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Status Report on GAO's Reviews on P.L. 480 Food Aid Programs

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Research, and Foreign Agriculture

Committee on Foreign Affairs, Subcommittee on
International Economic Policy and Trade

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Mr. Chairmen and Members of the Committees:

I am pleased to be here today to discuss with you the status of our ongoing work on a variety of issues concerning U.S. food aid programs, with emphasis on the first three titles of Public Law 480. These issues concern (1) the integration of U.S. agricultural export programs with P.L. 480 Title I/III programs, including the role of the Development Coordination Committee and of the Agricultural Trade and Development Missions program, (2) the management of Title III programs, (3) the Agency for International Development's efforts to better manage its food aid programs through development and use of a generic food aid management plan, (4) the role of U.S. private voluntary organizations in distributing Title II food aid, and (5) the extent to which AID should maintain accountability for the use of local currencies generated through the sale of Title I food aid.

SUMMARY

Briefly, our work to date indicates that:

1. Integration of U.S. agricultural trade and P.L. 480 food aid programs within the Development Coordination Committee (DCC) and in the countries we visited occurs largely as a byproduct of other established activities. No formal strategy integrating U.S. food aid and agricultural trade programs exists

at headquarters or overseas. Officials question whether a written strategy is necessary.

In general, we did not find evidence that P.L. 480 and U.S. agricultural trade programs are working at cross purposes. However, we found one case where a conflict between PL-480 food aid and agricultural trade objectives was not resolved in a mutually complementary way. We also found that resolving potential conflicts related to P.L. 480 objectives can prolong the decision-making process, causing program delays with some adverse impacts.

Our review of the Agricultural Trade and Development Missions generally revealed that officials questioned their utility and the need for their continuance. Based on this, Congress may wish to consider not re-authorizing the program.

2. AID officials in Bolivia and Bangladesh say their Title III programs (the only on-going Title III programs) work well despite the bureaucratic and administrative problems that make management difficult. Discussions with officials in several other countries indicated an aversion to the program because of its demanding and complex requirements.

3. AID developed a Food Aid Management Plan in 1988 for overseas missions' use to clarify food aid program responsibilities and

increase efficiency and effectiveness. However, this plan is still in the draft stage.

4. In response to your Committees' concern that U.S. private voluntary organizations and cooperatives may be less willing than in the past to sponsor Title II nonemergency food aid programs, particularly in Sub-Saharan Africa, our work has shown that as a group and world-wide, PVOs are not withdrawing from the Title II program. However, they have made changes in the geographic distribution of their projects and the types of projects being carried out. These changes were particularly evident in Africa, where total tonnage decreased 10 percent between 1986 and 1989 and tonnage for traditional supplementary feeding programs decreased sharply.

   Although PVOs indicate continuing interest in sponsoring non-emergency food aid programs, they told us that their ability to implement effective projects is hindered by (1) inadequate funding to pay project expenses and (2) outdated, excessive, and unrealistic regulations. Our work suggests that Congressional and/or administration action is needed to make sponsorship of food aid programs more attractive.

5. There is an ongoing debate between AID management and the AID Inspector General over the extent to which AID missions should maintain accountability and control over host-country-owned

local currencies generated from the sales of commodities provided under P.L. 480 Title I. AID management recognizes its responsibility for obtaining a reasonable assurance that the local currency is used for appropriate economic development purposes, but believes that the host government, not AID, should maintain financial accountability for the proper use of these funds. The Inspector General, on the other hand, wants AID missions to be accountable for the proper use of host-country-owned local currency.

To resolve this debate, AID needs clear and practical accountability guidelines. These guidelines should be sufficiently flexible to allow missions to determine their accountability responsibilities by negotiating local currency use agreements that take into account the host country's financial management capabilities. The most important aspect of this is that countries have adequate financial management systems so that AID can be reasonably assured that the necessary internal controls are in place and that local currencies will be properly used.

BACKGROUND

The P.L. 480 food aid program was established by the Agricultural Trade and Development Act of 1954. Its objectives are to (1) develop and expand export markets for U.S. agricultural commodities, (2) encourage economic development in developing countries, (3) provide humanitarian assistance to combat hunger and malnutrition, and (4) promote the foreign policy of the United States.

The Title I program of P.L. 480 offers government-to-government concessional sales of commodities with long-term repayment terms (up to 40 years) at low interest rates (2-4 percent). The recipient country must implement mutually agreed upon self-help measures in return for the aid. The Title II program provides food grants or donations to support ongoing programs in the recipient country, such as school feeding and food-for-work community development projects. The Title III program is similar to the Title I program, except that it offers debt forgiveness. For example, local currency proceeds derived from the sale of the food may be credited against the dollar repayment obligation incurred by a Title I sale agreement if the recipient country uses the proceeds for mutually agreed-upon development projects. In addition, there are more administrative procedures and reporting requirements that must be met.

For FY 1989, PL 480 expenditures were $1.6 billion ($779 million for Titles I/III and $840 million for Title II).

