply with the agreements. For fiscal years 1984 and 1985, there was a shortfall of $5.6 million in local currency deposits, and AID and Kenya had not reached an agreement on the use of the currency deposited, which totaled $7.9 million. Mission officials were attempting to negotiate solutions to these problems.

Implementation of self-help and local currency provisions has been mixed in Ghana. Self-help measures in the 1985 agreement that require the government to establish grain storage and handling facilities at 44 sites and to provide funding for an AID-funded population control project and for agricultural credit have been implemented. According to a mission official, the pilot commercial operation for preserving perishable commodities had not been established because the government organization selected to plan and administer the project was incapable of performing the work. Also, Ghana had not provided bank statements showing receipts or disbursements of Title I commodity sales proceeds. The mission did not know whether correct amounts of local currency had been deposited to the special account. The mission suspected that necessary amounts had not been deposited because the government did not have sufficient funds to honor its commitments.

Mission officials believed that the program in Senegal had helped the government to relax its control of cereal marketing policies; however, it was too early to cite specific benefits.

Effect of Multiple U.S. Objectives

AID's ability to achieve economic development objectives through the Title I program can be limited when other U.S. objectives, such as promoting U.S. foreign policy or promoting of U.S. agricultural exports, take priority in shaping programs. Foreign policy interests have traditionally been an important consideration because Title I aid is a relatively flexible and quickly disbursing form of foreign assistance. It can be used to strengthen or reinforce relations with countries perceived to be politically or strategically important or to register disapproval of specific actions.

Kenya has maintained close relations with the United States for many years and has strategic importance. In Kenya, U.S. foreign policy interests have been a dominant factor in the Title I program and, according to AID and Department of Agriculture officials, have limited the program's ability to achieve economic development objectives. In Ghana, the fiscal year 1986 allocation was reduced from $8 million to $6 million after a series of government- sponsored anti-U.S. demonstrations. Senegal's Title I program was delayed from 1985 to 1986 when AID's proposal to provide it with vegetable oil in fiscal year 1985 failed to gain approval because Agriculture believed that it would adversely affect regular U.S. vegetable oil exports. The current rice program did not begin until fiscal year 1986 because of the time consumed in reaching agreement with the government of Senegal on an acceptable commodity.

Effect of Recipient Attitudes and Priorities

Recipient countries' perceptions of the Title I program and their political and economic climates affect achievement of developmental benefits. In Kenya, according to AID officials, negotiating self-help measures and programming local currency is difficult because the government believes that

- the program serves important U.S. foreign policy and agricultural export objectives,
- local currency proceeds are sovereign funds and use of these funds should not be influenced by the United States, and
- other donors are willing to provide food aid on a grant basis with fewer or no self-help and local currency use restrictions.

Also, using Public Law 480 as a vehicle for policy reform is very difficult because the government has controlled the marketing of such essential commodities as wheat for many years and a change would involve significant economic and political risks. A Kenyan official confirmed that grain marketing and pricing are extremely sensitive issues.

In Madagascar, the program benefited the country when the economic situation was extremely poor and rice production had decreased. Madagascar perceived the program to be well integrated with its overall strategy for achieving rice self-sufficiency and worked closely with AID in programming local currency in support of this objective.

AID's ability to negotiate economic development provisions and promote recipient-government implementation is likely to continue to be limited in countries where U.S. foreign policy or other objectives are stronger than economic development objectives, or where recipient countries perceive the program as largely benefiting U.S. interests and object to U.S. efforts to influence their policies and use of local currencies.

According to AID, the Food Aid Subcommittee has never canceled agreements because of poor performance on economic development provisions, although the signing of subsequent agreements is sometimes delayed until governments submit annual self-help measure implementation reports. For example, AID officials acknowledged that Kenya's poor record of compliance with self-help measures had not been a significant factor in determining subsequent year program levels.

Nevertheless, AID officials believe that even in those countries where policy reform is difficult to achieve, the program provides a useful opportunity for continued policy dialogue that could eventually influence recipient-government views. The officials also believe that local currencies—although technically owned by recipient governments—are a valuable tool for promoting sound priorities in the development budget. AID can enhance the probability of the program contributing to economic development by improving its design and monitoring self-help and local currency provisions. In some cases, weaknesses in these areas have resulted in missed opportunities for achieving developmental benefits and have increased the risk of funds being used for purposes other than those intended.

Self-Help Measures

A 1981 amendment to Title I requires that self-help measures, to the maximum extent feasible, be specific, measurable, and supplemental to actions that governments would take anyway, and these requirements are included in AID guidance. Nevertheless, in the fiscal year 1984-86 agreements with three countries, some self-help measures could have been more measurable and better focused on economic development objectives.

Ghana's fiscal year 1986 self-help measures were general; for example, one measure required the government to develop and implement a strategy to reorganize state-owned enterprises in the agriculture sector according to sound commercial practices. However, the minutes of negotiations did not provide sufficient elaboration on AID's expectations for this measure or identify target dates for completing actions.

Madagascar's fiscal year 1986 Title I agreement required the government to "provide support to services and institutions responsible for data necessary to continue the rehabilitation of the agricultural sector, with consideration given to the role of the private sector." No specific actions were described and no benchmarks were included for assessing progress.

Kenya's fiscal year 1984 agreement did not describe specific actions required by the government. Although the mission addressed this problem in subsequent years, two of the four measures in the fiscal year 1986 agreement were designed to correct administrative problems with

Title I program management rather than require Kenya to contribute directly to economic development goals benefiting the needy. Specifically, one measure required the government to appoint a special Title I program coordinator while another required it to establish a special account for Title I local currency. Administrative provisions of this type would be more appropriately addressed in other parts of the agreement rather than as self-help measures.

Local Currency Provisions

In Kenya, the Title I agreements for fiscal years 1984-86 did not identify specific local currency uses, although AID guidance requires that specific uses be stipulated. The mission and the government of Kenya had not agreed on the use of $13.5 million in local currency proceeds for fiscal years 1984 and 1985 or the use of $10 million for fiscal year 1986. Mission officials indicated that this problem stemmed from (1) the lack of a clear mission philosophy on whether local currency should be attributed to Kenya's development budget or programmed for specific development projects and (2) other factors, such as the government's resistance to U.S. efforts to influence the use of these funds. In September 1987 the mission reported that the government had agreed to program the proceeds from the 1984-85 agreements. It said that proceeds from fiscal years 1986-87 agreements would be programmed in Kenya's 1988-89 budget.

A 1987 AID Inspector General report on local currency accountability in Africa showed that Public Law 480 local currencies equivalent to "millions of dollars" were not available for specific development purposes between 1979 and 1986 due to inadequate agreement provisions with 5 of 10 African countries. For example:

- Some agreements did not specify when currency should be deposited in special accounts and considerable delays in making such deposits resulted in lost interest earnings, such as in Mauritania, where $300,000 was forfeited.
- Some agreements did not adequately specify the criteria for determining exchange rates to be used in determining the amount of deposits, such as in Somalia, where differing exchange rate assumptions resulted in disagreements over amounts to be deposited, totaling $7.1 million.
- Agreements with Sudan required that an amount equal to the U.S. government's cost be deposited rather than the total local currency proceeds generated by the commodities' sale if greater than the U.S. cost. Consequently, Sudan was required to deposit $71 million less than it received for the commodities.

The AID Inspector General recommended that AID

- develop specific criteria and guidelines for calculating the amount of local currency to be deposited,
- design standard agreement provisions for deposits and exchange rates,
- require that local currency be deposited into interest-bearing accounts,
- include essential financial accounting elements in Public Law 480 agreements, and
- direct mission controllers to review financial provisions in the Public Law 480 agreements.

In April 1987, AID, Washington officials directed missions in Africa to ensure that their controllers review and clear future Public Law 480 agreements and to determine whether recipient governments have adequate systems for controlling deposits and disbursements of local currency. As of July 1987, AID had not developed specific criteria for calculating the amounts to be deposited nor had it designed standard deposit and exchange rate provisions. However, AID officials stated that they are revising Title I negotiating instructions and draft agreements and that these matters are being considered.

Monitoring and Reporting Systems

The missions' effective monitoring and documenting of recipient-government progress in implementing Title I agreements can promote compliance with self-help and local currency provisions. Under AID guidelines, Title I agreements require recipient governments to submit annual reports on their implementation of self-help measures. Also, AID guidance requires missions to identify and document recipient-government progress in implementing self-help measures and to submit an interim analysis of recipients' performance by August 30 and an annual analysis by November 15. In some instances, actions taken on these requirements were inadequate. Recipient governments' annual reports were frequently submitted late and did not always give comprehensive descriptions of actions taken to comply with benchmarks, and missions did not fully adhere to monitoring or reporting requirements.

- In Kenya and Senegal, Title I agreements and memorandums of negotiations did not specify when routine consultations on progress in implementing self-help measures would be held. In these countries and in Madagascar, the missions did not hold formal, periodic progress reviews with host governments to determine the status of self-help measures as required by AID guidance; mission oversight consisted of informal contacts with various host-government officials. In Kenya, mission officials acknowledged that formal consultations should be held, given the government's poor record of compliance with self-help measures.

- In Ghana, Kenya, and Senegal, the missions did not submit interim analyses of self-help measure performance. Several mission officials stated that they were not aware of this requirement.
- In Ghana, the mission officials did not submit an assessment of the government's fiscal year 1985 self-help measure report because it believed that it was too early to assess progress. Although the Title I memorandums of negotiations included specific benchmarks, which should have been completed by the time the report was due, the government's report on self-help measure performance did not include a clear description of actions taken.
- In Kenya, the mission's annual assessments of compliance with self-help measures for fiscal years 1984 and 1985 were submitted in July of the following year. The mission had difficulty in obtaining reports from the government.

In some instances, the missions' files did not contain adequate information to determine what actions the mission had taken. For example, mission files in Ghana did not show whether benchmarks in the fiscal year 1985 and 1986 agreements had been reached. In August 1986, the mission instituted quarterly progress reviews to determine the status of self-help measures; however, no minutes of the first meeting were prepared to show the results. In addition, mission officials informed us that one of the self-help measures for fiscal year 1985 would not be implemented because the organization selected for the project lacked the necessary expertise. Although the action was required by the Title I agreement, the mission's files contained no documentation on efforts to gain compliance with the measure, agreements reached with the government, or reasons why the measure was no longer considered feasible.

