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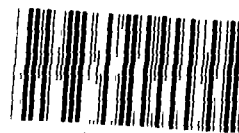
United States General Accounting Office 132551

Briefing Report to the Honorable
Jesse Helms, United States Senate

March 1987

FOREIGN AID

Information on U. S. International Food Assistance Programs



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-226348

March 27, 1987

The Honorable Jesse Helms
United States Senate

Dear Senator Helms:

In response to your letter dated September 8, 1986, we have examined the Public Law 480 Title I program with regard to issues you raised concerning self-help measures, use of local currency, multiyear commodity commitments, shipments on a fiscal year basis, commodity availability for multiyear commitments, and private sector participation in preparing guidelines for the local currency private sector lending program.

Public Law 480 is the basic authority under which U.S. agricultural commodities are provided to developing countries. Commodities provided on favorable credit terms under Title I are sold in-country and the recipient countries agree to use the local currency proceeds for certain purposes and to carry out self-help measures to enhance their economic development. A new section 108 local currency lending program authorizes some payments to the United States in local currency for private sector development in the recipient country. Title II authorizes donations of food to needy people for humanitarian purposes, and Title III provides for multiyear Food for Development programs.

Also, surplus agricultural commodities under the control of the Department of Agriculture's Commodity Credit Corporation are provided to developing countries under section 416 of the Agricultural Act of 1949. Surplus commodities, as well as commodities available under Public Law 480, may be committed on a multiyear basis under the Food for Progress program to aid developing countries make difficult economic policy reforms in the agricultural sector.

Further details on these programs and the objectives, scope, and methodology of our review are in appendix I.

The results of our review are summarized below and discussed more fully in appendix II.

- We found that negotiations of self-help measures did not significantly delay or jeopardize Title I concessional sales in the three situations we examined. Title I sales to the Dominican Republic in fiscal year 1986 were delayed because of a change of government and negotiations over the quality of grain delivered; commercial sales to Morocco in 1985 were affected by changes in the availability of Agriculture's concessional credit programs; and Title II emergency assistance was provided to Haiti for reasons not related to self-help measures.
- We found no evidence to show that self-help measures in Title I agreements have been used to expand local government involvement in agricultural markets. The fiscal year 1985 Title I program for the Philippines called for a grain price stabilization program; however, before this agreement, the implementing Philippine agency was already responsible for procuring and distributing all grains. In Morocco, the Agency for International Development (AID) mission and Moroccan officials discussed the possibility of using local currency generated under the 1986 Title I agreement to purchase domestic cereals for Morocco's price support program; however, such use was never made part of the Title I self-help measures.
- During negotiations on self-help measures for fiscal year 1986, the AID mission in Pakistan proposed a system of variable import-license fees for edible oil that would reduce the effect of world market price fluctuations and increase domestic production. However, the mission dropped the proposal when Pakistan imposed an across-the-board duty on all edible oil imports.
- AID missions, recipient governments, some private sector representatives, and most representatives of the responsible U.S. agencies view multiyear food aid commitments as a helpful tool for implementing policy reforms. The Department of Agriculture, however, has expressed special concern regarding the use of multiyear commitments under the authority of section 416 of the Agricultural Act of 1949.

- Local currencies generated by Title I commodity sales were not used directly to expand public employment in Pakistan and the Philippines or to create either an interministerial coordination unit in Morocco or food security administrative unit in Zimbabwe.
- AID's Inspector General found problems in local currency controls for the Title I program similar to the problems our office reported for the Title III program. For example, the Inspector General identified instances where countries had either failed to deposit local currency into a special account as agreed or had not sold the commodities to generate local currency.
- The private sector organizations that we interviewed were generally pleased with their role in preparing guidelines for the local currency lending program; however, these organizations and AID missions were concerned that the program's success may be hampered by certain provisions in the legislation and guidelines when the program is actually implemented.

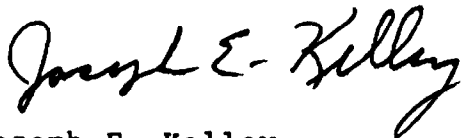
Other reports useful in assessing Public Law 480 activities are listed in appendix III.

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As agreed with your office, we did not obtain official agency comments on this report. However, we discussed the issues in it with officials of the responsible agencies and incorporated their comments where appropriate. We conducted our work in accordance with generally accepted government auditing standards.

We are sending copies of this briefing report to the responsible agencies, appropriate congressional committees, and other interested parties upon request. If you should have any questions concerning this report, please call me on 275-5790.

Sincerely yours,



Joseph E. Kelley
Associate Director

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ABBREVIATIONS

AID	Agency for International Development
CCC	Commodity Credit Corporation
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PVO	Private voluntary organization
USDA	U.S. Department of Agriculture

BACKGROUND ON U.S.INTERNATIONAL FOOD ASSISTANCE PROGRAMSPUBLIC LAW 480

International food assistance, under the Agricultural Trade Development and Assistance Act of 1954 (commonly referred to as Public Law 480), has been an important element in U.S. agricultural and foreign policy since 1954. During the past 32 years, the United States provided almost \$38 billion in food assistance to over 100 countries. The original authorizing legislation's goals were to expand international trade between the United States and friendly nations, dispose of surplus U.S. agricultural commodities, promote the economic stability of U.S. agriculture, encourage recipient countries' economic development, and promote U.S. foreign policy objectives. The emphasis among these goals has changed over time to reflect the changing needs of domestic agriculture and foreign policy objectives. The passage of the Food Security Act of 1985 (Public Law 99-198, December 23, 1985) reflected these changes by modifying some programs and initiating others.

Public Law 480 consists of three basic programs.

1. Under Title I, the United States enters into annual agreements with developing countries for sales of U.S. farm products on concessional credit terms. These credits are repayable in dollars, or foreign currencies convertible to dollars at interest rates of not less than 2 percent during a grace period of up to 10 years and not less than 3 percent during repayment periods ranging from 20 years to 40 years. The Food Security Act of 1985 added section 108, a new private sector development initiative, to Title I of Public Law 480. In essence, this provision permits the developing country to repay a portion of its Title I debt with local currency, which must be convertible to U.S. dollars beginning not later than 10 years after the last commodity delivery. Before its conversion, the United States relends the local currency to financial institutions for private sector lending programs.
2. Under Title II, the United States donates food to needy countries principally for such humanitarian purposes as emergency/disaster relief and programs to help needy people, particularly malnourished children and adults on work projects.

3. Under Title III, Food for Development, food aid is directly linked with recipients' efforts to improve agricultural productivity and assist people who rely on agriculture. As an incentive to undertake additional development activities, principal and interest on the obligations to the United States are forgiven if the commodities, or local currency generated from their sale, are used for agreed purposes. Title III authorizes food-aid commitments for up to 5 years, subject to annual reviews of the recipient country's progress toward achieving agreed development goals, availability of commodities, and approval of appropriations. It is, therefore, a longer term approach to development than other Public Law 480 programs. Title III programs are subject to terms and conditions of Title I.