Agricultural trade programs included in our review were the GSM-102/103 Export Credit Guarantee Program, the Export Enhancement

Program, the Cooperator Program, and the Targeted Export Assistance Program. All are intended to increase U.S. agricultural exports. The GSM-102/103 programs permit countries to buy U.S. agricultural commodities when guarantees are needed to obtain private financing. Under the Export Enhancement Program, U.S. exporters use Commodity Credit Corporation commodities or certificates as subsidies in kind to expand sales of U.S. agricultural products in selected markets characterized by unfair competition. The Cooperator Program provides federal funds to private, nonprofit agricultural organizations (known as cooperators) to develop, maintain, or expand foreign markets for U.S. agricultural commodities. Cooperators seek to accomplish these aims through trade servicing, technical assistance, and consumer promotion activities. The Targeted Export Assistance Program is a foreign market development program that attempts to offset the effects of subsidies, import quotas, or other unfair trade practices of foreign countries on exports of U.S. agricultural commodities or products.

For fiscal year 1989, the GSM-102 program guaranteed $4.8 billion in export sales and the GSM-103 program guaranteed another $426 million in export sales. Under the Export Enhancement Program, the U.S. government spent $338 million on export bonuses. The Targeted Export Assistance Program was funded at $200 million and the Cooperator Program $35 million for market development activities.

INTEGRATION OF P.L. 480 FOOD AID WITH U.S. AGRICULTURAL TRADE PROGRAMS

We define integration as a process assuring that, at a minimum, agricultural trade and food aid programs do not work at cross purposes and that, preferably, they complement one another. These goals include integration of the food aid and agricultural trade objectives within P.L. 480 itself, as well as between P.L. 480 and agricultural export programs.

We examined integration from three perspectives: (1) how the P.L. 480 interagency coordination process works in the agencies' headquarters in Washington, D.C.; (2) how integration takes place in the recipient country; and (3) what role the Agricultural Trade and Development Missions play in promoting integration.

We reviewed the operation of agricultural trade and food aid programs in six countries (Bangladesh, Bolivia, Egypt, Indonesia, Jamaica, and Tunisia), and we sought to identify examples of where the programs complement one another and to determine whether programs had operated or are operating at cross purposes.

Appendix I provides information on the types and amounts of U.S. agricultural export and P.L. 480 assistance that was provided to the six countries during the fiscal years 1987-1989. As the appendix shows, with the exception of one country (Indonesia), U.S.

commercial exports to these countries were less than U.S. government assisted exports.

Integration at agency headquarters

The P.L. 480 program is administered on an interagency basis by the Development Coordination Committee (DCC). Principal member agencies include the Departments of Agriculture (USDA), State, and Treasury, the Agency for International Development (AID), and the Office of Management and Budget. No one agency has lead responsibility, and decisions are reached by consensus. The DCC members' interests usually reflect the P.L. 480 objective with which their agency is most closely aligned.

There is no interagency group in Washington, D.C., that exists for the express purpose of integrating food aid programs with the various agricultural trade programs. However, the DCC includes participants involved in agricultural export programs.

We were told that most of the DCC work is performed and most program decisions are made by two working groups, each of which meets on a biweekly, generally alternating basis. One working group is responsible for P.L. 480 Title I issues; the other for Title II issues. If agreement cannot be reached by a working group, the issue is elevated to a higher level within the DCC.

Working group members told us that most issues are resolved at the working group level.

The DCC process plays a major role in planning and approving the P.L. 480 program as it operates in each country. For example, each year under the DCC process, the initial commodity allocation (types of commodities and dollar amounts) is established for each country. The DCC also decides on requests made by the U.S. embassies in-country to change the allocation; issues detailed negotiating instructions to the embassies on the terms to be sought in each agreement; and approves the agreements to be concluded between the United States and food aid recipient countries. Concerning the latter, the DCC can question specific elements of a proposed agreement and request changes, such as, the types of self-help measures that a country will implement in return for the food aid. We were told that one of the most important and time-consuming decisions is how to allocate an emergency reserve that is established at the beginning of the year.

The DCC process provides a vehicle for integrating P.L. 480 agricultural trade and food aid objectives. However, there are no written procedures specifying how the P.L. 480 program should be integrated with other agricultural trade programs. And, a formal strategy is not developed or adhered to. Nonetheless, we were told that integration takes place through the efforts of members of the DCC who are responsible for food aid and agricultural trade. For example, Department of Agriculture members on the DCC working group on Title I and their staffs are also responsible for GSM-102/103 and the Export Enhancement Program, as well as for P.L. 480 programs.

Thus, to the extent that DCC member agencies and their representatives are aware of and seek additional information about agricultural trade programs (e.g., GSM-102, EEP, TEA) in a particular country and about how the programs might affect or be affected by the P.L. 480 program in that country, the DCC process can provide a mechanism for integrating U.S. agricultural trade and food aid programs.

Integration in-country

In the six countries we visited, we found that integration of food aid and agricultural trade programs generally occurs as a byproduct of other established activities. Members of a U.S. embassy's country team who are responsible for food aid and agricultural trade issues typically include officials from AID, USDA, and State. They do not prepare a comprehensive strategy describing how food aid and agricultural trade assistance programs will be integrated. Rather, integration can occur through a number of other mechanisms, such as country team meetings and the preparation of work plans and strategy documents which provide opportunities to consider the impact of agricultural trade and food aid programs on one another.