While frequent, informal follow-up contacts can help to reinforce the importance of self-help measures, prudent management dictates that missions monitor self-help performance by formally documenting (1) progress in meeting self-help measures, (2) reasons for delays or noncompliance, and (3) agreements reached with recipient governments on revisions to benchmarks and target dates. Such information would also be useful in assisting missions to meet AID reporting requirements.

Like the self-help measures, missions have an obligation to ensure that local currency deposits and its uses comply with the Title I agreements and economic development objectives. AID guidance encourages missions to entrust recipient countries with as much of the work as possible in using and accounting for local currency. How much missions must monitor uses of local currency depends on the level of their involvement in programming funds, which can range from being ensured that funds contribute to general budgetary support to detailed mutual programming and monitoring of currency for specific development activities. Although special accounts are not required by Public Law 480 for Title I-generated local currency, such accounts must be closely monitored by missions if they are established. According to a Department of Agriculture study, the governments in roughly two-thirds of the recipient countries have agreed to deposit sales proceeds in special accounts.

In Ghana, the mission had not obtained adequate information on local currency deposits and its uses. Our recent reviews of assistance to Liberia and Indonesia identified weaknesses in monitoring Title I local currencies.[1] AID Inspector General reports have cited a need for improvements in recipient governments' and AID missions' accounting and internal control procedures to ensure that local currencies are properly deposited and used.

In response to AID Inspector General and our reports, in April 1987, the AID Bureau for Africa directed its missions to make independent reviews of recipient governments' accounting systems for controlling local currencies generated by U.S. assistance programs. These reviews are to include an analysis of AID procedures for monitoring governments' performance in managing local currencies.

Limited Resources Dedicated to Food Aid Management

In May 1986, an AID task force met to identify ways to more effectively manage food aid programs and achieve Public Law 480 objectives. The February 1987 task force report acknowledged the need for improved field management of food aid programs. According to the report, problems have occurred because missions have placed lower priority on food assistance programs than on direct development assistance programs. The missions also lack the staff necessary to effectively manage food aid programs; field missions and geographic bureaus must devote more staff time to food aid programs. The task force report also included a general strategy focused on better integration, training, and communications to enhance the recognition of food aid as an important development resource.

[1] Liberia: Need to Improve Accountability and Control Over U.S. Assistance (GAO/NSIAD-87-173, July 16, 1987); Foreign Aid: Accountability and Control Over U.S. Assistance to Indonesia (GAO/NSIAD-87-187, Aug. 19, 1987).

For fiscal year 1987, Public Law 480 and section 416 programs totaled about $1.6 billion, or 26 percent of total U.S. foreign assistance, in comparison with $1.5 billion in development assistance and $3.6 billion in economic support funds. Additionally, only 40, or about 1 percent, of AID's 4,416 staff are Food for Peace Officers. AID has 21 Food for Peace Officers overseas, including 11 in Africa. Missions without Food for Peace Officers use a variety of ad hoc approaches to managing food aid resources. Many hire personal service contractors or assign responsibilities to foreign nationals or junior foreign service officers who have limited training or experience in food aid management.

AID officials were not optimistic that a significant number of Food for Peace Officers would be forthcoming. They indicated that greater sharing of responsibilities among AID personnel may be necessary.

Monitoring food aid programs appeared to depend largely on individual judgment and time available. Mission officials with primary responsibility for managing Title I programs told us they had numerous other responsibilities. For example, prior to fiscal year 1986, the mission official responsible for Kenya's Title I program also had significant responsibility for designing a $40 million agriculture research project. In fiscal year 1986, the mission transferred responsibility for monitoring Title I to a Food for Peace Officer, who also manages the Title II program, helps manage the human resources division budget, and serves as Peace Corps liaison and disaster relief coordinator. The mission in Senegal had a full-time Food for Peace Officer. The mission in Ghana had hired a personal services contractor to plan and monitor its food aid programs. The mission in Madagascar consisted of one foreign service officer, who relied extensively on a foreign service national in monitoring the Title I program.

AID, Washington officials acknowledged that responsibility for managing Title I programs is often shared, to some degree, by several mission officials, even in missions with a Food for Peace Officer. These officials believe that AID should enhance program management by providing better training to those involved in food aid management rather than hiring additional Food for Peace Officers.

Although several mission personnel were usually involved in establishing food aid policy and designing and monitoring Title I agreements, responsibilities were not always clearly assigned, and existing mission resources were not always fully utilized. For example, in Kenya mission officials from two separate offices were involved in programming local currency, but their efforts were not always well-coordinated, and the mission lacked a clear philosophy on what the funds should be used for. The AID Inspector General also reported that some missions were reluctant to involve controllers in the accounting for local currency proceeds.

Conclusions

Public Law 480's multiple objectives and recipient-government attitudes limit the development benefits to be derived from the Title I program. However, AID can enhance the achievement of economic development objectives by designing agreements with self-help and local currency use provisions that adequately describe the nature and extent of performance expected of recipient governments and by devoting adequate attention and resources to program management.

Because some agreements were not clear and specific, it has been difficult for AID to obtain recipient-government compliance with self-help measures and to influence programming of Title I-generated local currencies, equivalent to millions of dollars. Also, given existing weaknesses in recipient-government compliance and reporting, missions' limited monitoring and documenting of recipients' progress with past agreements have not helped to create and foster the perception among them that full compliance with economic development provisions is required. Adequate mission oversight and substantive analysis of self-help measure performance and local currency use is critical to promoting economic development to the extent possible.

AID, Washington and the Food Aid Subcommittee have approved agreements that do not contain specific objectives and measurable goals and targets, and have not ensured missions' compliance with agency policies and reporting requirements. AID missions have not been required to develop procedures to supplement broad agency guidance for overseeing self-help measures and local currency uses. They have traditionally placed less emphasis on and devoted significantly fewer resources to managing food aid programs than other programs. Missions have devoted limited time to these programs because personnel (1) often have other duties in addition to managing food aid, (2) rotate frequently, and (3) have significant flexibility in interpreting guidance.

AID has taken some positive steps to resolve these problems, such as requiring missions in Africa to review recipient governments' accounting systems for controlling local currency and to evaluate AID procedures for monitoring recipient governments' use of funds. However, AID has not emphasized the need to better comply with existing guidance or identified specific ways for ensuring that missions place higher priority on food aid programs and devote more of their resources to food aid management. Devoting more resources to food aid management is difficult in view of budgetary pressures which may preclude AID from hiring additional personnel. However, we believe AID could increase the attention given to the Title I program without significantly increasing its administrative personnel costs. It could reallocate existing mission staff, fund monitoring activities with generated local currencies, and use short-term consultants to evaluate self-help measure implementation and local currency projects. Reallocation of resources would seem appropriate in view of the reduction in development assistance and economic support funds and the increasing importance of food aid as a foreign aid resource.

Recommendations

We recommend that the Administrator of AID improve oversight of the Title I programs by

- ensuring, during the Washington review of draft Title I agreements, that they (1) include specific and measurable self-help measures which directly contribute to economic development, (2) specify local currency uses, and (3) include timeframes for routine progress consultations with recipient governments;
- increasing missions' attention to the oversight of the program, such as reallocating existing mission staff, funding monitoring activities with Title I-generated local currencies, and using short-term consultants to evaluate self-help measure implementation and local currency projects; and
- ensuring that missions (1) verify and document recipient-government implementation of self-help and local currency provisions; (2) submit well documented, interim and annual analyses of recipient governments' implementation of self-help measures; and (3) define the specific duties of, and the relationships between offices and individuals responsible for program design and monitoring, including mission controllers.

Agency Comments and Our Evaluation

AID agreed that Title I agreements must include specific self-help measures. It indicated that while the Administrator could ensure appropriate review within the Agency and recommend to the Food Aid Subcommittee agreements containing specific provisions, the Subcommittee must also confirm the requirement, thus indicating that the Subcommittee is to some extent responsible for agreements not containing desirable specifics. Although the Food Aid Subcommittee approves Title I agreements, AID is responsible for developing the self-help and local currency use provisions and must take the initiative to develop agreements with specific and measurable self-help provisions and specified local currency uses.

Regarding the need to increase missions' attention to oversight of the Title I program, AID said it is preparing new guidelines that will require missions to develop an explicit food aid management plan, assigning all Public Law 480 responsibilities to an appropriate high-level official. To aid in this process, AID is working on elements of a model plan to be tested in three countries in fiscal year 1988. This assignment plan should also fulfill the need for missions to define specific responsibilities and relationships of individuals and offices for program design and monitoring. The plan, if properly implemented should contribute toward better oversight of the program. AID needs to ensure that proper resources are available to implement the plan.

Regarding the need to ensure that missions (1) verify and document recipient government implementation of self-help and local currency provisions and (2) submit well-documented interim and annual analyses of recipient governments' implementation of self-help measures, AID said the revised Handbook 9 (its manual of guidelines and procedures governing programs) will address these concerns. We agree that updating and consolidating these requirements into Handbook 9 is a step in the right direction, especially relating to the use of local currency. However, since missions were already required to some extent to do these things, additional measures may be required. Assignment of specific responsibilities at the missions may help to direct attention to these requirements.

Enhancing Developmental Benefits of Title II Programs

Traditionally, Title II of Public Law 480 has been widely viewed as a humanitarian program intended primarily to alleviate hunger and malnutrition. However, Public Law 480 states that Title II commodities can also be used to promote economic and community development in friendly developing areas.

Title II commodities donated to needy countries are distributed by recipient governments, the United Nations World Food Program, cooperatives, and private voluntary organizations (PVOs). Our review focused on programs carried out by PVOs. For fiscal years 1984-87, these programs comprised almost half of the nonemergency Title II assistance provided to Sub-Saharan Africa. Table 3.1 shows the program amounts for the four countries we visited.