Self-help measures

There was an important turning point in the history of the Public Law 480 program in 1966. By this time, the huge U.S. agricultural surpluses of the 1950s and early 1960s had diminished. The problems of world hunger and economic advancement in the developing countries were subjects of increased discussion and debate inside as well as outside the government. In light of these and other trends, the Food for Peace Act of 1966 amended Public Law 480, strengthening its humanitarian and development objectives. Before entering into Title I agreements with developing countries, the President is required to consider the extent to which these countries are undertaking self-help measures. The term self-help measures refers to actions that a country must undertake to promote its development and to prevent the decline of local agriculture. In particular, self-help measures aim at improving agricultural production, providing rural health care, and improving literacy.

The self-help measures contained in each Title I sales agreement must be described in as specific and measurable terms as possible. U.S. officials are required to monitor the implementation of self-help measures and to ensure that they are fully carried out. Annual reports and discussions between recipient government and U.S. officials concerning economic development and implementation of self-help measures are also required.

Use of sales proceeds

Local currency generated within the developing country from the sale of commodities provided under Title I sales agreements are available for use by the recipient government for purposes mutually agreed upon with the United States. The uses of such currency range from general budgetary support to specific development

projects. The legislation specifies that in negotiating Title I agreements, emphasis shall be placed on using such proceeds to directly improve the lives of the poorest of the recipient country's people and their capacity to participate in the development of their country, including programs of agricultural development, rural development, nutrition, and population planning.

SECTION 416 OF THE AGRICULTURAL ACT OF 1949

Surplus agricultural commodities under the control of the Department of Agriculture's Commodity Credit Corporation (CCC) are provided to developing countries under section 416 of the Agricultural Act of 1949 through procedures much the same as those under Title II of Public Law 480. The Food Security Act of 1985 established a Food for Progress program for using surplus commodities under section 416 and commodities available under Public Law 480. Under this program, the United States is authorized to make multiyear commitments of commodities on a grant or credit basis to aid developing countries in making difficult economic policy reforms in the agricultural sector.

FOOD AID SUBCOMMITTEE

Public Law 480 and section 416 programs for developing countries are unique in that responsibility for planning and implementing them are shared through the Food Aid Subcommittee of the Development Coordination Committee. Members include the Office of Management and Budget (OMB); the Departments of Agriculture, State, and the Treasury; and the Agency for International Development (AID). AID is responsible for implementing the individual programs in the developing countries through the AID missions in those countries.

OBJECTIVES, SCOPE, AND METHODOLOGY

Senator Helms, then Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, requested that we review the U.S. international food aid programs, focusing on eight issues relating to self-help measures and local currency use under Title I agreements; multiyear commitments, shipping requirements, and commodity availability under Food for Progress; and private sector participation in preparing guidelines for the new section 108 local currency lending program. The specific issues and the information we obtained are in appendix II.

To respond to this request, we reviewed Title I agreements and examined records at AID and Agriculture headquarters for the countries in question for the last 3 or 4 years. For the country-specific issues, we focused on specific years or situations that we

felt may have given rise to the request. We interviewed officials from AID, OMB, and the Overseas Private Investment Corporation; Departments of Agriculture, State, and the Treasury; private sector organizations such as private voluntary organizations (PVOs), cooperatives, and banks; and AID missions in Ghana, Kenya, Madagascar, and Senegal during another review. Our work was done between September 1986 and January 1987 and was conducted in accordance with generally accepted government auditing standards.

Information was not available at the Washington headquarters of AID and Agriculture to respond fully to some of the issues, and much of the information we are providing has been obtained from numerous interviews and records. We have not obtained formal written comments from the responsible agencies, but we have discussed the information in this report with them and considered their views.

ISSUES CONCERNINGU.S. INTERNATIONAL FOOD ASSISTANCE PROGRAMS

ISSUE 1: HAVE STRINGENT DEMANDS FOR SELF-HELP MEASURES DELAYED AND JEOPARDIZED TITLE I SALES? I AM TOLD THAT LONG DELAYS IN SELF-HELP NEGOTIATIONS LED TO THE LOSS OF PROGRAMS IN THE DOMINICAN REPUBLIC, HAVE INTERFERED WITH COMMERCIAL SALES TO MOROCCO, AND IN THE CASE OF TITLE III NEGOTIATIONS, FORCED THE UNITED STATES TO OPERATE ADDITIONAL TITLE II PROGRAMS IN HAITI. PLEASE LOOK INTO THESE THREE EXAMPLES AND IDENTIFY THE SPECIFIC SELF-HELP MEASURES AT WHICH RECIPIENT COUNTRIES BALKED.

Have long delays in Title I self-help negotiations led to the loss of programs in the Dominican Republic?

The United States has had a Title I program in the Dominican Republic for several years. In fiscal year 1986, the Title I agreement was signed too late for all of the agreed upon commodities to be delivered before the end of the fiscal year. The Department of Agriculture (USDA) requires that commodities be delivered by the end of the fiscal year to be counted against that year's allocation. Commodities delivered after the end of the fiscal year are counted against the next fiscal year's allocation for that country, unless a specific exception is granted to extend the final delivery date. An agreement for \$30 million in wheat or wheat flour, rice, and vegetable oil was signed on August 18, 1986, and \$12.9 million worth of these commodities was delivered in time to count against the fiscal year 1986 allocation. The remaining \$17.1 million will count against the fiscal year 1987 allocation. Thus, signing the agreement late in the fiscal year resulted in a loss to the Dominican Republic of \$17.1 million in Title I program commodities for fiscal year 1986.

The 1986 agreement was signed late in the year due to a combination of reasons, one of which involved rice delivered under the fiscal year 1985 program. In 1985, \$2.6 million in rice, \$12.7 million in wheat, and \$18.3 million in soybean oil was provided. The Dominican Republic later found the rice to be infested with insects; it did not accept any of the containers and requested that all of the rice be replaced. USDA delayed negotiations for the fiscal year 1986 Title I program through the spring of 1986 while the impasse with the Dominican Republic continued.

In April 1986, the mission reported that the problem appeared to have been resolved and requested authorization to negotiate the 1986 Title I agreement. However, the Dominican Republic was in the

midst of a presidential election, which precluded the opportunity to conduct negotiations and to sign an agreement. The election was held in May 1986, but the results were not confirmed until early July, and the new president did not take office until mid-August. The agreement was signed in August 1986.

Both AID and USDA officials attributed the late signing of the Title I agreement to the above circumstances and not to negotiation of self-help measures. We identified nothing in the records to indicate that negotiation of the self-help measures caused the delay.

Have long delays in Title I self-help negotiations interfered with commercial sales to Morocco?

