GAO

United States General Accounting Office

Report to the Honorable David L. Boren, U.S. Senate

February 1994

MOZAMBIQUE

Insufficient Effort Made to Attract U.S. Suppliers Under AID Commodity Program

GAO/NSIAD-94-73

GAO

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

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National Security and
International Affairs Division

B-255675

February 28, 1994

The Honorable David L. Boren
United States Senate

Dear Senator Boren:

At your request, we reviewed the Agency for International Development's (AID) procurement procedures and practices under a commodity import program (CIP) that was established in 1984 to revitalize Mozambique's private agricultural sector. You were concerned about the amount of CIP funds spent in Mozambique to purchase goods procured outside of the United States. For example, 18 percent of total commodities and less than 1 percent of vehicles supplied to Mozambique from fiscal years 1985 to 1993 under CIP were from the United States. You asked us to determine (1) why this program has primarily benefited U.S. trade competitors, (2) whether changes in law or regulation are needed to prevent this procurement imbalance, and (3) whether AID financing of commodity purchases from South Africa was in violation of sanctions imposed against this country.

Results in Brief

AID's development focus and program design were mainly responsible for a comparatively low rate of U.S. supplier participation in program financing. The program was geared toward small-scale farmers and employed a procurement strategy that gave importers flexibility to buy commodities from approved offshore sources. The lack of U.S. supplier participation was further accentuated by an environment of political instability in which U.S. firms had not established strong commercial ties. Despite these conditions, some market entry opportunities to sell U.S. trucks were missed because AID officials did not (1) actively solicit or notify U.S. suppliers of planned vehicle requirements or (2) adequately explore the suppliers' capability to build 8-ton or larger right-hand drive vehicles and their willingness to establish service facilities and supply spare parts to support them. To increase export opportunities for U.S. firms, AID has restricted program financing for vehicles to U.S. sources, expanded the list of eligible commodities, and issued new guidance aimed at improving procurement planning.

No changes are needed in law or regulation to prevent this procurement imbalance. Under AID's "Buy America" policy, missions were told that commodities should be procured from U.S. sources to the maximum extent practicable. When AID adopted simplified procurement procedures in 1988 pursuant to legislation establishing the Development Fund for Africa, it also issued instructions to the missions that made it clear that the new procedures did not lessen the requirement for commodity procurements to be made from U.S. sources whenever possible. However, for certain commodities (e.g., trucks), AID officials who were responsible for justifying and approving requests for waivers that commodities be of U.S. source or origin did not adequately determine whether the commodities could have been provided by U.S. suppliers.

AID's financing of commodity procurements from South Africa was not in violation of sanctions implemented under the Comprehensive Anti-Apartheid Act of 1986. The commodities procured during the time that sanctions were in effect were from South African private sector organizations allowed by the act.

Background

After Mozambique gained independence from Portuguese colonial authorities in 1975, the country's ruling party inherited an economy ravaged by civil war that left millions facing food shortages and forced others to leave their homes. The new government, heavily influenced by the Soviet Union and other communist countries, initially pursued a centrally planned development strategy—nationalizing productive sectors of the economy. The effect of nationalization was economic collapse; the agricultural sector, which was the mainstay of the economy with about 80 percent of the labor force, was particularly hard hit.

Since its economic strategy was not succeeding, the government adopted a fundamentally new approach in 1983—increased privatization—and launched a program of reforms aimed at boosting food production and strengthening the private agricultural sector. The reform package attracted wide support from Western aid donors, including the United States. In 1984, to respond to the Mozambique government's private sector initiatives and improve relations between Mozambique and the United States, AID approved a CIP specifically directed at revitalizing Mozambique's private agricultural sector. The aid was designed to encourage the government's economic reforms, reduce the Soviet Union's influence, and alleviate the suffering of Mozambique's people.

Since that time, AID has provided Mozambique with $113 million in CIP financing under two programs consisting of commodity imports and technical assistance and training projects. From 1984 to 1988, AID funded

$51.6 million in assistance through the Private Sector Rehabilitation Program. This program focused on a limited range of agricultural products and covered only 2 of Mozambique's 10 provinces. Since 1989, AID has provided $61.4 million in assistance through the Private Sector Support Program. Under this program, AID seeks to improve incentives for production and income. AID increased CIP coverage to all 10 of Mozambique's provinces and expanded the list of eligible commodities to include all those related to agricultural production, processing, and marketing.

The extent of reflow of U.S. foreign economic assistance dollars back to the United States as a result of programs that finance commodity procurement is difficult to determine, and AID data on this subject is unreliable.[1] However, CIPs usually provide a higher rate of U.S. dollar reflow than other AID programs. AID uses CIPs to provide generalized financial support in implementing agreed-upon government reforms, and local currency is generated by importers in exchange for AID's issuance of letters of credit to import specific commodities and services. Although in contrast with the Mozambique program, CIP procurements are frequently made by public sector organizations and restricted to U.S. sources.