Table 3.1: Title II PVO Nonemergency Program Amounts for Countries Reviewed

Dollars in millions

Country	FY 1984	FY 1985	FY 1986	FY 1987
Ghana	$5.2	$6.6	$6.9	$5.7
Kenya	3.2	3.1	2.7	1.4
Madagascar	1.2	1.6	1.6	1.4
Senegal	5.0	4.6	3.5	2.8
Total	**$14.6**	**15.9**	**$14.7**	**$11.3**
Sub-Saharan Africa	$43.8	$47.9	$42.9	$34.1

PVOs generally distribute Title II commodities through the following programs.

- Maternal and child health programs provide supplementary food to children under age 6 and to pregnant and lactating mothers to ensure an adequate diet and improve nutritional status.
- Food for work programs provide food to unemployed or underemployed individuals or communities as compensation for labor on projects which often involve the construction of schools, roads, bridges, water control and irrigation systems and improvements to land through reforestation, leveling, and cultivation.
- School feeding programs generally provide meals to the poorest primary school children to improve their health, learning capability, and nutritional status.

Many factors adversely affect PVOs' ability to plan and implement these programs and have made them reluctant to start new programs or to expand existing ones in Africa. Some of these factors are as follows:

- The most needy people live in remote, sparsely populated areas, and many of them are nomadic and difficult to reach.
- Poor transportation and storage facilities make it costly and difficult to move commodities from ports to distribution sites, especially in land-locked countries.
- Effective administration of food aid programs, particularly food for work, requires staff-intensive management; yet, most PVOs have small professional staffs and must rely extensively on local employees who often require significant training.
- Government and local institutions generally have limited ability to contribute funds, skilled personnel, and other resources to effectively implement food aid programs.
- Commodity accountability is difficult due to spoilage, theft, long distances, inadequate storage facilities, and shortage of trained personnel.
- Project design must reflect careful analysis of appropriate ration levels, impact on local markets, and growing seasons to safeguard against possible disincentives to local production. This requires extensive knowledge of local agricultural production and marketing methods.

Notwithstanding these constraints, AID evaluations and many food aid experts have concluded that these programs can achieve developmental benefits if they are properly planned and managed. Such programs can be used to improve the nutritional status of individuals; increase income levels; and develop roads, storage, and other facilities to foster agricultural production and marketing.

In recent years, AID and PVOs have begun to place more emphasis on using food aid to alleviate malnutrition and enhance the programs' developmental benefits. These efforts are especially important in Africa, where AID is searching for ways to use existing resources more effectively and to enhance preparedness for responding to future droughts. Increasing development benefits through sustained efforts by AID and PVOs to improve programs' design and implementation and establish effective systems of oversight are discussed in this chapter. Funding of PVO Title II activities is discussed in chapter 4.

PVO Operational Plans

To enhance the development impact of Title II programs, AID has revised its guidelines for PVOs to submit operational plans describing proposed Title II activities. This effort represents a step toward better program management. However, the operational plans still contain weaknesses.

Before 1985, AID required PVOs to submit annual operating plans, describing their programs for using and distributing Title II commodities; however, it did not specify the specific information to be included in the plans. According to AID officials, the plans lacked sufficient information to determine whether proposals reflected adequate planning and would be likely to achieve economic development benefits. In October 1985, AID issued new guidance requiring PVOs to develop multiyear operational plans for Title II activities that describe

- specific program goals and criteria for measuring progress;
- targeted beneficiaries and rationale for their selection;
- ration size, needed complementary inputs, and links with other development activities;
- plans for systematic monitoring and evaluation;
- plans for phasing out programs or shifting them to other activities; and
- financial and in-kind support anticipated from U.S. and recipient governments, local voluntary organizations and institutions, recipients, and other sources.

Operational Plans Still Contain Weaknesses

The operational plans submitted by PVOs in Africa for fiscal years 1987-89 represent a considerable improvement over plans for prior years, but do not fully adhere to the October 1985 guidelines. In March 1987, for the 19 operational plans it reviewed, AID requested the missions to have PVOs completely revise plans for 5 programs and to revise major segments of 12 others. Some problems that were encountered included (1) lack of specific and measurable program objectives, (2) incomplete or unclear budget and financial information, and (3) inadequate discussions of when and how programs would be terminated or phased over to local institutions.

We compared the 22 operational plans (including the 19 reviewed by AID) submitted by 6 PVOs in 19 African countries with the guidance and found that

- 10 did not cover a multiyear period,
- 14 did not include specific and measurable goals and criteria for measuring implementation progress,
- 15 lacked adequate discussions of monitoring and evaluation systems for ensuring accountability and assessing program benefits,
- 12 lacked adequate explanations of how programs would be phased over to local institutions, and
- 16 lacked adequate financial information.

The guidance requires PVOs to describe their support, host government, and other support for the programs. Although some programs have been in existence for decades, AID does not have comprehensive information on how they are funded. The plans we reviewed did not contain sufficient information to assess the programs' financial viability or the extent of PVOs' financial commitment. Only 6 plans provided a reasonable breakdown of the funds various sources routinely contribute to programs, and 12 contained no financial data on PVO contributions. Numerous inconsistencies and problems existed with the amounts reported. For example, our fieldwork in Senegal showed that PVO contributions identified in one operational plan were significantly overstated because the PVO's contribution for administrative costs was reported as $150,000 instead of $100,000 and its contribution to various development projects of $800,000 was listed as a contribution to the Title II program's operation. When questioned about the plan's financial information, a PVO official stated that the PVO contributes $100,000 in direct support to the Title II program.

Representatives of major PVOs we spoke with support AID's efforts to improve the quality of operational plans and view this as a necessary step toward improving the program's developmental impact. According to one PVO, Title II programs have traditionally operated on an open-ended basis for many years, without systematic assessments of their developmental benefits. All four missions endorsed fiscal year 1987-89 PVO operational plans and stated that they complied with AID guidance; however, PVO operational plans failed to comply with the guidance in many respects. AID, Washington used guidelines developed by a consultant to review the PVO plans; missions could use these or similar guidelines.

Mission Oversight of PVOs

AID's system for overseeing PVO programs was developed primarily to ensure proper use of commodities and to rely as much as possible on PVO management capabilities. Before fiscal year 1987, AID did not require PVOs to routinely report on accomplishments and progress in implementing Title II programs. However, a Food for Peace official stated that AID would require PVOs to submit annual reports on progress toward achieving stated program objectives, along with their requests for fiscal year 1988 commodities. AID's draft revision of Handbook 9, although not yet approved, states that PVOs must submit annual reports on progress in implementing operational plans.

Handbook 9 states that missions are responsible for monitoring the administration, implementation, and operation of programs and providing management and administrative support, depending on the needs of individual programs. It also states that missions must (1) review and approve PVO commodity requests and status reports, (2) assist PVOs in resolving claims and disposing of unfit commodities, and (3) require PVOs to periodically conduct internal reviews. AID's draft revision of Handbook 9 provides a description of various types of evaluations that may be carried out based on consultations between PVOs, missions, and AID, Washington.

Although AID's draft revision of Handbook 9 represents an improvement over the existing version, it does not include a sufficient description of monitoring activities the missions should carry out to assess PVOs' progress in implementing operational plans. For example, it does not include specific requirements for site visits, periodic meetings with PVOs, monitoring grant funds, and routine collection and analysis of project data, and routine reporting on PVOs' progress. Also, missions have broad flexibility in determining how often internal reviews and evaluations should be conducted.

In the four countries we visited, mission officials stated that their monitoring focuses largely on tracking the status of commodities, resolving problems with claims and losses, and meeting with PVOs as needed. Missions had not established effective systems for assessing the management and accomplishments of ongoing Title II programs, monitoring the use of grants funds provided to enhance programs' impact, and following up on recommendations included in AID Inspector General reports. As a result, they generally could not provide documentation of program benefits or evidence of how well programs were managed. However, most of them believe that the programs are achieving humanitarian and developmental benefits. We found that:

- Missions do not routinely receive, from PVOs, information such as numbers, locations, descriptions and results of projects and had to specifically request it for our review. For example, one PVO in Ghana evaluates food for work projects after they are completed, but the mission does not receive copies of these assessments.
- Mission officials made very few visits to projects. Officials in two missions indicated that visits are generally to accommodate visitors, such as congressional and GAO staffs.
- Mission officials had not determined whether PVOs had implemented AID Inspector General recommendations (1) for Kenya in 1983 to retarget its

maternal and child health program to mothers and children in needy areas and (2) for Madagascar in 1983 to develop criteria for admitting and terminating maternal and child health participants.

- Mission officials in Kenya could not provide information on the results of $823,000 in grants to a PVO in 1984 and 1985 to retarget its maternal and child health program and to open new centers in needy areas.
- Missions had not routinely conducted management reviews of Title II programs, and had not requested PVOs to conduct internal reviews.

AID Inspector General audits in 1986 of Title II programs in Kenya and Burkina Faso found that the missions had little knowledge of how PVO management and control systems were functioning. Therefore, they were not aware that (1) program revenues generated by collecting fees from recipients and selling commodity containers were used for purposes not specifically allowable without advance AID approval and (2) grant funds were used to cover unauthorized transportation and storage expenses. Also, a 1986 AID evaluation of centrally funded PVO grants concluded that mission attention to PVO use of funds had been ad hoc, at best. An AID official stated that missions are expected to oversee the use of these funds, but many lack a clear understanding of their role. Mission officials in Ghana said they review and make recommendations to AID on grant proposals, but do not monitor or evaluate PVO use of funds.

Time constraints were cited by mission officials as the primary reason for their limited monitoring and evaluation of programs. For example, Food for Peace Officers in Kenya and Senegal stated that they have responsibilities for other programs, including Title I, that preclude them from spending more time on Title II programs and making more field visits to projects. Monitoring of programs in Madagascar was more limited than in the other countries due to the mission's small size. AID had only one program officer in Madagascar, who was also responsible for planning AID's country strategy and overseeing other food aid and development assistance programs. The Regional Economic Development Services Office/East Africa has provided significant support to the Madagascar mission in managing the Title I program, but it has not been significantly involved in the Title II program.