Morocco has had a long history of participation in the Title I program. Program amounts increased sharply from \$5.8 million in 1980 to \$25 million in 1981 and have ranged up to \$55 million since then. We found no definitive information on the relationship between the Title I program and commercial sales of agricultural products to Morocco. In recent years, all U.S. commercial sales to Morocco of wheat, the primary commodity provided under the Title I program, have been under some form of USDA-sponsored program. In 1985, the U.S. share of Moroccan wheat imports declined. This decline appeared to be for reasons unrelated to the Title I program.

According to an AID report, Morocco essentially aims at a certain level of wheat supply. Availability of wheat on concessional terms (that is, at less than normal market terms) does not affect the amount obtained, but it does affect who supplies the commodity. Consequently, the mix of imports by Morocco from the United States and the European Economic Community, which compete in supplying wheat to Morocco, is generally determined by the degree of concessionality. The competition together with Morocco's large external debt has meant that Morocco has not made a commercial cash purchase of wheat since 1979.

Morocco has preferred to purchase wheat under Title I as a first choice because of its greater concessionality. Its next preference until 1985 was subsidized credit under either a USDA Blended Credit Program or a 3-year credit program from COFACE, the French export credit entity. The Blended Credit Program combined an 80-percent credit guarantee (GSM-102) and 20-percent, interest-free direct CCC credit (GSM-5) in an effort to achieve an interest rate that was competitive with other exporting countries using subsidies. Straight GSM-102, which assists exporters to obtain private financing by providing a partial U.S. government guarantee, was

considered a useful but less desirable alternative because its terms were not as favorable as Blended Credit or COFACE.

The United States increased its share of Morocco's wheat imports in fiscal years 1983 and 1984 with the Blended Credit Program, but its share decreased in 1985 when the program was suspended. In October 1984, USDA announced a \$250-million Blended Credit Program for Morocco for fiscal year 1985, but in January 1985 the program was suspended because Morocco defaulted on its payments to CCC. Morocco had not requested any imports under the Blended Credit Program for 1985 prior to its suspension. Then in February 1985, USDA suspended indefinitely the Blended Credit Program because of a court ruling that the Cargo Preference Act, which in general required at that time that 50 percent of cargo must be carried in American flag ships, applied to the Blended Credit Program. This requirement would make the program more expensive and less competitive. Consequently, in 1985 Morocco increased its wheat purchases from France and decreased its purchases from the United States.

A private sector official speculated that if the United States had gone ahead with the Title I program early in fiscal year 1985, the Moroccan purchases from the French might have been forestalled long enough for the United States to develop a competitive export program, resulting in Morocco meeting its needs from the United States rather than from France. Some private sector officials were of the view that negotiation of the Title I self-help measures delayed the fiscal year 1985 Title I program. USDA officials also expressed a similar view. AID began to strengthen the Title I self-help measures in 1984 and 1985, and available information makes reference to extensive negotiations having been conducted on the fiscal year 1985 self-help measures. However, the first Title I agreements for 1984 and 1985 were signed in February, which was earlier than the first agreements were signed for most other years since 1980 (May 1980, July 1981, January 1982, July 1983, and May 1986).

Additionally, commodities were provided under fiscal year 1985 Title I agreements before the self-help measures were finalized. Two agreements were signed in February 1985--one for \$5 million in rice and the other for \$10 million in wheat. The rice agreement included one self-help measure; however, to meet Morocco's food needs, the wheat agreement was signed before the self-help measure negotiations were completed. The self-help measures were included in an April 1985 amendment, which also provided an additional \$30 million in wheat. Another agreement was signed in July 1985

for an additional \$10 million in wheat, and it included two additional self-help measures.

Have long delays in Title III self-help negotiations forced the United States to operate additional Title II programs in Haiti?

Public Law 480 food assistance has been an important component of U.S. economic assistance to Haiti for many years. Before fiscal year 1985, food assistance was provided under Titles I and II. In fiscal year 1985, instead of a Title I program, Haiti agreed to a 3-year Title III, Food for Development program which, even though it is a multiyear program, has to be reviewed annually. The fiscal year 1986 Title III agreement was signed in June 1986. There was no indication that self-help negotiations delayed the signing. The agreement revised one provision in the 1985 agreement, and this revision had been agreed upon before February 1986. Haiti also received emergency assistance under Title II in March, May, and June 1986 in addition to the regular Title II and Title III programs. It is possible that some portion of the emergency assistance might have been avoided had the assistance under the 1986 Title III program been provided earlier.

In March 1986, when the AID mission requested the second of the three segments under the emergency program, it proposed that the Title III agreement be signed by April 15, 1986; otherwise, the third segment of the emergency program would be needed to cover June requirements. In May, the mission requested the third segment of the Title II emergency program because the Title III agreement had not yet been signed and shipments under that agreement were not expected until July 1986. Shipments under the Title III agreement, which was signed on June 5, 1986, were begun in July and were completed in November 1986. As noted by the mission, an earlier signing of the Title III agreement possibly would have forestalled the need for the third and final segment of the emergency program of 17,000 tons of wheat amounting to about \$2.3 million. On the other hand, late deliveries under the Title III agreement delayed the need for 1987 emergency assistance according to AID officials.

ISSUE 2: HAVE THE SELF-HELP MEASURES IN TITLE I AGREEMENTS BEEN USED TO EXPAND LOCAL GOVERNMENT INVOLVEMENT IN AGRICULTURAL MARKETS? RECENT AGREEMENTS WITH THE PHILIPPINES AND MOROCCO BOTH CALLED FOR EXPANDED GOVERNMENT PROCUREMENT OF GRAINS. PLEASE LOOK INTO THESE AGREEMENTS TO SEE IF THIS IS THE CASE, AND INDICATE WHETHER THE RECIPIENT GOVERNMENTS RESISTED THESE MEASURES.

Have recent Title I agreements with the Philippines called for expanded government procurement of grains, and if so, did the government resist such measure?

The United States had a Title I program in the Philippines in fiscal year 1985 for the first time since 1979. Under the 1985 program the United States provided \$40 million in rice, and under a 1986 program it provided \$35 million in wheat. The self-help measures under these programs call for the Philippines to maintain a grain price stabilization program. The government agency responsible for the stabilization program was already responsible for procuring and distributing all grains. AID and USDA officials could not give us a definitive explanation of how the volume of grain procurement under the stabilization program would compare to previous grain procurement by the government. They said that in times of surplus production, the government should make heavy purchases and in times of short supply it should make light, if any purchases. A mission official indicated that the government supports the stabilization program and is carrying it out.

The Title I agreements between the United States and the Philippines for both years stated the Philippines intention to deregulate importing and trading of food grains and agricultural-related products. The self-help measures in these agreements specified actions that the Philippines would take to do this; for example, the private sector would be allowed to import wheat and wheat flour, and private sector competition would be increased in importing and distributing fertilizer.

One of the measures in the 1985 agreement specified that the government would permit milled rice to trade freely at market prices. However, because of the desire to ensure adequate supplies of rice for consumers and to avoid excessive seasonal price fluctuations, the government, through the National Food Authority, would maintain a rice stabilization program under which it would purchase rice from farmers at preannounced prices and sell milled rice at preannounced prices. The stated objective was to assure farmers of a floor price at harvest time and consumers of a reasonable price during lean seasons. Local currency generated from commodity sales under the Title I program was to be used, in

part, to implement a buffer stock operation in the stabilization program.