For example, in Egypt and Tunisia, there are regular country team and economic meetings that involve the Ambassador and/or the Deputy Chief of Mission, counselors from AID and State, and the agricultural counselor or attache. In the countries we visited that did not have a resident USDA official, the State Department economic officer represents the USDA interests. These meetings are a forum to discuss economic events and strategies, coordinate programs, exchange information, and resolve conflicts.

Another mechanism for promoting integration is in the preparation of the embassy's annual work plan, called Goals, Objectives, and Resource Management (GORM). In addition, both AID and USDA devise more extensive written country strategies that set out their goals and objectives. However, the latter documents are not necessarily exchanged with each other.

In each country we visited, officials questioned the need for a comprehensive strategy document that addresses the integration of P.L. 480 and other agricultural trade programs. They said they believe they learn enough about each other's goals and objectives through periodic country team meetings, through coordination in various aspects of the P.L. 480 program, and through other more informal means, such as ad hoc meetings and telephone calls. In short, they believe their current approach assures adequate integration.

Examples of Integration

Some examples of instances in which integration has occurred are described in the following paragraphs.

In Bangladesh, U.S. Embassy officials cited the "soybean oil issue" as an example of how a potential conflict was resolved at the country level. The issue pitted AID's economic development goals against USDA's goal of promoting agricultural sales. The issue revolved around the Bangladesh government's request to drop soybean oil from the P.L. 480 agreement because an oil refinery, now privately-owned, could obtain soybean oil at a cheaper price than the price of the P.L. 480 soybean oil.

Dropping soybean oil from the P.L. 480 program conflicted with the Department of Agriculture's objective of maintaining the presence of U.S. soybean oil in Bangladesh. Accordingly, the Agricultural Attache discussed the issue with the AID Title III Officer. They agreed that while dropping soybean oil would result in an immediate elimination of U.S. soybean exports to Bangladesh, privatization of the Bangladesh economy was consistent with the long-term interests of the United States. In place of soybean oil, USDA agreed to make cotton available, which gave it an opportunity for market development of a different commodity.

In Jamaica, U.S. officials said USDA and AID objectives complement each other. Jamaica has undertaken self-help measures that include pricing policy reforms to encourage the dairy industry. In addition, P.L. 480 Section 108 funds may be used to support the dairy and livestock industry. These measures can increase demand for U.S. feed grains, while improving Jamaica's economy.

As another example, the self-help measures in the P.L. 480 Title I agreements for fiscal year 1989 included provisions for strengthening Jamaica's plant quarantine system with the help of AID. A specific agreement was to be negotiated between the Jamaican government and USDA. Strengthening plant quarantine systems will help protect U.S. agricultural producers, preventing the introduction of pests and diseases into the United States that could harm U.S. agricultural production and exports. And, it will help to increase Jamaican exports, thereby enhancing Jamaica's economic growth prospects.

In Tunisia, the United States has been trying to establish a commercial market for sorghum, a feed grain largely unfamiliar to Tunisian farmers and millers. In fiscal year 1988 TEA funds were used to finance a demonstration project. Forty-two metric tons of U.S. sorghum were imported and used to introduce the grain to Tunisian farmers and millers. The project included instruction on using sorghum as a feed and blending it with other feed grains.

In fiscal year 1989, in response to Tunisia's 1988 drought, a Section 416[1] donation of 60,600 metric tons of sorghum was provided to the government of Tunisia (GOT). The GOT initially requested a donation of corn, but USDA determined that sufficient surplus corn was not available. The donation, which further increased Tunisian familiarity with the grain, may lead the GOT to make commercial purchases of U.S. sorghum in the future. At the same time, the donation was expected to generate about $6 million in local currencies, with the proceeds programmed to provide employment opportunities, particularly for those most harmed by the drought in Tunisia's rural central region. The donation also alleviated some of the strain on Tunisia's balance of payments. This conservation of foreign currency contributed to an AID objective of helping Tunisia bridge a foreign exchange gap over the short term.

LITTLE EVIDENCE THAT PROGRAMS ARE WORKING AT CROSS PURPOSES, BUT DELAYS ARE A PROBLEM

In general, we did not find evidence that P.L. 480 and U.S. agricultural trade programs are working at cross purposes. However, we found one case where a conflict between PL-480 food aid and agricultural trade objectives was not resolved in a mutually complementary way. In Bolivia some local currencies derived from

[1]Under section 416 of the Agricultural Act of 1949, the United States can donate surplus farm commodities overseas.

the sale of the food aid were being used to provide support for certified soybean seed production on a relatively minor scale. However, Department of Agriculture officials were concerned that the AID mission was supporting Bolivian soybean or soybean product exports that would compete with similar U.S. commodities or products, and concluded that such assistance contravened U.S. laws and/or congressional intent with regard to such laws. The matter was considered by the DCC.