Conclusions

Enhancing the developmental impact of PVO Title II programs will require AID to place higher priority on Title II program management. PVOs have primary responsibility for developing and implementing Title

II programs. However, as indicated by the extent that the PVO operational plans failed to adhere to AID guidance, PVOs need technical assistance to help them identify specific and measurable goals and workable approaches to evaluating program benefits. Missions should help PVOs to improve their plans by reviewing and commenting on proposed plans. Moreover, AID should ensure that financial information is consistent and useful in evaluating programs' financial viability and the need for U.S. financial support. AID should also identify programs that most warrant assistance, and develop a plan to provide technical assistance to selected programs each year. As an interim measure, AID should consider circulating to PVOs sample plans that fully adhere to the guidance.

Greater emphasis on assessing PVO progress in achieving developmental benefits should accompany AID's effort to improve program design. Better mission oversight of Title II programs will be needed to assess PVO performance in meeting operational plan objectives and to assist PVOs in refining their goals and implementation strategies. To aid in implementing missions' oversight of Title II programs, AID should strengthen its guidance by establishing specific mission requirements for assessing program management, documenting program results, and monitoring grant funds provided to PVOs to enhance the programs' impact. AID's ongoing revision of Handbook 9 provides an opportunity to do this.

Recommendations

We recommend that the Administrator of AID improve oversight of PVOs' Title II programs through:

- Assisting PVOs to improve their operational plans and comply with operational plan guidance by (1) providing them with technical assistance in preparing plans, (2) circulating to missions and PVOs copies of plans that comply with operational plan guidance, (3) providing PVOs with more specific criteria and a format for reporting financial information, and (4) requiring missions to be more actively involved in reviewing plans, providing them with a format for evaluating the plans' adherence to guidance and requiring mission analyses prior to AID, Washington's approval.
- Clarifying mission oversight responsibilities, including (1) requiring them to submit analyses of PVO annual reports on their progress toward operational plan objectives and to review management of PVO programs periodically, (2) specifying data that missions should routinely request from PVOs to document the scope and results of projects, and (3) defining mission responsibilities for monitoring PVO use of grant funds and achievement of benefits.

Agency Comments and Our Evaluation

AID stated it has initiated a dialogue with PVOs to better target and plan Title II activities, including targeted feeding and development initiatives. It also noted that development of the aid management plan in the mission will pinpoint responsibility for Title II activities, such as working with voluntary agencies to develop sound multiyear program operational plans. As part of its efforts to improve the Title II program, we believe that it is important that AID clarify missions' responsibilities for assessing PVOs' management of the program, documenting program results, and monitoring the use of grant funds.

Properly Administered Title II Commodity Sales Can Help Nonprofit Agencies Meet Costs and Enhance Development Impact

In December 1985, Public Law 480 was amended to explicitly permit nonprofit voluntary agencies to generate local currencies by selling Title II commodities equal to at least 5 percent of the aggregate value of commodities distributed under nonemergency programs each year. For fiscal year 1987, this would equal sales of $11.9 million. The law does not specify how these funds are to be used, but it does require nonprofit agencies to specify the intended use of funds in their requests for nonemergency food assistance agreements.

PVOs and cooperatives strongly supported expanded authority for Title II sales because they believed local currencies were needed to (1) help meet recurrent costs of operating traditional feeding programs, (2) purchase items necessary to enhance feeding programs' developmental impact, and (3) ensure a source of funds for community development and cooperative projects. Before 1985, the Food Aid Subcommittee had authorized sales of Title II commodities only by PVOs in limited situations such as emergencies, and by U.S. cooperatives, such as the National Cooperative Business Association, on a case-by-case basis for development activities.

Funding Constraints

PVOs historically have obtained support for Title II logistics and other operating expenses from private fund-raising efforts, host governments, local nonprofit institutions, program beneficiaries, and the U.S. government. Difficulties in obtaining reliable funding from these sources have adversely affected some Title II programs.

PVOs are responsible for ensuring that costs for implementing Title II programs are covered, but according to PVO officials, budgetary constraints and other priorities influence their contribution to these programs. Instead of paying the costs to implement Title II commodity programs, such as transportation costs, the PVOs prefer to fund community development projects in water management, forestry, and other areas.

Many maternal and child health programs require beneficiaries to pay a fee equivalent to a small percentage of the market value of commodities received. These fees generally are used for local center administrative costs and some transportation costs. In Kenya, a PVO has raised recipient fees twice within the past 5 years to meet program costs and has decided to reduce the size of its maternal child health program because of funding problems and its desire to concentrate development activities in a few high priority regions.

Because of their economic problems, African governments often are not able to contribute substantial amounts toward Title II program costs. In Kenya and Madagascar, the governments have agreed to waive custom fees but have not agreed to provide financial support. In Ghana and Senegal, the governments have agreed to provide logistics and administrative funds to one major PVO but have not fully met these obligations in recent years because of budgetary constraints. In Senegal, the maternal and child health program was disrupted in some regions for 7 months in 1986 because the government did not meet its commitment to pay for transportation. In Ghana, PVO officials estimate that attendance at maternal and child health centers decreased by 50 percent in the first 6 months of 1986 when food deliveries were not made because neither the government nor the PVO had funds to pay for commodity transportation.

Representatives of one PVO in Kenya stated that they would like to start a program but have been unable to obtain a multiyear commitment from the United States or another donor for funds for transportation, storage, and program supervision.

PVO officials in Ghana stated that the food for work projects sometimes lack funds to purchase building materials and equipment. An AID official in Senegal stated that additional funds could be used to expand health services provided in conjunction with maternal and child feeding programs. These views are consistent with AID evaluations that have concluded that adequate complementary resources can enhance programs' developmental impact.

Title II Sales by PVOs

Problems have occurred in providing PVOs and cooperatives with complementary resources through Title II sales under the December 1985 amendment because the legislation does not specify how the funds are to be used. Food Aid Subcommittee members and PVOs differ in their views regarding the use of generated currency. Subcommittee members believe that local currency generated through sales of Title II commodities should be used to support traditional feeding programs. PVOs agree that such use should have priority, but believe such currency should also be used for community and rural development projects that do not include direct feeding components.

Guidelines to implement Title II sales were not finalized until May 27, 1987, and included stricter limits on local currency use than PVOs had envisioned. Local currency is to be used first to fund in-country transport costs of Title II commodities for direct feeding programs and second, to purchase complementary items such as scales and nutrition education services for maternal and child health programs; and tools, equipment, and technical assistance for food for work projects. Quantities of Title II commodities approved for sale will be restricted to 5 to 30 percent of a PVO's Title II allocation.

In fiscal year 1987, the Subcommittee approved PVO proposals to sell $10.5 million in commodities or about 4.6 percent of their nonemergency allocation. AID submitted, for Subcommittee approval, PVO proposals to use local currency for commodity transportation costs before it submitted PVO proposals to use local currency for other purposes because Subcommittee members had difficulty agreeing on other uses and AID did not want to submit proposals and have them rejected. Several PVO officials said they were reluctant to spend time developing sales proposals until the Food Aid Subcommittee guidelines were finalized.

Views on Allowing PVOs to Sell a Portion of Commodities

Officials of some PVOs, as well as some AID officials, believe the Food Aid Subcommittee guidelines should be broadened to encourage nonprofit agencies to design innovative proposals that do not include direct feeding as a component, but have potential for achieving significant developmental benefits. PVOs agree that the highest priority should be given to the use of any funds generated for internal transportation of commodities and for the purchase of complementary items for traditional feeding programs. Traditional feeding programs that target recipients by age, gender, and economic deprivation criteria are believed to be an effective means of reaching the needy. Those programs are expensive to operate in Africa, however, because transporting food to remote distribution sites can be more costly than food itself. Also, to be effective, these programs require complementary resources such as equipment for the maternal and child health centers.

However, PVOs had hoped the 1985 amendment would result in flexible guidelines that would enable them to sell up to 100 percent of the allocated commodities in some cases, and to use the proceeds for development projects. The Food Aid Subcommittee adopted guidelines which, according to PVOs, discourage such proposals. The guidelines reflect some Food Aid Subcommittee members' concerns that a more liberal sales policy could have adverse effects that would outweigh potential advantages. Using Title II commodity sales to fund development projects that do not include food distribution (1) would provide no opportunity for congressional scrutiny, (2) could overshadow traditional Title II programs' important humanitarian role, and (3) would make it more difficult for the United States to assure other food exporting nations that U.S. food aid will not adversely affect the recipient countries' normal commercial imports.

Agency officials said additional concerns were that Title II sales would (1) compete with recipient-government Title I sales as a source of local currency, (2) tend to institutionalize the provision of food assistance and create an incentive to continue the flow of food aid after conditions change, which may no longer be appropriate, and (3) require host governments to be more involved in PVO development activities, which would further tax these governments' limited management capabilities. On the other hand, AID commented that the PVO argument is valid and that the argument of Title II sales adversely affecting commercial sales is not supported by any data currently available. AID further stated that the huge Title I sales are intended to have a positive impact on commercial sales, and yet, many claim that minuscule PVO Title II sales will have a negative impact on commercial sales.

A Food Aid Subcommittee member indicated that the guidelines accommodate members' varied interests and views and do not prohibit PVOs from submitting sales proposals that deviate from the criteria. However, the guidelines stipulate that local currencies must be used to support direct feeding programs and do not state that the Food Aid Subcommittee will consider proposals to use local currencies for projects that do not include direct feeding components.

PVO officials indicated that the guidelines discourage them from designing projects to use food aid in more innovative ways because of the implication that sales proposals that do not support traditional feeding programs will not be favorably considered. They further indicated that they are not willing to make significant investments to design projects without reasonable assurance that the Food Aid Subcommittee would consider them favorably. A PVO in Kenya invested $30,000 in 1987 to design a sales proposal in which proceeds would be used to establish credit facilities and service centers for rural farmers. AID and the PVO have agreed that the proposal needs to be more carefully refined before being submitted to the Food Aid Subcommittee. Also, a PVO in Senegal submitted a sales proposal to AID but withdrew it after the guidelines were finalized because it did not comply with the criteria. A PVO representative stated that they are implementing the project, which involves establishing cereal banks in rural villages, using food donated by the European Economic Community.