The 1986 agreement included corn along with rice in the stabilization program. Under the stabilization program the government would not intervene in the markets on a continuous basis to maintain artificially low prices, although it would serve as a buyer or seller of last resort or when stocks must be rotated to avoid spoilage. The agreement prohibited using local currency proceeds generated under Title I for domestic rice and corn procurement under the stabilization program, such as was permitted under the 1985 agreement. Local currency proceeds were designated for selected budget support areas, including operating costs for the Ministry of Agriculture and Food and the National Food Authority. The 1985 and 1986 agreements also specified that the National Food Authority would be divested of all functions not necessary to the stabilization program.

Have recent Title I agreements with Morocco called for expanded government procurement of grains, and if so, did the government resist such measure?

The emphasis of the Title I self-help measures since 1984 has been on promoting greater private sector participation in agriculture and reducing the government of Morocco's role. There were some discussions between AID mission and Moroccan officials on possibly using currency generated by Title I under the 1986 agreement for domestic cereals purchases to aid the government in carrying out its price support program, but such use was never made part of the Title I self-help measures.

An AID official indicated that the 1984 agreement, which called for a study, entitled Pricing and Subsidy Policies in the Agriculture Sector, was the basis for beginning policy dialogue with Moroccan officials. In the 1985 Title I agreement, private sector self-help measures were explicitly introduced for the first time, such as the identification of at least 10 government fertilizer sales outlets which could be transferred to the private sector. The 1986 self-help measures included deregulating the cereals marketing system and encouraging grain storage by the private sector. The stated objectives of these measures were to stabilize producer prices and increase cereals production while avoiding massive government intervention in the market.

During discussions in late 1985 on the 1986 agreement, the mission suggested to Morocco that some local currency proceeds generated by Title I be used to underwrite domestic procurement of durum wheat and barley in 1986 through the existing national cereals office. The national cereals office is responsible for ensuring adequate

grain supplies and stable prices throughout the country. It is the sole contractor for government import of cereals, and it is responsible for setting official cereal prices and enforcing those prices by intervening in the market. Its intervention in the market, however, has involved primarily corn and bread wheat.

In the opinion of AID and USDA, the use of local currency for government domestic cereals procurement conflicted with the general policy to encourage the use of local proceeds for private sector development while diminishing government's direct role. In response, the mission explained that the purpose of its suggestion was to provide an opportunity in subsequent policy dialogue with Moroccan officials to stress that publication of target producer prices under the existing system is meaningless unless resources are available to support market prices if they drop below target levels. The national cereals office had acquired only negligible amounts of domestic barley production under its price support program because of its inability to finance such purchases. A mission official indicated that Morocco did not view grain procurement as a priority use for generated local currency.

ISSUE 3: AS PART OF A TITLE I AGREEMENT IN PAKISTAN, DID U.S. AID SUPPORT INCREASED TARIFFS FOR EDIBLE OILS?

Food aid has been an important component of assistance to Pakistan for several years. During discussions with Pakistan on self-help measures for fiscal year 1986, the AID mission proposed that Pakistan establish a system of variable import-license fees for edible oil that would reduce the effect of world market price fluctuations on its domestic market. The mission dropped its proposal when Pakistan imposed an across-the-board regulatory duty on all edible oil imports in place of certain existing taxes.

The mission proposed the fee system in an effort to increase Pakistan's domestic edible oil production. Imported edible oil accounts for 75 percent of Pakistan's consumption, and its imports have been growing at about 9 percent a year. This increasing dependency on imported edible oil has contributed to a serious balance-of-payments problem for Pakistan. At the time of the mission's March 1986 proposal, Pakistan's existing policies gave foreign suppliers an advantage over its own farmers, thereby discouraging domestic production. Under the proposed fee system, which was to be paid by both public and private importers, the price of Pakistan's domestic oil would have been slightly lower than the projected long-term trend price of soybean oil in the international market.

In April 1986, however, Pakistan implemented recommendations of its National Deregulation Commission and imposed an across-the-board regulatory duty on all edible oil imports in place of its existing excise tax on all vegetable ghee (hydrogenated vegetable oil) produced and import surcharge on the value of some vegetable oil imports. The new duty is to be reviewed weekly for possible adjustments for fluctuating domestic and international edible oil prices. At the same time, Pakistan announced the removal of price controls on edible oil.

These policies were similar to policies proposed by the U.S. embassy and AID over the last few years, according to the mission, and were embodied in or implied by the Title I self-help measures. However the mission's proposal called for differential rates on each type of imported oil in order to equalize prices; while under Pakistan's new across-the-board duty, palm oil imports from other countries would continue to have a price advantage over soybean oil imports from the United States. We were unable to piece together sufficient information at the Washington level to make a technical comparison of the mission's proposed variable levy with Pakistan's levies existing either before or after the changes Pakistan made in 1986.

After Pakistan's April 1986 announcement, the mission deleted the variable levy program from the proposed self-help measures for 1986. The Food Aid Subcommittee had unanimously disapproved the proposed variable levy program because it would have been contrary to U.S. efforts to reduce agricultural trade barriers. However, the Subcommittee was silent regarding the new import tariff imposed by Pakistan under which, according to the mission, soybean oil imports from the United States would continue to be at a competitive disadvantage with palm oil imports from other countries.

ISSUE 4: WOULD THE U.S. GOVERNMENT HAVE MORE SUCCESS IN CONVINCING RECIPIENT GOVERNMENTS TO UNDERTAKE POLICY REFORM IF SUCH GOVERNMENTS WERE PROVIDED MULTIYEAR COMMITMENTS OF SURPLUS AGRICULTURAL COMMODITIES UNDER THE FOOD FOR PROGRESS PROGRAM? IN ADDITION, WHAT EFFECT WOULD THE REQUIREMENT OF MANAGING FOOD SHIPMENTS UNDER THIS PROGRAM ON A FISCAL YEAR BASIS HAVE UPON THE WILLINGNESS OF RECIPIENT GOVERNMENTS TO UNDERTAKE POLICY REFORMS?

The Food Security Act of 1985 established the Food for Progress program as a new initiative in support of developing countries' economic policy reform efforts through introducing or expanding free enterprise elements. The Food for Progress program, although closely related, is not a Public Law 480 program, but it is administered through the same interagency mechanism and may draw upon Public Law 480 commodities to a certain extent, in addition to commodities available under section 416 of the Agricultural Act of 1949.

In determining a country's eligibility for a Food for Progress program, consideration is to be given to whether the country is committed to carrying out, or is carrying out, policies that promote economic freedom, private domestic production of food commodities for domestic consumption, and the creation and expansion of efficient domestic markets for the purchase and sale of such commodities. Agreements with developing countries committed to such reforms may provide for commodities to be furnished on a multiyear basis.