The AID mission informed the DCC that it (1) was in full compliance with U.S. laws and AID policies, (2) would not directly support the export of soybeans from Bolivia under the P.L. 480 Title III program, and (3) total Bolivian soybean exports were insignificant in terms of U.S. exports and posed no significant threat to U.S. markets. Nonetheless, the DCC directed the AID mission not to provide any assistance, direct or indirect, to Bolivian soybean production, and would not authorize the U.S. ambassador to Bolivia to sign the FY 1989 amendment to the Title III agreement until the mission certified that it would abide by this direction. The mission agreed, and the amendment was signed. However, according to U.S. officials in Bolivia, the soybean prohibition is seriously affecting AID's agricultural program, as well as efforts to get the government of Bolivia to eradicate coca production.

We also found that when there are differences of opinion between agencies over the proposed P.L. 480 objectives or policies with respect to a particular country, the DCC decision-making process, which requires consensus by all agencies, can cause delays in the negotiation and signing of a country agreement.

In Bangladesh, the successful implementation of one policy objective - promoting the private sector - affected the sale of crude degummed soybean oil under P.L. 480. According to USDA officials, the USDA's commodity division did not readily agree to drop crude degummed soybean oil from the sixth amendment to the Title III agreement with Bangladesh. The AID Title III officer said the DCC haggled for 5 weeks before agreeing to drop soybean oil from the amendment.

Regarding Jamaica, the Title I working group Chairman told us that DCC deliberations over the policy of including wood products in the P.L. 480 agreement (after hurricane Gilbert) caused a delay that affected the wood supply. According to the Chairman, because of the delay, Jamaica was forced to purchase wood from other sources; P.L. 480 wood, when finally delivered, created a surplus in the market. The hurricane occurred in September 1988. A request for wood was made in October. The DCC did not agree to the request until January 1989.

Conflicting P.L. 480 objectives are not the only source of delays. We were told agreements may be held up by such factors as arrearage problems, negotiations regarding agreement provisions, and unwillingness of host countries to promptly sign an agreement.

Regardless of the cause, according to USDA, over half of the P.L. 480 commodities were approved for loading during the last quarter of fiscal years 1986, 1987, and 1989; in fiscal year 1988 it was 45 percent. Our own analysis for the countries we visited indicated a similar situation. Late deliveries can result in shipments arriving at local harvest time, thereby having a negative effect on the local farmers' market; higher shipping costs because of a limited supply of U.S. flag ships; commodities arriving when not needed; and a strain on port and warehouse facilities.

AGRICULTURAL TRADE AND DEVELOPMENT MISSIONS

Congress enacted legislation providing for agricultural aid and trade development missions (ATDM's) in December 1987 to encourage greater integration of agricultural trade and food aid programs. The law requires sending missions to 16 developing countries. To date, ATDMs have been sent to 13 countries.

The Secretary of Agriculture (Chairman), the Secretary of State, and the AID Administrator jointly establish missions to eligible countries to encourage the countries to participate in those U.S. agricultural aid and trade programs for which they are eligible.

Missions are to be composed of

-- representatives of USDA, State, and AID; and

-- representatives of market development cooperators, tax-exempt nonprofit agribusiness organizations, private voluntary organizations, and cooperatives appointed jointly by heads of the three agencies. These representatives are be knowledgeable about food aid and agricultural trade export programs, as well as about the food needs, trade potential, and economy of the eligible country.

The ATDM program is administered by the USDA. Appropriations for the past 3 fiscal years were: FY 1988 - $200,000; FY 1989 - $400,000; and FY 1990 - $200,000. The ATDM Coordinator said that about 80 percent of the funds are spent for travel expenses. U.S. government staff salaries and expenses for planning seminars and follow-up meetings in Washington and in the field are paid for out of agency budgets. USDA does not systematically track these costs. However, the ATDM Coordinator said that in Indonesia the mission estimates it spent about $150,000 on one ATDM activity.

Missions were sent to four countries in which we did field work: Egypt, Indonesia, Jamaica, and Tunisia. The ATDMs to Egypt and Jamaica were sent as recently as June and September 1989, respectively. We discussed aspects of the four missions with U.S.

officials, country representatives, and private sector mission members and secured views relevant to their value. While some benefits were identified, the program was criticized by many U.S. in-country officials.

U.S. officials in each of the four ATDM countries that we visited said that the missions identified few if any new trade and food aid program initiatives. While each mission has prepared a report with numerous recommendations, officials said some or many of the recommendations parallel initiatives that were already underway or being considered or pursued by the country team.

In Jamaica, the ATDM's recommendations did not call for specific changes to the food aid or agricultural trade programs and did not identify any new agreements for commodity sales. In Indonesia, officials said the mission had not resulted in changes to the food aid or agricultural trade programs and could not identify any new agreements for commodity sales that have resulted from the mission. The Indonesian ATDM recommended a section 416 program. Although this program has been approved, the role of the ATDM is not clear, since the program was under discussion before the mission's visit. In Tunisia, AID officials said the ATDM has not resulted in significant changes to the food aid or agricultural trade programs and they were not able to identify any new agreements for commodity sales that have resulted from the mission.