Field Manual for Implementing Sales Projects

Because most Title II commodities have traditionally been distributed to needy recipients free or for a small fee, PVOs have had little experience in (1) identifying buyers for commodities, (2) establishing an appropriate sales price, (3) analyzing potential adverse effects on commercial sales, and (4) designing written agreements to ensure that buyers deposit the correct amount of local currency. Accordingly, guidelines and oversight by AID are needed to ensure that Title II sales are properly managed. Officials from one PVO, which distributes 84 percent of Title II commodities for Africa in 15 countries, believe AID should closely oversee Title II sales projects because the PVO's local staff have had limited experience in managing such sales. They expressed concern because AID placed itself at considerable distance from Title II sales negotiations by advising missions not to sign sales agreements between PVOs and local purchasers.

In May 1987, AID hired a consultant to develop a field manual to provide guidance on implementing Title II sales and define mission and PVO roles. The draft manual, which was submitted to AID in July 1987 and is being revised, requires missions to review and approve PVO proposals for selling Title II commodities. An October 1987 draft requires missions to review and approve sales agreements between PVOs and local buyers as proposed in our draft report, but it still does not define missions' role in overseeing PVO deposits and uses of proceeds.

AID has not developed plans for evaluating PVOs initial implementation of Title II sales projects to determine what further guidance PVOs and missions may need. Although the program is new, early reviews of some of the $10.5 million in sales approved during fiscal year 1987 could alert AID to problems and help ensure that sales projects are being effectively implemented.

Title II Sales by Cooperatives

Prior to 1985 U.S. cooperatives sold Title II commodities and used the local currencies to strengthen developing countries' capabilities to produce, process, and market commodities such as dairy products. Cooperatives supported amendments to Title II to expressly authorize cooperative and PVO commodity sales because they thought this would make it easier for cooperatives to obtain Food Aid Subcommittee approval for projects.

In February 1986, however, the AID General Counsel determined that the Title II sales authority enacted in December 1985 applied to PVOs, but not to cooperatives; although, a similar and simultaneously enacted provision amending section 416 of the Agricultural Act of 1949 applies to both because it specifically mentions cooperatives. In fiscal year 1987, the Food Aid Subcommittee approved Title II sales of $8.1 million to generate funds to continue cooperative projects initiated in prior years. These sales were additional to PVO sales and did not apply toward the 5-percent minimum.

The discrepancy between the Title II and section 416 sales provisions regarding cooperatives and the Food Aid Subcommittee guidelines has raised questions among cooperatives about their future participation under the Title II program. The guidelines state that they apply to cooperatives, but also state that sales will be restricted to 5 to 30 percent of an organization's total request for commodities, with the remainder to be used for feeding programs. Since cooperatives do not operate feeding programs, the guidelines do not apply to them, and they will be required to justify their programs on a case-by-case basis without overall policy guidance. A representative of one cooperative stated that the guidelines appear to impose more restrictions on cooperatives than existed prior to 1985 and could discourage them from proposing new projects.

Conclusions

Title II sales authority should serve as a valuable source of financial assistance to PVOs and help to ensure that traditional feeding programs continue to operate in Africa's remote areas, where the most needy are predominantly located. Allowing PVOs to sell some commodities appears to be a reasonable way to generate funds for in-country local currency costs, provided that such sales do not substitute for PVOs' financial contributions to programs. AID could then use its limited development assistance funds, if feasible, to help PVOs purchase such equipment as vehicles and computers, which require foreign exchange for purchase outside the country.

However, considering that the program generates several million dollars in local currencies annually and is now in its second year of operation, a degree of urgency should be accorded by AID to (1) provide missions and PVOs with adequate technical guidance for evaluating the types of commodities most suitable for local sales, (2) negotiate sales at favorable prices through private and public channels, and (3) establish effective internal controls for ensuring that local currencies are promptly deposited and used only for approved purposes. AID also should clearly define and differentiate the roles of missions and PVOs in developing Title II sales proposals, administering sales, and monitoring and reporting on local currency deposits and uses. The field manual now being developed should help minimize problems in implementing sales agreements and assist PVOs in planning future projects. However, given AID missions' limited emphasis on monitoring Title II programs and their past problems in implementing Title I sales provisions, we believe AID should define in the guidelines the missions' responsibilities for monitoring sales and closely overseeing initial implementation of the program, including evaluation of selected projects.

The program provides a needed source of complementary funding for those projects with a direct feeding component. However, applicability of the Title II sales authority to local development projects without a direct feeding component and to those implemented by cooperatives needs to be clarified if the Congress intends them to be covered by the December 1985 amendment. The AID General Counsel determined that the sales authority does not apply to cooperatives because they were not specifically mentioned. Also, in the absence of a specific legislative directive on how Title II sales proceeds should be used, the Food Aid Subcommittee adopted guidelines requiring proceeds be used to support direct feeding programs. The Subcommittee designed the guidelines to accommodate the members' differing interests and views, and it appears unlikely to change them. As indicated by some PVOs, the guidelines will discourage them from developing proposals to use local currency proceeds for community development and other types of innovative projects that do not include direct feeding as a component.

Food Aid Subcommittee members have legitimate concerns about the need to protect traditional humanitarian feeding programs and preclude adverse impacts on commercial sales. However, the PVO community's desire to have flexible guidelines, which would permit local currencies to be used to experiment with innovative approaches to using food aid, could help to enhance Title II's contribution to economic development. If the Congress believes that Title II commodities should be used to support a broader range of development activities, safeguards could be developed to address Subcommittee concerns. For example, the Subcommittee could ensure that traditional feeding programs receive priority over other types of projects during the annual project approval process and that the number and implementation of sales projects, which do not include direct feeding, be closely monitored. Also, the Subcommittee could require that AID missions conduct analyses to determine whether these types of Title II sales projects would detract from normal commercial sales prior to approval.

Matters for Congressional Consideration

If the Congress concludes that local currencies should be used to some extent to support community and rural development projects which do not include a direct feeding component, given Food Aid Subcommittee members' differing views on criteria for using Title II local currencies, it may wish to direct that such use be made. In this case, the Congress may also want to include safeguards to ensure that traditional humanitarian feeding programs receive priority in the use of available resources. Also, the Congress may want to consider amending sections 202, 206, and 207 of Title II, making the provisions expressly applicable to cooperatives as well as to PVOs, such as was done under section 416 of the Agricultural Act of 1949 on the use of surplus commodities.[1]

Recommendations

We recommend that the Administrator of AID

- include in the field manual for Title II sales projects a requirement that missions review and approve PVO sales agreements with local buyers and periodically review local currency deposits and uses and
- assess a sample of Title II local currency projects in fiscal year 1988 to ensure that sales are being properly administered and local currencies are being used as intended.

Agency Comments and Our Evaluation

AID said it will request that a sample of Title II local currency projects in fiscal year 1988 be reviewed. AID noted that its recently developed guidelines include the requirement that missions review and approve PVO sales agreements with local buyers. In addition, AID stated that the guidelines require the missions to periodically review local currency deposits and uses. However, we found that the guidelines do not include this latter requirement and should be revised to do so.

[1]The House of Representatives has passed H.R. 3 and the Senate has passed S. 659 which essentially accomplish these purposes.

Economic Problems Hamper Africa's Progression From Aid Recipient to Commercial Food Purchaser

One of Public Law 480's objectives is to develop and expand export markets for U.S. agricultural commodities. U.S. officials believe food aid can contribute to commercial market development by promoting economic growth needed to enable recipients to purchase commodities on commercial terms. However, many other factors influence developing countries' progression from food aid recipients to commercial buyers. In Africa, economic problems have hampered the progression and limited future market development opportunities.

Food Aid Contribution to Market Development

Food aid's contribution to market development is a factor of its contribution to recipient countries' economic growth and to the Department of Agriculture's considerations in its market development efforts. According to U.S. officials, self-help measures included in Title I agreements can assist countries in implementing policy reforms needed to stimulate economic growth, and local currencies generated by commodity sales can be used to fund high-priority development projects. They believe the Title I program can

- promote trade-oriented policy reforms, such as developing the import and marketing capabilities of a recipient country's private sector;
- improve a country's facilities and capacity for handling, storing, and distributing commodities;
- enhance operational trade relationships by assisting participating countries in learning complex U.S. commodity export requirements and to develop positive relationships with U.S. commercial banks; and
- expose consumers in recipient countries to U.S. commodities and develop consumer preference, which is one factor in determining which commodities a country imports commercially when it is financially able.

The Department of Agriculture, as a member of the Food Aid Subcommittee, reviews AID's proposed Title I self-help measures for conflicts with policy and U.S. agricultural interests; and it considers food aid in preparing overall market development plans. Its in-country representatives get involved in the Title I program to varying degrees, as it appears feasible in each country.

In 1986, Agriculture had 122 Foreign Agricultural Service (FAS) field officers, but only 14 were assigned to the 8 FAS field offices in Africa which included 4 in North Africa (Morocco, Algeria, Tunisia, and Egypt), 3 in Sub-Saharan Africa (Ivory Coast, Nigeria, Kenya), and 1 in South Africa. Of the 3 Sub-Saharan countries, Kenya is the only current Title I recipient. Nigeria and South Africa, which represent significant

U.S. markets, have not received Title I. In countries where FAS officers are assigned, the degree of their involvement with Title I programs depends on the circumstances within each country. This includes the relative importance of the program, perceived potential for market growth, and the FAS officer's relationship with the AID mission. They may comment on the proposed self-help measures, recommend specific commodities to be provided, facilitate shipping and distribution, and help to coordinate food aid programs with other export programs.

FAS authorizes cooperators, which are private, nonprofit agricultural organizations, to use federal funds to develop, maintain, or expand markets for U.S. agricultural commodities through trade servicing, technical assistance, or consumer promotion. Three cooperators are active in Africa but focus their marketing efforts mostly on North African countries such as Egypt, Algeria, and Morocco. The Department of Agriculture said it has an interest in reviewing self-help measures that support its cooperator program with recipient countries.

How much the cooperator programs are coordinated with Public Law 480 programs depends on the specific countries and commodities involved and the perceived potential for market growth. According to the FAS attache in Kenya, the cooperator program enabled the United States to send experts to teach Kenyans how to mill and bake with U.S. hard red winter wheat, which is provided under Title I. The attache believes cooperator activities have enabled the Kenyans to produce better quality and more varied types of breads, which should help to increase the demand for wheat.