Commodities may be made available from CCC stocks pursuant to section 416 of the Agricultural Act of 1949 on a grant basis, or from commodities otherwise determined to be available under Public Law 480 on either a grant or credit basis. Not more than 500,000 metric tons of commodities may be furnished in each of the fiscal years 1986 through 1990. However, not less than 75,000 metric tons of commodities are to be made available each year under section 416 unless the President determines there are not enough eligible recipients.

Guidelines for implementing the Food for Progress program were formulated by an interagency task force consisting of AID, the National Security Council, OMB, State, the Treasury, and USDA. We discussed the concept of multiyear commitments as it relates to leveraging policy reform and the effect of managing commodity shipments on a fiscal year basis with members of the task force; program officials of the involved agencies; AID mission and host-country officials in Ghana, Kenya, Madagascar, and Senegal; and representatives from several private sector organizations. These

discussions involved Food for Progress specifically and food aid programs generally, such as those under Title I.

Would the U.S. government have more success in convincing recipient governments to undertake policy reform if such governments were provided multiyear commitments of surplus agricultural commodities under the Food for Progress program?

The philosophy of multiyear commitments is based upon the assumption that U.S. surplus commodities could be used, particularly in African countries, as a means to achieve policy reform. When a country institutes policy reforms, the overall benefits may not become apparent to the general population for some time. Therefore, if the United States can assure food aid over the first few years during the period of greatest political risk, developing countries may be more willing to agree to policy reform. Although most AID mission and host-government officials had not explored multiyear commitments, they viewed the multiyear commitment concept as potentially useful in gaining greater policy reform. Most members of the interagency task force and some private sector representatives viewed the multiyear commitment concept as good; however, USDA has problems with multiyear programming of commodities provided under section 416 of the Agricultural Act of 1949.

Specifically, AID missions viewed the multiyear commitment concept as a means to put the United States in a stronger bargaining position and to increase the likelihood of meaningful policy reform by food-aid recipient governments. Mission officials in Madagascar, which had one of the two Food for Progress programs in 1986, indicated that the multiyear commitment, along with the relatively large size of the program, were crucial to Madagascar's policy reforms, such as opening rice marketing to the private sector. Mission officials in Ghana stated that multiyear strategies without multiyear commitments would be difficult to negotiate because it would appear as if the United States were trying to get something for nothing. In discussing the multiyear commitment concept as it relates to Food for Progress and to other programs such as Title I, AID and host-government officials stated that the concept was good in that it would

- show good faith on the part of the U.S. government;
- help to achieve reforms that could not otherwise be achieved in one year;
- allow governments to do better long-term planning;

- lessen the burden on host governments of negotiating agreements, as some governments have a limited number of experienced staff capable of such negotiations;
- level out peaks and valleys in annual program amounts;
- alleviate storage and distribution problems by giving the commodity consignee greater leeway to determine the best time for commodity shipments and amounts;
- permit greater complementarity of commodity programs with development assistance programs;
- make programs seem larger; and
- permit better evaluation of results.

Some private sector representatives viewed multiyear commitments as critical to the success of the Food for Progress program because they allow long-term policy changes to take hold that might otherwise collapse if support were withdrawn after one year. Multiyear commitments, however, should include decision points that trigger releases of commodities so that the United States does not continue to support multiyear programs that are not successful or do not make sense. A USDA official, however, envisioned potential problems in stopping or suspending delivery of commodities under multiyear commitments, for example, for noncompliance with the agreement by the recipient government.

AID mission and host-government officials also identified some disadvantages to the multiyear commitment concept.

- Mission officials in Senegal and Ghana indicated that the multiyear concept may not offer as much flexibility as programs that are established annually.
- Mission officials in Kenya stated that the government of Kenya does not like the idea of being tied to one donor over several years. In addition, Kenyan government officials believe that in years when Kenya has a surplus, the United States will insist on shipping the commodity called for in the agreement so as to benefit the U.S. farmer.

Members of the interagency task force except for USDA support multiyear commitments of surplus commodities under section 416 for the Food for Progress program. In a June 19, 1986, letter to the Food Aid Subcommittee, the Under Secretary for International Affairs and Commodity Programs wrote that USDA could not enter into

multiyear section 416 commitments. USDA officials provided us with the following statement of USDA's position.

"USDA has expressed special concern regarding the use of multiyear commitments based on the authority of section 416. This concern reflects experience in the past with the variability of CCC stock levels. In fact this type of change is currently occurring in the specific case of nonfat dry milk stocks held by CCC. As both the domestic price support provisions and the trade provisions for this product that were in the 1985 Farm Bill are being implemented, these stocks have been successfully reduced. At the end of January in 1986, CCC owned over a billion pounds of nonfat dry milk; at the end of January this year, CCC owned less than 250 million pounds. It is this type of phenomenon that USDA is concerned about."

"However, USDA is supportive of multiyear commitments which can be made with sufficient assurance to be valid. In the specific case of the Food for Progress programs which were entered into, USDA worked to assure that for the second- and third-year tranches, a reference to both funding sources - section 416 and Title I - was included. This seemed to USDA to result in a more viable multiyear commitment. USDA has over the years supported multiyear Title III programs, and as requested by AID has supported multiyear Title II section 206 programs. These programs are based on the expectation that adequate appropriations for both Title I/III and Title II will continue in the future. Based on past experience this seems to USDA to be a reasonable assumption."

Other members of the interagency task force generally disagreed with the USDA position that surplus commodities may not be available to fulfill 3-year commitments. One official stated that while USDA's concern is understandable, it is not clear how USDA can at this time draw the conclusion that the U.S. government will not own farm commodities above domestic and export needs for the foreseeable future. If this were the case, another official stated, then the Food for Progress program could compete with regular recipients of Title I for a share of annual appropriations.

What effect would the requirement of managing food shipments under the Food for Progress program on a fiscal year basis have upon the willingness of recipient governments to undertake policy reforms?

Although the Food for Progress guidelines issued in March 1986 said that Food for Progress shipments did not have to take place by the end of the fiscal year, USDA's June 19, 1986, letter stated that

commodity shipments under the Food for Progress program would be managed on a fiscal year basis and that commodities must be shipped by September 30 of each year. According to USDA, this position was necessary because of cargo preference requirements, the annual budgeting cycle, and the numerous claimants on CCC's stock.

Little information is available from either mission or host-government officials concerning the willingness of recipient governments to undertake policy reforms if shipments under the Food for Progress program were managed on a fiscal year basis. For example, mission officials in Ghana stated that they had little information on the program and had not discussed it with government officials; mission officials in Senegal had not discussed the program with government officials who, therefore were not familiar with it and unable to comment on the fiscal year-end shipping requirement.

AID and OMB officials generally viewed the annual shipping requirement as detrimental and said that it considerably reduces the program's leverage for policy reform.