Most overseas U.S. officials we spoke with questioned the desirability of institutionalizing the ATDM program. In Tunisia, the Deputy Chief of Mission questioned whether the time and resources that the country team expended in preparing for the ATDM visit were justified by the results. The Economic Counselor also pointed to the lack of new ideas as a reason for not institutionalizing ATDM visits. The AID officer and the Agricultural Trade Officer stated that the mission concept could be improved if the ATDMs were to focus on specific projects, such as aquaculture ventures, as opposed to general issues.

In Indonesia, the State Department's Economics Counselor and USAID officials strongly criticized using ATDMs to improve U.S. trade. These officials believe the exercise produced few material results that would not have occurred without the mission. USAID officials said the time the ATDM spent in Indonesia was completely inadequate. One mission, every 18 months, staying for only a few days, cannot accomplish anything worthwhile, the official said. The State Department's Economic Counselor and USAID officials said lack of Indonesian private sector involvement was a primary reason for the ineffectiveness of the mission.

The U.S. Agricultural Attache in Indonesia agreed that the ATDM's time in-country was completely inadequate to accomplish anything of value and that lack of private sector involvement was a drawback. At the same time, he said he thought the mission had helped to foster positive action on the section 416 program and to remove import restrictions for apples and pears. He also believed that the mission had promoted a closer relationship with the government of Indonesia. A USDA Foreign Agricultural Service Cooperator said that the Indonesian mission may have facilitated private business contact with the government of Indonesia. He noted that the government exercises heavy control over business practices, and must approve private sector activities such as seminars on flour milling.

In Jamaica, the Agricultural Attache was highly critical of the mission for not accomplishing anything new.

In Egypt, officials were reluctant to express firm opinions, since the ATDM report had not been issued. Nonetheless, AID and cooperators questioned the need to institutionalize the program. State Department officials believed the program has the potential to be useful, but could not provide any examples of its benefits. Country team officials and cooperators mentioned the need for future ATDMs to focus on a specific trade issue, problem, or project rather than on more general issues.

While many U.S. officials in the countries we visited were quite critical of the ATDMs, they nonetheless cited some positive results. For example, officials in some countries believed the missions brought stature and renewed emphasis to some issues under consideration. However, in all countries with missions that we visited, most U.S. officials questioned the desirability of institutionalizing the ATDM program.

In discussions with some private sector members of the ATDM, most said ATDMs should be continued. Two private sector members in Jamaica said the current schedule of missions should be completed, but that additional missions, if any, should be to carefully targeted countries.

In Washington, D.C., the head of the ATDM program told us that it is too early to assess the effectiveness of ATDMs in terms of short-term trade benefits, since it sometimes takes 3-5 years to develop a market. He said the ATDMs helped to get high-level attention to issues and that one of their most important roles was to set-up a process for in-country follow-up. He acknowledged there was no separate funding to carry out ATDM recommendations, but suggested that trade organizations use the ATDM reports and recommendations to justify programs of their own. He noted that American embassies would have to rely on other program resources to accomplish ATDM recommendations and follow-up, since the ATDM program provides no authority or funding to set-up new programs. He acknowledged it was unlikely that embassies would continue such activities as holding seminars or other ATDM follow-up without funding for such activities.

Regarding institutionalizing the ATDMs, he said he would not recommend future missions, but would suggest completing the current ATDM schedule and following up on all missions scheduled under the current program, perhaps on a regional basis. He said that the administration does not have any future plans for ATDMs, since the program was developed in response to a congressional mandate.

Based on the cited problems with the ATDMs, Congress may wish to consider not re-authorizing the program.

TITLE III PROGRAMS

We did field work in the only two countries that have P.L. 480 Title III programs -- Bolivia and Bangladesh. Both programs have been used to save foreign currency, generate local currency for funding development measures, and provide incentives for government policy reform.

In Bolivia, during the latter part of the 1980s, the AID Comptroller and the AID Inspector General found major problems and weaknesses in the program. A 1988 Inspector General audit found that the government of Bolivia did not have adequate records or procedures to ensure that local currency proceeds were being used for the agreed-upon development purposes. The government of

Bolivia had been unable or unwilling to implement sound internal controls. And the AID mission had failed to exercise appropriate monitoring of the program. As a result of the audit, major changes have been made in the program. AID officials believe the program is now working well and that it could serve as a model for establishing Title III programs in other developing countries.

In the Bolivian program, implementation is largely delegated to the P.L. 480 Executive Secretariat, a semiautonomous Bolivian public sector agency. It administers the local currency funds generated by the sale of P.L. 480 wheat, with the advice and consent of the AID mission in Bolivia. The Executive Secretariat has a board of directors which is made up of government of Bolivia Assistant Secretaries of Agriculture, Commerce, Finance, Health, and Planning. The board provides the government with an opportunity to provide policy formulation and program oversight. However, until recent years it has not been very active.

Reported advantages of the Executive Secretariat are that AID does not have the manpower and resources to design and implement the many development projects that are funded by the local currency proceeds and it provides Bolivia with an opportunity to establish institutions and train its people in the effective implementation of such projects.