Factors That Influence Progression to Commercial Markets

According to a recent study that compared Public Law 480 recipients with U.S. agricultural commodity importers, former recipients "of U.S. food aid are now the largest commercial purchasers of American farm products."[1] In fiscal year 1986 (1) 7 of the top 10 importers of U.S. farm products received Public Law 480 commodities and 5 of the 10 were developing countries and (2) 34 of the top 50 importers of U.S. farm products received Public Law 480 commodities and 30 of the 50 were developing countries.

Research shows that economic growth is a key factor in enabling developing countries to increase their imports of agricultural commodities. As

[1]Lewis Gulick, How U.S. Food Aid Programs Help American Agricultural Exports, Dec. 1986.

per capita income rises in the early and middle stages of economic development, consumer demand for food usually grows more rapidly than domestic food production. Moreover, as countries continue to develop and consumers begin meeting their basic cereal calorie requirements, dietary patterns shift toward higher consumption of meat and poultry products. This change creates a large and growing market for feed grains such as corn and sorghum, which the United States produces in large quantities. A study by Agriculture's Economic Research Service found that this "demand has been translated into increased imports of agricultural products from all countries in general, and the United States in particular."

Some Agriculture officials believe Public Law 480 programs have contributed to former recipients' transition to commercial customers—particularly in countries like Korea and Taiwan. However, Agriculture economists state that they cannot demonstrate a cause and effect relationship between food aid and market growth because many other factors influence agricultural trade and economic growth.

In Africa, a total of 24 countries have received Title I food aid since its inception in 1954. Ten of the 15 countries that received Title I assistance in fiscal year 1986 have been recipients for 10 or more years. However, AID and Agriculture officials agreed that Title I programs have not had a major role to date in enabling any African country to progress from food aid recipient to commercial purchaser. The Ivory Coast received Title I assistance for 3 years prior to 1968, but AID officials said this was too little, and too long ago to suggest that Public Law 480 could have influenced the development of its commercial markets.

The United States has discontinued or suspended Title I programs in several African countries for various reasons. For example, Ethiopia no longer receives Title I for political reasons, and Tanzania's economy has deteriorated to the point where it can no longer afford even concessional food purchases. In some cases, however, we were not able to determine the reasons for termination since neither Agriculture nor AID had historical records and current program officials did not know or did not agree on the reasons. For example, some officials said the program for Mauritius was terminated because it was able to finance commercial imports, while others said it was terminated for political reasons or reductions in the Title I budget.

Economic problems and heavy debt burdens limit most African countries' immediate and long-term ability to make significant commercial purchases, although North Africa has a greater potential for market growth than Sub-Saharan Africa. The perception of limited potential for market growth is reflected in Agriculture's deployment of market development resources to this region.

We reviewed lists of potential significant growth markets developed by FAS, the Economic Research Service, and the Special Assistant to the President for Agricultural Trade and Food Assistance. Egypt was the only current Title I recipient appearing on all three lists. Morocco and Sudan were identified on one or two lists.

Information on the U.S.' share of commercial markets in Africa is difficult to obtain. Title I recipient countries are frequently unreliable reporters, and the major exporters use varying criteria in their reporting systems. We examined the data available from the Economic Research Service and the FAS Commodity and Marketing Programs Office, the U.N. Food and Agriculture Organization, and the International Wheat Council, and spoke to officials at the Departments of Agriculture and State and at AID. Most data bases either do not identify trading partners or do not separate food aid from commercial purchases and in some cases, the reported food aid was larger than the total reported imports for that time period. Because of these problems, we were unable to develop accurate and complete data showing trends in U.S. market shares of African countries' commercial imports.

Some current Title I recipients in Africa do make limited commercial purchases, but not necessarily from the United States. The source of commercial imports is influenced by price, credit terms and available financing, quality of product, reliability of the supplier, trade ties, culture and tradition, consumer preference, and the geographic proximity of the supplier.

Although Public Law 480 requires the President to take steps to ensure that the United States will receive a fair share of any increases in recipient countries' commercial imports, Agriculture's General Sales Manager recently testified that increases in sales are likely to be made on the basis of low price, the existence of credit, or both.[2]

Due to economic constraints, African countries are often willing to sacrifice consumer preference and quality to obtain a lower price, which can

[2]For highlights of U.S. efforts to increase U.S. agricultural exports see Agricultural Competitiveness: An Overview of the Challenge to Enhance Exports (GAO/RCED-87-100, May 7, 1987).

place the United States at a disadvantage. For example, Kenya has received over 200,000 metric tons of Title I wheat during 1980-83, and it has a general preference for U.S. hard red wheat. In 1984 and 1985, however, Kenya sacrificed consumer preference for lower prices by making most of its commercial purchases from Australia and the European Economic Community. Also, the United States has lost much of its market share in the Ivory Coast to Asian suppliers selling lower quality rice at lower prices. On the other hand, new export assistance programs have allowed the United States access to new African markets. In 1986, Senegal purchased 100,000 metric tons of wheat from the United States under the Export Enhancement Program wherein commodities are made more competitive through bonuses of government-owned commodities. Before this, almost all of Senegal's commercial wheat purchases were made from the European Economic Community.

Conclusions

While Public Law 480 programs can contribute to economic and commercial market development, many other factors influence a country's rate of economic growth and agricultural trade. Consequently, researchers have not been able to establish a cause and effect relationship between the provision of food assistance and the growth of commercial markets. Sub-Saharan Africa has serious economic problems which are likely to preclude significant expansion of commercial markets for many years. Presently, many factors aside from Public Law 480—notably, price and credit terms—influence the limited commercial purchases made by Title I African recipients.

Comments From the Department of Agriculture

United States Department of Agriculture
Foreign Agricultural Service
Washington, D.C. 20250

SEP 22 1987

TO: J. Dexter Peach
Assistant Comptroller General
General Accounting Office

FROM: Thomas O. Kay
Administrator

SUBJECT: Review of Draft Report 472095, "Food Aid: Improving Economic and Market Development Impact in African Countries"

We appreciate the opportunity to review and comment on your draft of the Food Aid report. In general, we believe the report accurately describes Public Law 480 (P.L. 480) programs. The recommendations concerning economic development are addressed to the Administrator of the Agency for International Development (AID). There were no specific recommendations directed to market development programs, however, we do have some general comments on the report.

Now on p. 22.

--We are supportive of efforts to increase the economic development benefits of Title I and Title II through improved planning and oversight. The report suggests a need for increased resources at the field level to bring about the proposed improvements and on page 49 it is proposed that increased administrative and monitoring costs could be funded with local currencies generated by Title I sales. It should be noted that these local sales proceeds are owned by the recipient countries and not by the United States Government and are programed as mutually agreed to by both governments. Also if these currencies are used for monitoring purposes they would not be available to support development projects.

Now chapter 5.

--The discussion in Chapter 6 does provide a general characterization of the role of Title I in promoting markets for U.S. agricultural products. We concur with the general conclusion that the transition from a developing economy to a commercial market depends upon many important factors in addition to Title I. In most African countries market development must be viewed as a long term objective as compared to the more immediate humanitarian, economic development, and foreign policy objectives.

Now on p. 11.

--The report states on page 18 that Title I would be more effective in promoting policy reform if multi-year agreements were signed. It should be noted that both Title III and the Food for Progress programs are specifically designed to help support policy reform and offer multi-year programing. We continue to believe that in view of annual budget uncertainties and changing agricultural conditions in recipient countries, widespread use of multi-year programing in P.L. 480 is not feasible.

See p. 13.

--On page 33 the report discusses AID's view that economic development is the primary objective of Title I programs. It should be emphasized that Title I has multiple program objectives and none is given priority status by the statute. The objectives of the individual country Title I programs

Mr. J. Dexter Peach 2

will vary, according to each country's circumstance and conditions. Economic development may be the primary program objective in some countries, but it may not be the primary one in all.

See pps. 40 and 41.

--The report accurately outlines the Department's role in reviewing self-help provisions on page 35. It states "Agriculture seeks to ensure that self-help and local currency provisions do not conflict with U.S. market development efforts." The Department also has an interest in reviewing self-help measures that support its cooperative programs with recipient countries.

See ch. 4.

--On pages 72-75 the report discusses more extensive use of monetization in the Title II program to support non-food related development projects. As noted in the report the United States Department of Agriculture has reservations concerning a major expansion of monetization as large sales could overshadow the humanitarian feeding programs and could adversely affect recipient countries' normal commercial imports.

Now on pps. 34 and 35.

Another drawback to monetization should be noted in addition to the three on pages 74-75. Widespread monetization to support development projects tends to institutionalize the provision of food assistance and creates an incentive to continue the flow of food aid even when conditions change and food aid may no longer be appropriate.

We would be happy to discuss this report with your staff. If there are specific questions, please contact Mary Chambliss (447-3573).

Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

OCT 15 1987

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on the GAO's draft report entitled, "Food Aid: Improving Economic and Market Development Impact in African Countries (GAO Code 472095)." Jay Morris, Acting A.I.D. Administrator, has asked me to respond on his behalf.

I appreciate the time and attention that the GAO staff spent on this complicated subject. I am pleased to note that the Africa Bureau is in the process of launching a broad economic reform program in response to the President's End Hunger in Africa Initiative. This program will promote and encourage meaningful policy and structural reforms. Food aid will play an important part in this initiative, thus encouraging more rigorous and relevant self-help measures.

On the Title II grant food aid side, we have initiated an intense dialogue with the voluntary agencies in an attempt to better target and plan Title II programs. Africa is the focus of our discussion. This dialogue includes targetted feeding programs as well as Title II development initiatives, the latter will include interagency consideration of monetization as proposed in legislation.

Regarding the field management of food aid, we have entered into discussions with the A.I.D. Controller regarding a look at overall food aid vulnerability. This review includes better use of agency personnel to manage and implement the food aid program; inculcating food aid into the Agency's training programs; designing a new management information system for food aid; and, launching country food aid management plans. This latter activity will pinpoint in missions exactly who has responsibility for what aspects of food aid management, be it the deposit of local currency, follow-up on self-help, or working with voluntary agencies to develop sound multi-year program operational plans.