ISSUE 5: THE DEPARTMENT OF AGRICULTURE HAS OPPOSED MULTIYEAR COMMITMENTS OF SURPLUS COMMODITIES UNDER THE FOOD FOR PROGRESS PROGRAM CLAIMING THAT COMMODITY CREDIT CORPORATION STOCKS WILL BE DEPLETED IN ONE YEAR. PLEASE LET ME KNOW IF THIS ESTIMATE--AND THE ASSUMPTIONS UPON WHICH IT IS BASED--ARE VALID. BASED ON ASSUMPTIONS YOU FEEL WOULD BE APPROPRIATE, WHAT IS YOUR PROJECTION AS TO THE AMOUNT OF TIME IT WILL TAKE TO DEplete COMMODITY CREDIT CORPORATION STOCKS?

We are continuing our work on this issue, and the results will be provided at a later date.

ISSUE 6: HAVE LOCAL CURRENCIES GENERATED BY TITLE I SALES BEEN USED BY LOCAL GOVERNMENTS TO EXPAND PUBLIC EMPLOYMENT? PLEASE LET ME KNOW IF THIS HAS OCCURRED IN PAKISTAN AND THE PHILIPPINES. ALSO, WERE THESE FUNDS USED TO CREATE A GOVERNMENTAL UNIT IN MOROCCO TO HANDLE INTERMINISTERIAL COORDINATION OF PUBLIC LAW 480 AND TO CREATE A "FOOD SECURITY ADMINISTRATIVE UNIT" IN ZIMBABWE?

Has local currency generated by Title I sales been used to expand public employment in Pakistan?

Local currency generated by Title I sales has been a significant source of revenue for Pakistan for many years: \$47.5 million a year during 1980 through 1984, \$59 million in 1985, and \$50 million was programmed in 1986 and 1987. The AID mission, in response to an AID inquiry, stated that local currency generated by Title I sales has not been used to expand public employment and provided the following explanation.

After signing the Title I agreement, the mission and Pakistan negotiate uses for the sales proceeds. Essentially, expenditures of local currency proceeds are attributed to specific items in Pakistan's development budget. For example, 63 percent of the local currency generated during the last 4 years has been designated for contracts with private companies to expand major irrigation facilities. Funds have also been designated to support population planning and universities. According to the mission, although it is unlikely that Title I sales proceeds were used to expand public employment, their attribution to specific development activities probably protects such activities from cutbacks during the year. In other words, public employment, although not expanded, is protected from possible reduction by the use of local currency proceeds.

Has local currency generated by Title I sales been used to expand public employment in the Philippines?

Local currency proceeds have been generated under a 1986 agreement with the Philippines. Under the agreement, sales proceeds were to be used to support the agriculture sector, but information is not available in Washington on the actual use of those funds nor on recent government employment trends. In answer to an AID Washington inquiry, the mission stated that local currency generated under Title I had not been used to increase employment for general government functions or activities, such as defense and education. In a September 1986 request to the International Monetary Fund for assistance the government of the Philippines stated that it was going to review employment levels in the public

sector and until that review was complete, present employment levels would be maintained.

According to AID and USDA officials, no local currency has been generated under the fiscal year 1985 Title I rice agreement, the only other recent agreement, because the commodities have not been sold. The Title I rice has not been needed because the 1985 Philippine rice harvest was greater than anticipated and because the Philippines imported large amounts of rice from several sources. Disposition of the Title I rice has not been resolved.

For proceeds accruing to the Philippines under the 1986 wheat agreement, priority was to be given to support operating costs of the Ministry of Agriculture and Food, Ministry of Natural Resources, National Irrigation Administration, and National Food Authority (excluding support for rice and corn procurements). AID and USDA officials were of the opinion that proceeds had been generated under this agreement, as the wheat had been sold to millers, but they had no information on the actual use of the proceeds.

Has local currency generated by Title I sales been used to create a governmental unit in Morocco to handle interministerial coordination of Public Law 480?

The Title I agreements for Morocco identify two coordinating units--a joint standing committee for the Public Law 480 program and an interministerial commission for other activities beyond Public Law 480. The Title I agreements do not identify use of sales proceeds as possible support for these units. However, some funds were to be used for support activities, including the equivalent of \$1.2 million for agricultural planning, under which support possibly could be provided for coordinating units. Agricultural planning was stated to include the continuation of the implementation of the national agricultural statistics program and the coordination of various economic and financial activities within the Ministry of Agriculture and Agrarian Reform. An AID agricultural development officer, who was in Morocco from 1983 to late 1986, told us that neither of the committees was supported by local currency generated under the Title I program. He said that coordinating units are common practice in Morocco when activities relate to more than one ministry and that persons assigned to such units are already on the public payroll. He described the interministerial committee as similar to a cabinet-level meeting of senior staff.

Establishment of the standing committee for the Public Law 480 program was called for as a self-help measure in a July 5, 1984, Title I agreement, but subsequent agreements contained no

additional reference to it. The committee consists of representatives from AID, USDA, and Morocco's Ministry of Finance and Ministry of Agriculture and Agrarian Reform, and its function is to monitor the planning, programming, and implementation of Title I programs.

According to AID and USDA officials, the standing committee was established, at least in part, because of Morocco's persistent lateness in complying with the Public Law 480 reporting requirements. In April 1985, the mission reported that the committee's greatest advantages have been the productive working relationships developed among committee members and the growing awareness on the part of Morocco of the value and seriousness of the self-help measures in Title I agreements.

The interministerial commission was called for in the fiscal year 1985 agreement self-help measures to examine the results of a study of Pricing and Subsidy Policies in the Agriculture Sector, which was initiated under the 1984 self-help measures. The study was completed and a report was submitted to the AID mission in February 1986. The results of the first phase of the study were to be examined by the interministerial commission, chaired by the Ministry of Economic Affairs. A follow-on second phase of the study has been proposed by Morocco. The fiscal year 1986 Title I self-help measures call for the interministerial commission to examine these results. According to AID documents, these studies largely provided the basis of an agricultural sector loan by the World Bank. While we identified no other information relating to this commission, its function is broader than the Public Law 480 program.

Has local currency generated by Title I sales been used to create a "food security administrative unit" in Zimbabwe?

We identified no reference to a food security administrative unit in Zimbabwe in relation to the Title I program, but such a unit was established under an Economic Support Fund program. The only Title I program in Zimbabwe in recent years was an \$8-million program in fiscal year 1985. AID officials said that none of the Title I generated funds were used for a food security unit; they gave us a schedule showing that \$10 million of the \$13 million equivalent in local currency proceeds generated under the Title I program was designated for specific development activities and \$3 million was uncommitted as of April 1986.

A food security administrative unit was established as a component of a \$675,000 Southern Africa Regional project funded in 1982 through the Economic Support Fund appropriation. The project's purpose is to support cooperation within the Southern Africa

Development Coordination Conference, develop coherent regional food security policies and programs, and assist the government of Zimbabwe to fulfill its conference role as leader of a program of regional food security. The Conference is a 6-year-old regional grouping of nine Southern Africa countries--Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe--that face economic vulnerability, political instability, and widespread poverty. The Conference seeks solutions to development problems in a regional context.