Officials in Bolivia told us that factors important to advancing a successful program in that country are (1) joint programming of the Title III local currencies, with the United States having an important say in how the resources are spent; (2) the semiautonomous status of the Executive Secretariat and strong AID and U.S. Embassy resistance to efforts to politicize the institution; (3) the Executive Secretariat having an effective leader and being able to attract quality staff; (4) a strong financial management system in the Executive Secretariat; and (5) funding of the Executive Secretariat from P.L. 480 local currencies.

In a 1981 report[2] on the Title III program, we found that use of the program has been made difficult by a number of administrative problems. More specifically, we concluded that demanding, complex, multiple program requirements had caused some countries to avoid the program, and interagency administration had complicated the program, delayed individual program approvals, and caused confusion among AID missions and candidate countries about what constitutes an acceptable program. We further noted that P.L. 480 Title I offered an alternative of highly concessional assistance with less demanding requirements.

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[2]Food for Development Program Constrained by Unresolved Management and Policy Questions, GAO (ID-81-32, June 23, 1981).

We encountered the same issues in our field work in six countries in late 1989. AID officials in Bolivia and Bangladesh said that while their programs work well, bureaucratic and administrative problems make management difficult and hinder broader participation by other developing countries. The AID Mission Director and AID Comptroller in Bolivia made the following points:

-- Title III is one of the most highly centralized and bureaucratic programs that they work with. The DCC "micro-manages" the program, raising questions about matters that should be handled by the AID Mission Director. DCC personnel in some agencies are not sufficiently knowledgeable about in-country conditions. As a result, there are repeated rewrites of proposed agreements and it takes months to negotiate a Title III agreement or amendment with the government of Bolivia. The mission routinely negotiates other agreements in 4 weeks.

-- There are too many agencies involved in Washington who do not agree on their respective roles and consequently cannot make decisions. One agency should be given the responsibility to lead and implement the program.

-- The Title III program does not provide for the delegation of authority as do other AID programs. The AID mission should have more responsibility for allocating resources and designating ~~and~~ how local currencies are used for development.

-- A proposed new agreement or amendment should not be delayed while the DCC seeks information on how issues that were raised in the latest annual evaluation of the program are going to be handled. Experience demonstrates that the mission has acted on most problems and recommendations noted in previous evaluations.

State Department and AID officials in Bangladesh believe the DCC carries too much weight in making programming decisions, leaving in-country officials little flexibility. The AID Title III Officer said centralized program management makes negotiating agreements difficult and restricts in-country officials' ability to maneuver and take advantage of opportunities. Officials also said that annual programming requirements adversely affect the commodity delivery schedule and the host country's ability to purchase as much food as possible.

U.S. officials in countries without a Title III program also spoke critically about such programs. For example, AID officials in Jamaica, who had previous experience with Title III programs, said: (1) the legislative guidance is too specific and restrictive; (2) too many items must be reviewed and approved by the interagency process in Washington, and some of the agencies do not have people in the field to properly staff the issues; and (3) too many AID staff are required in-country to manage the program.

AID officials in Indonesia said (1) the administrative requirements are too burdensome both to the Mission and to the host country; (2) there are too many objectives and reporting requirements; and (3) the program is accountable to too many agencies. An Indonesian government official said the Title III program requires unacceptable levels of scrutiny and too much work.

In Egypt, the AID mission said it is receiving pressure from headquarters to begin a Title III program. Mission officials said they are not interested because of the program's large administrative burden relative to the small amount of dollars involved. The officials said the debt forgiveness feature is not much of an incentive to the Egyptian government because the debt amount to be forgiven would be insignificant compared to Egypt's total debt. Title III might be more attractive if the debt forgiveness could be applied to current Title I debt rather than to debt owed in future years.

In Tunisia, the AID mission does not favor a Title III program because it requires a lot of administrative work. In addition, although a multiyear program, Title III must be undertaken without guarantees that planned funding and commodities will be available in subsequent years.

FOOD AID MANAGEMENT PLAN (FAMP)

As part of our examination of P.L. 480 programs, we reviewed the status of AID's efforts to better manage its food aid programs through development and use of a generic Food Aid Management Plan (FAMP). The FAMP is an internal management tool designed to help overseas AID missions clarify and document their management role, approach, and responsibilities for their various food aid programs.

The FAMP was developed as a result of recommendations from AID's Executive Committee on the Future Management of Food Aid Resources and a 1987 GAO report[3] that made several recommendations to AID for improving the oversight of P.L. 480 programs. The latter noted that many problems arise through a lack of proper identification of responsibilities for monitoring the many phases of food aid in the field.

According to AID's Deputy Assistant Administrator and Coordinator, Office of Food for Peace, a central purpose of the FAMP is to make explicit who is responsible for each element of the food aid program, thereby increasing accountability, reducing vulnerability, and increasing overall efficiency and effectiveness of food aid assistance. FAMP informs the missions of the full extent of their

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[3] Food Aid: Improving Economic and Market Development Impact in African Countries (GAO/NSIAD-88-55, December 21, 1987).

responsibilities for managing various aspects of the food aid portfolio, including P.L. 480 Titles I, II, and III.