Finally, attached to this letter are our specific comments on the report's findings and recommendations.

Sincerely,

Thomas A. Reese III for

Owen Cylke
Acting Assistant Administrator
Bureau for Food for Peace and
Voluntary Assistance

Attachment: a/s

Agency For International Development
Comments On The GAO Draft Report:
"Food Aid: Improving Economic and Market Development
Impact in African Countries"
(GAO Code 470295)

We appreciate the opportunity to comment on the GAO draft report concerning improving economic and market development impact in African countries with P.L. 480 food aid. A.I.D. Washington (A.I.D./W) and USAID Missions at Accra, Ghana; Nairobi, Kenya; Antananarivo, Madagascar, and Dakar Senegal have carefully considered the statements and analyses presented in the draft report and are supportive of efforts to increase the economic development benefits of P.L. 480, Titles I and II activities through improved planning and strengthening program oversight.

The report correctly concludes that P.L. 480's potential as a development resource in Africa has not been fully realized. However, we believe the report unfairly places the principal blame for the shortcomings in the program solely on A.I.D.'s doorstep. While A.I.D. has responsibility for implementation and management of the program, it is the DCC Food Aid Subcommittee that sets program priorities and thereby helps to determine the character of the U. S. food aid program. The report points out that the State Department, USDA and other members of the DCC Food Aid Subcommittee control the food aid decision-making process but then proceeds to exclude these agencies from any criticism or recommendations. We believe that the multiple purposes of the legislation and the various views/objectives of the DCC Members must be considered in formulating recommendations for improvement in the development impact of the United States Government's food aid program in the less developed countries.

See comment 1.

We agree with the report's finding that the Title I programs have provided balance-of-payments support and through implementation of economic provisions have achieved some economic development benefits for the four countries reviewed. We also agree that improvements in A.I.D.'s planning and oversight could considerably enhance economic development benefits in both Titles I and II programs. A.I.D. is constantly seeking ways to improve all areas of the program. This includes planning, implementation, administration, over-sight and monitoring of these programs so that goals and long-term program objectives are achieved.

In this respect, the report is timely in that it reinforces many of the directions the Agency has been moving in the past few years to improve A.I.D.'s planning and oversight of all

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P.L. 480 activities. We are in the process of developing new guidelines which will require A.I.D. Missions to develop an explicit food aid management plan. To assist the USAID Missions in accomplishing this, the Bureau for Food for Peace and Voluntary Assistance (FVA/FFP) is presently working on elements of a model food aid management plan. The management plan will require the USAID Mission to be explicitly responsible at an appropriately high level for taking a more active role in the management and oversight of P.L. 480 and other food aid activities. In the course of developing the food aid management plan, A.I.D. management will then be able to determine more judiciously the need for Food for Peace Officers and allocate them more rationally. A.I.D./W-FVA/FFP is recommending that the food aid management plan be carried out in FY 1988 in three countries as models before adopting the plan for worldwide use. Bangladesh is under consideration as a model country because of its large P.L. 480 programs; two other countries are yet to be selected.

Specific page by page commentary follows:

See comment 2.

--Page 3, line 7 change the word "must" to "can". On page 7, while it is clear that in some ways A.I.D. has devoted less emphasis and resources to managing food aid programs, we think that point is overstated. For example, on page 58-9, we challenge the view that "Mission officials generally visit projects only to accommodate visitors, such as Congressional and GAO staffs."

Now on p. 28.
See comment 3.

Now on p. 29.

--Page 61-8, in Madagascar, allocation of staff management resources to food aid is not confined to a program officer and REDSO/ESA staff. A Foreign Service National (FSN) provides important management support, as they do elsewhere. Their key role in managing food aid programs should not be overlooked. In fact, the Mission was an integral part of REDSO/EA until May, 1987 and received close support from one of three USDH or contract Food For Peace Officers based in Nairobi. AID/W and our USAID Mission at Antananarivo agree, however, that with the addition of Food for Progress responsibilities in late 1986, the USAID is in need of additional help and this has been requested in the FY 1989 Annual Budget Submission document. Our USAID in Madagascar points out that the REDSO/EA management review of the CRS P.L. 480, Title II program in Madagascar, referred to on page 60 of the report, was delayed because the local CRS Director changed unexpectedly in 1986, making it desirable to wait until the new Director was firmly in charge and was not delayed because of staffing constraints.

See comment 4.

See comment 5.

Now on p. 5.
See comment 6.

--Page 10-11, Despite the audit findings that P.L. 480 has not had any market development impact in Africa, there were no recommendations or follow-on conclusions. In addition, the report avoids drawing any conclusions about the PVO monetization issue. We believe that it would be helpful if the

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report contained conclusions and recommendations.

See pps. 11-13.

In Chapter 2, page 25, the Report contrasts the implementation of Title I provisions by the Government of Kenya unfavorably with the situation in Madagascar where "the government has cooperated closely with the United States." On page 27, the report states that in Madagascar the focus of self-help measures was on defining and implementing activities aimed at rehabilitating Madagascar's productive infrastructure (mainly roads and irrigation canals). On page 28, the report states that in Kenya, self-help measures covered more diffuse activities - including changes in well-entrenched government policies such as reducing government involvement in marketing of Title I commodities.

See comment 7.

The difficulty of comparing these two cases illustrates a broader problem in assessing progress with self-help measures under Title I programs. Changes in significant government policies often are much more difficult to achieve than implementation of more concrete development activities. In most instances, however, we want to encourage Missions to try to achieve the more difficult policy changes, because of the impact they can have.

See p. 13.
See comment 8.

Chapter 2, Page 29, the report states that Ghana has only recently been involved in Title I programs. We would like to point out that while there were no new agreements signed in FY 1983 and 1984, for the period 1962-82, Ghana received $103.0 million under P.L. 480, Title I. As a result of this program, over 50 percent of the local currencies generated by Title I sales agreement were used for activities related to agricultural production, vocational agricultural training, feeder road construction and agricultural credit. During this period the Title I program helped to stabilize Ghana's economy; while increasing production and facilitating marketing capabilities of agricultural products.

See pps. 24-27, 29, and 30.

--In chapter 4, the report calls for close oversight to guide PVOs, yet there is inadequate recognition of the need for PVOs themselves to strengthen their capacity to work more efficiently and effectively in partnership with A.I.D.

Now on p. 38.
See comment 6.

--Page 81. In the last paragraph the auditors avoid drawing any conclusions or making any recommendations here based on their review. We recommend that the report conclude the PVO argument is valid, that the argument of monetization will have an adverse impact on commercial sales is not supported by any data currently available. The report notes that the huge quantities of PL 480 Title I monetization is intended to have a

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positive impact on commercial sales, and yet, it notes many claim that miniscule PVO monetization will have a negative impact on commercial sales.

Now on p. 44.
See comment 6.

Page 92. We find it difficult to accept that the audit results in no recommendations regarding commercial market development. One half of the audit scope of work was to look at this question. Since the audit concludes that P.L. 480 has had no perceptible effect on market development, a recommendation would be welcome for improving and achieving our objectives in this area.

The following Agency comments are provided on the Report's recommendations:

We recommend that the Administrator of A.I.D. improve oversight of the Title I programs by:

a. Ensuring during the Washington review of draft Title I agreements that they include specific and measurable self-help measures which directly contribute to economic development, specify local currency uses, and include timeframes for routine progress consultations with recipient governments.

A.I.D. Response
In response to the above recommendation, we fully agree that Title I agreements must include specific self-help measures. However, Title I has multiple program objectives and none is given priority status by the statute. The objectives of the individual country Title I programs will vary, according to each country's circumstance and conditions. Economic development may be the primary program objective in some countries, but in other countries humanitarian, political situations or market development objectives can have an impact in developing self-help measures. Further, while the A.I.D. Administrator can take action to assure appropriate review within A.I.D. and recommend that agreements contain specific and measurable self-help measures, we believe that the DCC Members prior to authorizing signature of agreements must confirm this requirement.

See comment 9.

b. Increasing Mission level attention to oversight of the program, by such actions as reallocating existing Mission staff, funding monitoring activities with Title I generated local currencies, and evaluating self-help measure implementation and local currency projects.

A.I.D. Response
We believe that the new A.I.D./W food aid management plan, once in place, will serve to satisfy the above recommendation. The

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main objective of this plan is to assign an appropriate high level personnel in each USAID Mission all P.L. 480 responsibilities. Under his/her guidance P.L. 480 programs will be reviewed and approved by the USAID before submission to AID/W for final approval; full attention will be given to program coordination, oversight, monitoring and evaluation of self-help measures and local currency projects so that their compliance can be assured.

c. Ensuring that Missions (a) verify and document recipient government implementation of self-help and local currency provisions; (b) submit well-documented interim and annual analyses of recipient governments' implementation of self-help measures and (c) define the specific duties of, and relationships between, offices and individuals responsible for program design and monitoring, including Mission Controllers.

A.I.D. Response
The AID/W-FVA/FFP is currently updating A.I.D. Handbook 9 pertaining to the P.L. 480, program. Chapter 4 of the Handbook, which concerns Title I guidance for planning, approving, implementing, managing, oversight and reporting requirements has been updated to address the concerns of (a) and (b) of this recommendation. The new food aid management plan and staff once in place, will satisfy part (c) by defining and focusing specific duties and relationships between offices and individuals responsible for program design and monitoring, including Mission Controllers to be assigned certain responsibilities as appropriate.

d. (a) Include in the field manual for Title II sales projects a requirement that Missions review and approve PVO sales agreements with local buyers and periodically review local currency deposits and uses; and (b) assess a sample of Title II local currency projects in fiscal year 1988 to ensure that sales are being properly administered and local currencies are being used as intended.

A.I.D. Response
We agree with the above recommendation. With regard to part (a), the recently developed guidelines on this subject includes that the USAID Mission review and approve PVO sales agreements with local buyers and periodically review local currency deposits and uses. As to part (b), A.I.D./W can foresee no difficulty in implementing this part of the recommendation. We will request that a sample of the Title II local currency projects implemented in fiscal year 1988 be assessed to ensure that the sales are being properly implemented and local currencies are used as intended.