ISSUE 7: IN A RECENT REPORT, GAO FOUND INSTANCES WHERE LOCAL CURRENCIES PROGRAMMED UNDER THE TITLE III PROGRAM WERE "NOT DEPOSITED IN SPECIAL ACCOUNTS OR WERE COMMINGLED WITH OTHER SOURCES OF RECIPIENT COUNTRY REVENUE, THUS PRECLUDING PROPER OVERSIGHT AND AUDIT," AND "WERE DISBURSED IN EXCESS OF THE AMOUNT BUDGETED FOR A PROJECT, USED TO COVER SHORTAGES IN OTHER DONOR'S PROJECTS, OR DISBURSED FOR PURPOSES CONSIDERED QUESTIONABLE BY AID" PLEASE REVIEW AND SUMMARIZE ANY REPORTS PREPARED BY THE OFFICE OF INSPECTOR GENERAL TO DETERMINE WHETHER LOCAL CURRENCIES PROGRAMMED UNDER THE TITLE I PROGRAM ARE SUBJECT TO THE SAME PROBLEMS.

Title I commodities are usually marketed through existing commercial channels within the recipient country, and the local currency generated through those sales, which is owned by the host government, is to be used as specified in the Title I sales agreement. Title I does not require local currency generated under regular programs to be placed into special accounts or a specific level of AID involvement in programming their uses. AID involvement in programming local currency can range from permitting the recipient government to allocate its own budgetary resources to AID participating actively in allocation decisions by requiring detailed programming before Title I agreements are signed. Such AID participation can also include establishing a special account, concurring on disbursements from the special account, and periodic reporting and monitoring the status of financial accounts and individual projects. AID's policies explicitly encourage mission participation in the programming of country-owned local currency generated by the sale of Title I commodities when such involvement promises to help achieve developmental objectives.

We reviewed 11 audit reports issued by the AID Inspector General between 1983-87 addressing situations where AID was actively involved in programming local currency under the Title I program. The reports were for the Congo, Costa Rica, Dominican Republic, El Salvador, Haiti, Honduras, Jamaica, Madagascar, Morocco, Sudan, and Zaire. The Inspector General reported problems for the Title I program similar to those we reported for the Title III program. The AID missions generally concurred with the Inspector General audit findings and agreed to take corrective actions based upon the audit recommendations. The Inspector General's findings are summarized below.

Deposit of proceeds: All 11 audit reports identified problems with establishing special accounts and depositing sales proceeds. In nine instances, countries either had not

- sold the commodities to generate local currency as agreed upon;
- determined the amount of local currency to be deposited due to inadequate records or lack of documentation;
- established or met the established local currency deposit deadline;
- deposited the local currency into a special account; or
- maintained local currency separate from other sources of revenue.

In four countries the special accounts were non-interest bearing. In another country the account was interest bearing, but the government allowed the bank to retain the interest. Normally, the interest is retained by the host government to help finance development activities.

Disbursement of proceeds: According to AID policy, local currency should be disbursed as quickly as consistent with sound programming and prevailing economic conditions in the recipient country. In Costa Rica, no funds had been disbursed for 1982 through 1984 for 18 of 20 projects reviewed by AID auditors and only 3 percent of the local currency programmed for the other two projects had been disbursed. Similar situations were also identified in Madagascar, the Dominican Republic, and the Congo. According to one Inspector General audit report, the disbursement delays in Costa Rica were attributed to either weak feasibility studies underlying the projects approved for financing or the government's inability or difficulty in carrying out the self-help measures called for in the sales agreement.

Reporting on use of proceeds: Title I agreements require recipient countries to submit specified reports, such as annual reports of receipt and expenditure of proceeds, certified by appropriate government audit authority. Inadequate and untimely reporting were cited in four countries. For Sudan, annual reports for fiscal years 1977-79 were not received and certified as required until fiscal year 1980; reports for fiscal years 1980-82 were not received until fiscal year 1983 and were not certified; and no reports were received for fiscal year 1983. For Jamaica, financial reports for fiscal years 1982 and 1983 Title I agreements were dated June and July 1984, and no reports appeared to have been received for fiscal year 1984 and 1985 agreements. For the Congo, a similar situation was identified. For Jamaica, the audit reports indicated that mission officials had not requested the annual certified reports because they were unaware of the requirements.

Mission monitoring: AID policy encourages missions to carefully monitor the programming of local currency, specifically the special accounts, which are subject to audits. AID audit reports identified inadequate mission monitoring for six countries.

- The mission in Honduras had not established a system to verify receipt of reports submitted by the host country.
- In Madagascar, the U.S. embassy failed to establish with Madagascar the amounts that should have been collected, deposited, and disbursed from the special account. Embassy officials stated that they were unaware of these requirements. Similar situations were identified in Costa Rica, the Congo, Jamaica, and Morocco.

AID program officials informed us that over the years AID has tried to focus more attention on programming local currency. Basically, decisions on the degree of AID involvement are made country by country, depending on individual country circumstances. In determining how involved to get in programming local currency, the mission considers (1) willingness of the host government to use local currency for economic development, (2) basic policy agenda within the country, and (3) consistency with which the host government honors its commitments to policy change.

ISSUE 8: THE NEW SECTION 108 PROGRAM WAS DESIGNED FOR USE BY MANY POTENTIAL FINANCIAL INTERMEDIARIES INCLUDING COMMERCIAL BANKS, COOPERATIVES, PRIVATE AND VOLUNTARY ORGANIZATIONS, AND THE OVERSEAS PRIVATE INVESTMENT CORPORATION. PLEASE LET ME KNOW IF SUCH ENTITIES ARE PLEASED WITH THE DRAFT GUIDELINES, AND WITH THE ROLE THEY PLAYED IN THE DRAFTING OF THESE GUIDELINES. IN ADDITION, PLEASE REPORT AS TO WHETHER OR NOT THESE GUIDELINES ARE BEING UNDERSTOOD BY AID MISSIONS.

The section 108 program is a new private sector development initiative added to Public Law 480 by the Food Security Act of 1985. Basically, under section 108 programs, a minimum of 10 percent of Title I credits are repaid to the United States in local currency. The United States will loan the local currency to financial intermediaries¹ in the developing country, which in turn will make subloans to private sector entities for development activities, with preference to be given to agricultural-related private enterprise.

Guidelines to implement section 108 were drafted in June 1986 and finalized in August 1986 by a Food Aid Subcommittee interagency task force, consisting of representatives from AID, OMB, the Overseas Private Investment Corporation (OPIC), State, the Treasury, and USDA. Under these guidelines, the Food Aid Subcommittee exercises policy and budget control, and an in-country policy group which includes the ambassador, mission director, agricultural attache, economic counselor, and other embassy representatives of other concerned departments and agencies administers the program. The Policy Group has authority for final selection of financial intermediaries and for selecting either the AID mission or OPIC, on OPIC-related projects, as the implementing agency to negotiate the loan agreement with the financial intermediary.