We were told that the FAMP has a high priority in the Office of Food for Peace. However, even though the FAMP was developed in 1988, it is still in the draft stages. It was pre-tested in three countries during 1988. In January 1989, AID headquarters sent it to 18 additional missions, requesting that they complete the document and provide comments on the usefulness of the effort by early March 1989. Completing the document was optional. As of mid-February 1990, nearly 1 year after the submission deadline, only 4 of the 18 countries had done so. Seven missions have informed headquarters that they plan to complete it but have not done so yet. One country said it will not unless required. And six have not responded to headquarters, even though a follow-up cable was sent out.

The administrator said she is waiting for the results of an analysis of the FAMP, including comments by those countries that have already completed one. If the analysis is positive, she expects a FAMP will be requested from missions in general. However, she indicated that not every mission will find it useful or will need to complete one.

Of the six countries included in our review, the AID mission in Bangladesh completed a FAMP-like document during the pretest. The

Indonesian mission, which was asked to complete the FAMP in January 1989, has done so. AID officials in both countries said they believe the FAMP is useful. Missions in Bolivia, Egypt, and Tunisia were also asked to complete the FAMP. Bolivia and Tunisia have said they will do so in 1990. AID officials in Egypt decided not to complete the FAMP because they believe the food aid program in Egypt is not complex enough to require such a document.

PRIVATE VOLUNTARY ORGANIZATIONS AND THE TITLE II PROGRAM

We also looked at food aid programs sponsored by U.S. private voluntary organizations and cooperatives (PVOs), under Title II of Public Law 480. As you are aware, Title II authorizes food donations to PVOs, as well as the United Nations' World Food Program and foreign governments. These donations are used to alleviate hunger and malnutrition and promote economic development in friendly developing countries. Our objectives were to determine whether (1) U.S. PVOs are phasing down, or choosing not to sponsor, non-emergency programs; (2) there have been changes in food aid programs in Sub-Saharan Africa; and (3) legislative and administrative changes would make sponsorship of food aid programs easier and more attractive. As part of our review of these issues, we did field work in Burkina Faso, Togo, and Kenya.

We found that, as a group, PVOs are not withdrawing from the Title II program and expect to request more food during the next 5 years. As you know, the Coalition for Food Aid has asked Congress to increase total Title II tonnage and the tonnage set aside for non-emergency programs when it reauthorizes this program for the next 5 years.

There have been significant changes in the volume of food and the types of programs implemented in Africa. In 1989, total tonnage for programs in Africa was 10 percent less than in 1986, and the percentage of food for supplementary feeding programs decreased sharply. Both changes are due, in part, to decisions by the largest PVO in Africa to terminate programs in several countries. New programs by other PVOs are generally small and development-oriented. There has been a steady increase in the volume of food aid sold by PVOs to generate local currencies to help pay project expenses. In fiscal year 1990, about 30 percent of the total tonnage requested by PVOs for their African programs will be sold.

Although PVOs indicate continuing interest in sponsoring non-emergency food aid programs, they say that it has been difficult for them to obtain reliable funding from private donations, host governments, local partners, program beneficiaries, and the U.S. government. PVOs can generate local currencies to help pay local costs through the program's commodity sales provisions. However, PVOs say that access to dollar funding to help pay dollar-based costs has been less certain. PVOs say they need reliable dollar funding to pay not only the administrative costs of food programs, such as project design, planning, accounting, and evaluation, but also project-specific costs, such as transportation, equipment to enhance development impact, and monitoring. PVO officials told us that these costs are frequently greater than their organizations are willing or able to pay. Several smaller PVOs told us that, without dollar funding, they will not be able to implement planned expansions in Africa.

AID has provided a variety of dollar grants to PVOs to help support food aid programs. However, the availability of AID funds is not guaranteed, and the total has fluctuated from year to year in relation to AID's other development priorities. To alleviate the uncertainty about dollar funding, the Coalition for Food Aid has asked Congress to legislate an annual budget for dollar grants. It has suggested that Congress amend Public Law 480 to provide that not less than 2 percent of the Title II budget be made available to PVOs to expand current programs, establish new ones, and meet costs that cannot be paid with local currencies generated by selling Title II commodities. We did not determine if 2 percent is the right amount, but it seems reasonable that a more reliable source of dollar funding for PVOs would help make Title II programs more effective.

PVOs told us, and our review corroborated that some of the administrative regulations governing the transfer and use of Title II commodities are outdated, excessive, and unrealistic and make management of these programs unnecessarily difficult. Our review also indicated that AID has not revised Title II regulations since 1979, despite several attempts to do so and numerous legislative changes in the interim. Given the long delay and the low priority that AID has placed on this task, we believe AID needs to complete its revision and set a timetable for this process.

We believe AID should focus on revisions which eliminate unnecessary reporting, clarify loss claim procedures, update monetary guidelines to account for inflation, and simplify procedures for destroying spoiled commodities, as these problems were frequently mentioned by PVO officials during our field work. However, in view of the vulnerability of food aid to fraud and misuse, no revision should diminish the expectation that PVOs must be able to account for the commodities and funds they receive from the U.S. government.

In view of the concern expressed by your Committees about the decreased tonnage of food aid directed toward Africa and the decreased tonnage directed toward supplementary feeding programs, you may want to convey these concerns directly to AID and ask that it assist PVOs to whatever extent necessary to address those concerns. A budget for dollar funding may be particularly useful in helping PVOs design new programs for Africa.