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In addition to the above A.I.D./W comments on the report and its recommendations, the following section is based on information submitted by the respective USAID Missions:

Kenya - The Kenya Mission agrees with the GAO that the Government of Kenya's (GOK) implementation of agreement provisions (self-help measures - SHMs) have not been as good as expected. However, it is a misstatement to say, "the Government of Kenya had not implemented most of the self-help measures," as noted on page 28 of the report. Specifically, in three years the GOK has moved from complete public sector control of the wheat market in Kenya to 100 percent privatization of Title I and commercial imports. This represents approximately 50 percent of the nation's wheat supply and a significant movement on the part of the Government. The GOK has collected over 95 percent of the production data that USAID has accessed for its regular food needs assessments (FNA) reports to A.I.D./W. While the GOK has a poor history of reporting grain supply and crop forecasts in a timely fashion to concerned parties (donors included), it is incorrect to imply that this work is not carried out. By African standards, the GOK has one of the most sophisticated internal disaster relief systems. Especially noteworthy was the GOK's well documented excellent response to the 1984/85 drought in terms of forecasting and moving food to the needy.

Now on p. 12.

See comment 10.

In addition, the Mission reports that the GOK has undertaken significant efforts to improve its monitoring and reporting function by naming a Title I Coordinator and has agreed to program monies generated by the FY 84 and FY 85 agreements. Further, the USAID points out that essentially, GAO's analysis of FY 1986 self-help measures regarding the naming of a Title I Coordinator and establishment of a special account is correct (page 37 of the report). However, the Self-help measures were included in the agreement at that time because the GOK's problems of coordination, monitoring and reporting persisted. In order to effect an appropriate and needed change in procedures and program emphasis as well as establish an important point of accountability with the GOK, the Mission found the SHM's essential to the FY 1986 program. They were not included in the FY 1987 program because the GOK successfully implemented them in FY 1986.

See comment 11.

Now on pps. 15 and 16.

USAID/Kenya supports the GAO findings and recommendations in the local currency provisions section, pages 37-40. The Inspector General recommendations listed on pages 38-39 of the draft report with the exception of the provision that local currency be deposited into interest bearing accounts have been

Now on pps. 16 and 17.

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addressed and enacted. The GOK currently stipulates that Title I revenues must go into non-interest bearing accounts with the paymaster general. The USAID and the GOK have agreed to program and use the proceeds within the following year after signing, thus preventing proceeds to sit in the account for any longer than a six month period. The USAID realizes that this is not the most desirable alternative and plans to discuss the issue further with GOK officials.

Now on pps. 17-19.
See comment 12.

Reporting on Self-Help Measures (SHMs) (pages 41-42): The Mission reports that while it was aware of the requirement for interim analysis reporting on self-help measures, it elected to not do so because of late signing date. However, contrary to the Report's findings, the Mission has submitted annual reports (assessments) consisting of the GOK's self-help report and the Mission's response.

The USAID agrees with the report's finding that better Mission management of food aid resources will enchance development benefits, and believes the recent assignment of responsibilities to both the Agriculture Division and the Food For Peace Office is logical and quite effective.

Now on p. 20.
See comment 13.

On page 46 of the draft report there is an inaccuracy. USAID's tracking and monitoring system was first conceptualized and put into place by the same A.I.D. official responsible for the agricultural research project prior to the arrival of the Food for Peace Officer (FFPO). The FFPO implements this system as well as coordinates and implements all other Titles I and II program components. Responsibilities for programming of local currency generations will continue to involve more than one Mission Division. However, steps have been taken to better coordinate the overall decision-making process.

P.L. 480, Title II Program: Since the Mission and PVOs received the new P.L. 480 Operational Plan guidelines in 1985 and A.I.D./W increased its oversight considerably, Mission has taken steps to: (1) guarantee better quality plans with full Mission analyses prior to final approval (Mission Food Aid Project Review Committee), (2) improve monitoring and reporting, (3) give technical assistance to PVOs in project design work, (4) suggest improvements in individual components of programs (even during implementation), and (5) assist in the better identification of specific and measurable program targets, objectives and long-range goals. It should be noted that in Kenya PVOs approach to design, implementation and evaluation of Title II programs differ. Depending on the PVO's relative experience, track record, motivation and interest, capabilities, and resources, the Mission stands ready to assist the PVO in implementing the Title II program as suggested in the GAO report. However, it should be acknowledged that some PVOs neither need nor request the same assistance levels from USAID.

The Mission fully supports the request for annual reporting updates and analyses of the PVO programs. This fits in well with Mission's on-going (since 1984) quarterly and semi-annual project implementation reviews which are sent regularly to A.I.D./W. Specifically, since 1983 at the time of the last Inspector General (IG) audit, USAID was not given access to certain financial records (recipient funds, etc.) kept by CRS. However, since the 1986 IG financial and compliance audit, CRS has been forthcoming with full budgets and disclosures of program resources. The USAID does not anticipate further problems in this area.

The Mission points out that it stands ready to assist PVO's in attainment of Title II sales agreements with the Government. In fact, the Mission has discussed in detail two proposed PVO monetization proposals with the National Cereals and Produce Board. Except for signing the actual sales agreement between the PVO and the Host Government, USAID intends to remain highly involved in guaranteeing a workable and beneficial proceeds package.

Madagascar

The USAID concurs in the general positive tenor of the findings. Other comments pertinent to Madagascar are included in our specific page by page commentary.

Senegal

P.L. 480, Title I: The Title I program in Senegal is supportive of A.I.D.'s economic and structural development objectives. With respect to self-help measures reporting requirements, Senegal has submitted a report and currently is giving increasing attention to improving and strengthening self-help measures, making them both realistic and quantifiable.

P.L. 480, Title II: Limited transport management capabilities and resources are clearly problems in Senegal. The USAID is working on procedures and a plan to make such financing and

Now on p. 33.

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management self-contained and autonomous. Technical assistance to Commissariat a la Securite Alimentaire (CSA) has already started through Price-Waterhouse in terms of stock and commodity flow management, using Title I local currency generation. This is an excellent example of program integration. CRS also is working directly with CSA on this matter (page 66).

For clarifying a number of findings in the draft, we request that these comments be appended to the final GAO report.

The following are GAO's comments on other points made by AID in its letter dated October 15, 1987.

GAO Comments

1. We agree that the multiple purposes of Public Law 480 and the views of the Food Aid Subcommittee members significantly affect the program's development potential and recognize this in the report. Recommendations are made to AID, however, because it is responsible for implementing the program.

2. The statement referred to has been deleted from the report.

3. Officials in three missions made few if any visits to PVO project sites and in the fourth mission, such visits were less than desired by the Food for Peace Officer. Officials in two missions indicated that visits were generally to accommodate visitors.

4. The one foreign service national in Madagascar was extensively involved in monitoring the Title I program, but was not significantly involved in monitoring the Title II program. Similarly, the Regional Economic Development Services Office/East Africa had not been significantly involved in monitoring the Title II program.

5. The statement referred to is no longer in the report.

6. Serious economic problems are likely to preclude significant expansion of commercial markets for many years in Sub-Saharan Africa. Also, price and credit terms influence the limited purchases that are made. On the issue of expanding sales of Title II commodities, our report presented the differing views regarding the issue and the need to clarify congressional intent on the use of currencies so generated. We have suggested that the Congress consider clarifying the legislation.

7. The report no longer contrasts the Madagascar and Kenya programs. Reduction of government involvement in marketing of Title I commodities was, however, the only self-help measure for each of fiscal years 1984-86 requiring change in significant government policy by Kenya. While Kenya made some progress on this measure it had not fully implemented other less policy oriented measures, such as establishing a system for providing information on grain supply and use and reporting quarterly to AID; and strengthening and reporting on implementation of self-help measures and depositing and using Title I-generated local currency for agreed purposes.

8. Our review covered the fiscal years 1984-86, and as AID notes, there were no Title I programs in Ghana in 1983 and 1984.

9. In addition to self-help measures, the agreements also need to be more specific on the use of generated local currencies and recipient governments' progress in implementing the Title I agreements. While the Food Aid Subcommittee approves the agreements before signature, development of the self-help measures and local currency uses is generally AID's responsibility. Unquestionably, desires of Subcommittee members to expedite the program limit the time available to AID to develop constructive agreements and obtain recipient countries' concurrence.

10. The report has been qualified to say that most of the self-help measures had not been fully implemented. While some action had been taken on most measures, in none of the 3 fiscal years reviewed had all measures been essentially implemented at the time of our visit.

11. According to the Title I agreements, these actions should have been completed by the time we visited Kenya in November 1986 but they were not.

12. The report has been modified to show that the reports were submitted after the due date. The mission had difficulty in obtaining the reports from the government of Kenya.

13. The statement referred to is no longer in the report.

Recent Reports Related to Public Law 480

Compendium of GAO Reports Pertaining to Public Law 480 from July 1973 through August 1985 (GAO/NSIAD-85-96, Sept. 13, 1985).

Famine in Africa: Improving Emergency Food Relief Programs (GAO/NSIAD-86-25, Mar. 4, 1986).

Famine in Africa: Improving U.S. Response Time for Emergency Relief (GAO/NSIAD-86-56, Apr. 3, 1986).

Foreign Aid: Agency for International Development's 1978 and 1986 Programs for Jamaica, Kenya, and Senegal (GAO/NSIAD-86-103BR, Apr. 15, 1986).

The Philippines: Accountability and Control of U.S. Economic Assistance (GAO/NSIAD-86-108BR, May 2, 1986).

The Philippines: Distribution and Oversight of U.S. Development and Food Assistance (GAO/NSIAD-87-24, Nov. 7, 1986).

Liberia: Problems in Accountability and Control Over U.S. Assistance (GAO/NSIAD-87-86BR, Feb. 13, 1987).

Foreign Aid: Information on U.S. International Food Assistance Programs (GAO/NSIAD-87-94BR, Mar. 27, 1987).

Liberia: Need to Improve Accountability and Control Over U.S. Assistance (GAO/NSIAD-87-173, July 16, 1987).

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