We discussed with members of the interagency task force and the agencies' program officials the (1) process used in preparing the guidelines, (2) potential impact of the guidelines on implementing section 108 programs, and (3) AID missions' understanding of the guidelines. We analyzed cables from AID missions addressing their concerns with the draft guidelines, and we interviewed mission officials in Ghana, Kenya, Madagascar, and Senegal. We also

¹ Banks, financial institutions, cooperatives, nonprofit voluntary agencies, or other organizations or entities as determined by the President that have the capability of making and servicing loans in accordance with section 108.

obtained private sector organizations' views on their participation in developing the guidelines and their views on the guidelines.

We compared the draft guidelines with the final guidelines and interviewed representatives of organizations that received the final guidelines. Our comparison and discussions showed that, although some changes are reflected in the final guidelines, most, if not all of the concerns remain the same and are discussed in the sections which follow.

Are potential financial intermediaries pleased with the draft guidelines and with the role they played in drafting the guidelines?

Although the interagency task force was responsible for drafting guidelines, private sector organizations participated in the process. They were generally pleased with their participation during the guideline drafting process, but they had a wide range of concerns regarding the legislation and guidelines and their implementation.

Private sector organizations first became involved in preparing the guidelines through a special meeting hosted by OMB on April 29, 1986, to which 27 of these organizations (12 banks, 8 PVOs and cooperatives, 1 cooperator², and 6 interest groups) were invited. Only 18 of the 27 organizations attended. On June 9, 1986, OMB sent copies of draft guidelines to private sector organizations and requested their comments.

We interviewed 19 of the 27 organizations invited to the April meeting (14 that did attend and 5 that did not) to determine their views on the draft guidelines and their participation in the preparation process. These 19 organizations were a mix of PVOs, cooperatives, banks, and others. Fifteen had received draft guidelines, 11 provided written or oral comments to OMB, and 7 received feedback in response to their comments. Thirteen organizations were pleased with their involvement in the process and indicated that the April meeting gave them the opportunity to express their views before the guidelines were finalized; four had no plans to participate in section 108 and did not become involved in the process; and two did not express opinions about their involvement.

² A cooperator, as defined by U.S. Wheat Associates, is a market development organization that has agreed to work with the USDA Foreign Agriculture Service.

Concerns of the private sector, as well as similar concerns of AID missions and some members of the interagency task force, are discussed below.

Payment provisions: The private sector and AID missions expressed concern over how well the section 108 program will be received by host governments, since these governments would experience an immediate loss of local currency available for budget support and a loss of control over how the local currency is spent. In addition, the local currency must be convertible to dollars, beginning not later than 10 years after the date of the last commodity delivery. The private sector and AID missions have questions regarding the mechanics of the conversion process and how a recipient government will benefit from paying for commodities upon receipt in local currency and then 10 years later converting the local currency to dollars. A regular Title I program with a 30-year payback period and a 10-year grace period at 2-percent interest could be more advantageous for a country than a section 108 program. Another uncertainty is the amount of local currency that will be available for conversion. An AID official acknowledged that the provision requiring conversion of local currency to dollars needs to be clarified and that it would be easier to convince host governments to agree to section 108 programs if there were a better understanding of the conversion provision. AID officials told us that additional information has been developed for new agreements.

Start-up grants for new financial intermediaries: The legislation allows for concessional assistance to PVOs and cooperatives for start-up costs of becoming financial intermediaries either through preferential interest rates or through grants from local currency received under section 108. The guidelines, however, state that this assistance will be in the form of grants. The concerns regarding this issue are twofold. First, some banks and interagency task force members oppose start-up grants for PVOs and cooperatives stating that there is no need for section 108 to subsidize the establishment of additional intermediaries where some already exist. Second, PVOs and cooperatives are concerned that the guidelines do not specify who will get the grants and how this decision will be made. In addition, PVOs and cooperatives are concerned that the grants could be used only for start-up costs; thus, some would prefer the preferential interest rates to grants.

Private versus public eligibility criteria for loans: To be eligible to receive a subloan from a financial intermediary, an entity must not be owned or controlled, in whole or in part, by the government of the developing country. While the legislation applies this criteria to subborrowers only, the guidelines make it applicable also to financial intermediaries. Private sector organizations and AID missions are concerned with the criteria

being applied to financial intermediaries because in some countries the distinction between the private and public sector is not clear or there are few wholly privately owned banks.

Allowable interest rates: Section 108 states that financial intermediaries will make subloans to eligible entities at reasonable rates of interest. The guidelines state that these interest rates should not be less than the prevailing free market interest rates within a cooperating country.

Private sector organizations are concerned over (1) what the interest rates will be, (2) who will decide the interest rates, and (3) whether there will be an allowable range between the interest rate the United States charges the financial intermediary and the rate the financial intermediary charges the subborrower. They have these concerns because financial intermediaries incur a higher risk when lending to small farmers and businesses. They believe that loans to such small enterprises should be encouraged through an adequate differential between the interest rates charged the financial intermediary and the rates the intermediary charges the subborrower.

Are the guidelines understood by AID missions?

The AID missions generally understood the broad objectives of the section 108 program but had some concerns with the mechanics of implementing section 108. For example, the draft guidelines were sent to 34 AID missions for comment on June 14, 1986. Our analysis of the cables available at the time of our review from 11 AID missions and our interviews with AID officials show that the missions had many of the same concerns as the private sector regarding various provisions of the section 108 legislation and guidelines as they relate to local currency conversion, commodities in competition with U.S. commodities, and privately owned banks. AID missions also had some concerns unique to in-country implementation of section 108, as discussed below.

- Three missions questioned the need for section 108 programs, stating that local currency support of private sector activities such as those identified in the guidelines have been part of their Title I program or economic assistance strategy over the past years.
- Four missions expressed concern with the prohibition on supporting commodities that may compete with U.S. agricultural commodities in world markets and indicated that the total picture should be considered. (Some private sector organizations expressed similar concerns). One of the objectives of development assistance aimed at achieving

food self-reliance may be the promotion of export crops which may compete with U.S. markets. As countries develop, some of their exports may begin to compete with U.S. markets; however, their economic growth may create or expand markets for other U.S. commodities. For example, a country may promote maize or sorghum exports to pay for larger imports of U.S. wheat or wheat flour.

- Four missions expressed concern that section 108 will impose an added burden on AID missions in explaining the program to host governments, in negotiating its provisions in Title I agreements, and in implementing the program.

Many of the concerns expressed in the mission cables were also conveyed to us by mission officials during visits to Ghana, Kenya, Madagascar, and Senegal. For example, officials in two countries stated that they wanted to delay participating in section 108 until fiscal year 1988 so that implementing details can be worked out, including locating acceptable financial intermediaries and allocating the extra administrative burden imposed by section 108.

OTHER REPORTS ON PUBLIC LAW 480 ACTIVITIES

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).

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