P.L. 480 AND LOCAL CURRENCY USES

The use of local currencies generated from U.S. assistance has increasingly been seen as an important component of the U.S. foreign assistance program. But AID management and its Office of Inspector General disagree over the extent to which AID should maintain accountability for the use of these currencies.[4]

The local currencies generated under Title I of P.L. 480 and other programs have been traditionally viewed as being owned by the host country. Although host-country-owned, the terms of U.S. assistance require that AID and the host country negotiate and jointly agree on how these local currencies will be used. In 1988, local currencies equal to $657 million were generated in 45 countries through P.L. 480 and section 416 of the Agricultural Act of 1949. Local currencies equal to $562 million were spent.

AID missions believe they need flexibility in designing and negotiating local currency programs because each country's development needs are different. Local currencies can fund a wide variety of activities, and can be used to support development

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[4]During our review of this and other local currency issues, we did field work in Tunisia and Zaire.

projects or programs managed by AID, the host country, or other donors. They are also used for general budget support in the host country, or for the development budget of a particular sector or ministry. In some cases, local currencies can be used to support policy reforms agreed upon with the United States.

AID management and its Office of Inspector General differ on the extent to which the agency is responsible to account for and maintain control over the use of these host-country-owned local currencies. AID management argues that, while it recognizes its responsibility for assuring that local currencies are used for appropriate economic development, host countries, and not AID, ultimately should be accountable for the proper use of the currencies. AID officials maintain that increasing demands for accountability creates friction with the host government because government officials view the currencies as their own. Also, some officials have told us that they simply do not have enough staff to significantly increase their local currency monitoring.

The Inspector General contends that AID missions must maintain accountability for the local currencies, almost as though they were appropriated funds, because they are generated from U.S. assistance. Based on this criterion, Inspector General audits have found that many AID missions, because of accounting and monitoring weaknesses in the mission or in the host government, cannot always assure that local currencies are properly used.

Because P.L. 480 requires that local currencies be used for economic development, it implies an expectation of some assurance that the funds are used for the intended purpose. The disagreement between AID management and the Inspector General centers on the level of accountability required to provide reasonable assurance that the currencies are used as intended. AID officials acknowledge that there are some areas where improvements should be made and have taken some action. But the disagreement has created frustration and uncertainty in AID missions.

AID needs clear and practical accountability guidelines. These guidelines should be sufficiently flexible to allow the missions to negotiate local currency uses according to each country's unique development needs and managerial capabilities. The guidelines should also take AID's limited staff resources at the missions into consideration. Most importantly, the guidelines should emphasize assessing and improving the financial management systems of host country agencies so that AID can be reasonably assured that the necessary internal controls are in place and that local currencies will be properly used.

Mr. Chairmen, this concludes my statement. I will be happy to answer any questions you have.

Table I.1: U.S. Government-Assisted and Commercial Agricultural Exports (FY 1987 - 1989)
Dollars in millions

	GSM-102/ EEP	GSM-102 alone	GSM-103/ EEP	GSM-103 alone	EEP alone	P.L. 480 Title I/III	P.L. 480 Title II	Section 416	Total gov't.-assisted exports	U.S. comm'l. exports	Total U.S. exports
Bangladesh	$0.0	$0.0	$61.7	($8.3)	$59.6	$193.2	$36.6	$25.4	$368.1	$59.1	$427.3
Bolivia	0.0	0.0	0.0	0.0	0.0	57.5	36.6	1.0	95.1	30.4	125.5
Egypt	596.2	243.6	0.0	0.0	152.5	453.0	3.2	0.0	1,448.4	1,017.4	2,465.8
Indonesia	0.0	0.0	0.0	0.0	20.4	44.2	17.8	0.2	82.5	524.4	607.0
Jamaica	0.0	62.3	0.0	0.0	0.0	82.4	932.5	3.2	168.9	65.4	234.3
Tunisia	89.7	5.5	19.2	14.6	6.6	64.3	1.3	5.1	206.1	71.8	277.9
Total FY87-FY89	$685.9	$311.4	$80.9	$6.3	$239.0	$894.5	$1,027.9	$34.9	$2,369.1	$1,768.6	$4,137.7

Notes: USDA/FAS advised GAO that these are the best estimates of export information that could be obtained for the various programs on a fiscal year basis. Since there are many different agencies involved in export programs, and each gathers information for the programs it administers based on its unique needs, information for one program may not be directly comparable to that collected for another. Some estimates are registered sales, some are export value reported by the Agricultural Stabilization and Conservation Service, and others are estimates reported by exporters. Also, different agencies make their reports at different times.

GSM-102 with EEP and GSM-103 with EEP represent the value of exports that were assisted by both a guarantee program and Export Enhancement Program (EEP) funds.

P.L. 480 Title I/III, Title II, and section 416 represent export values.

This table does not include assistance provided under the TEA and Cooperator Programs.

Source: USDA/FAS. For GSM-102 alone, GSM-103 alone, and EEP alone, GAO disaggregated data that FAS provided.