Commodity purchases under the Mozambique CIP were initially provided through economic support and development assistance funds but were restricted by Buy America provisions that required all procurements to be of U.S. source and origin. Waiver of the Buy America requirements required extensive written justifications and multiple clearances, causing undue delays and unnecessary paperwork that hampered AID's project implementation in Africa. Because of the onerous requirements placed on African missions to process the waivers and a severe decline in the conditions of sub-Saharan Africa in the 1980s, Congress created the Development Fund for Africa (DFA) in December 1987 to provide more stability in U.S. development assistance funding and give AID greater flexibility in carrying out its work in Africa. Congress included a blanket waiver provision in the legislation that exempted DFA funding from the Buy America requirement. AID has financed all procurements since December 1987 under the Mozambique CIP with DFA funding.

[1]Foreign Assistance: Accuracy of AID Statistics on Dollars Flowing Back to the U.S. Economy Is Doubtful (GAO/NSIAD-93-196, Aug. 3, 1993).

Development Focus and Program Design Limited Opportunities for U.S. Suppliers

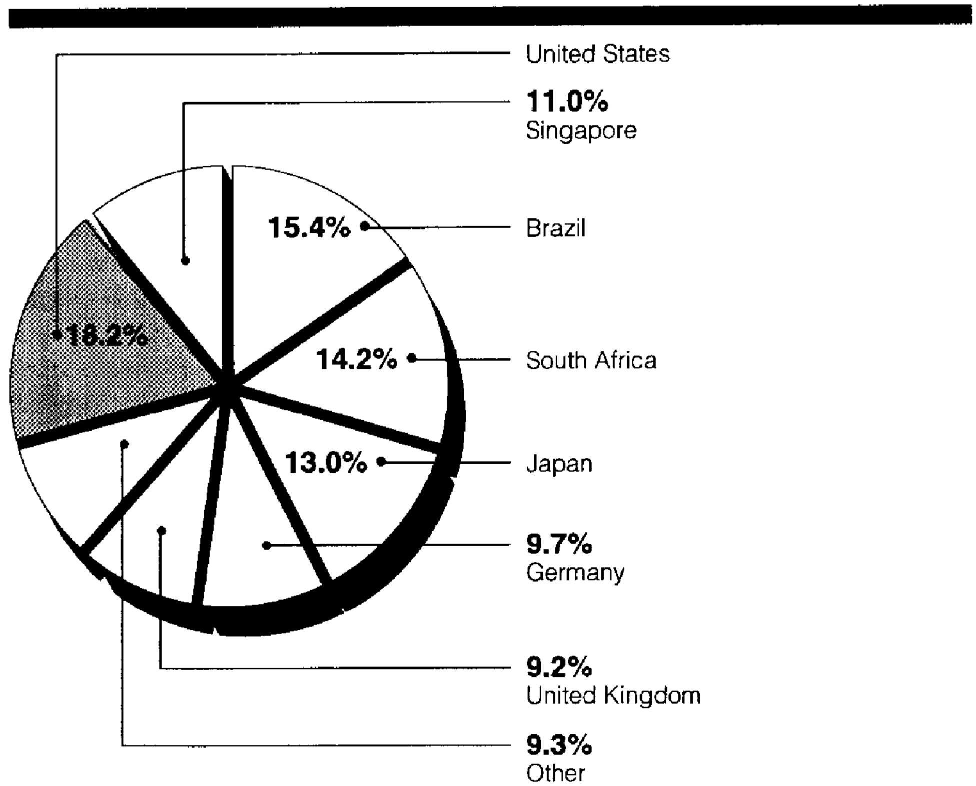
The Mozambique program was primarily development oriented and designed to place procurement decisions in the hands of local importers. Development focus was on the small private farmers and the program design reduced the marketing opportunities normally available for U.S. suppliers. The relatively simple nature of Mozambique farming (the average farm size participating in the program is 50 to 100 acres) and the limited resources of these farmers made it inappropriate in many instances to import the typically larger and more sophisticated equipment available from U.S. sources. Mission officials told us that unsuitability for local conditions and high unit cost were also factors in the importers' decisions to procure certain commodities from non-U.S. sources.

In addition, the program was designed to give local importers and end users much latitude in procuring commodities from whatever source or country of origin they chose as long as the commodities being procured met the designated program criteria. Mission officials said that local importers were encouraged to buy from U.S. suppliers, but when no U.S. suppliers were represented through local dealers or met program criteria, the officials deferred to the importers' preference. The officials further told us that giving the importers the prerogative to select items to be procured (from an approved commodity list) was the most efficient means to allocate resources and that this method had been used throughout the program. As a result, the source that local importers used to procure commodities was significantly influenced by the commercial links that were already established with Mozambique's traditional European and South African trading partners and with Japanese companies that aggressively marketed their products in the 1980s.

Low U.S. Share of Procurements Was Affected by Lack of U.S. Investment

At the time of our review, the total value of procurements made under the Mozambique CIP was about $84 million. The value of procurements from the United States exceeded that from any other single country, but the share secured by U.S. suppliers was relatively small (18 percent). Procurements from six other countries accounted for nearly all of the other program imports, as shown in figure 1. Details of procurement activity by commodity category and country under the Mozambique program are presented in appendix I.

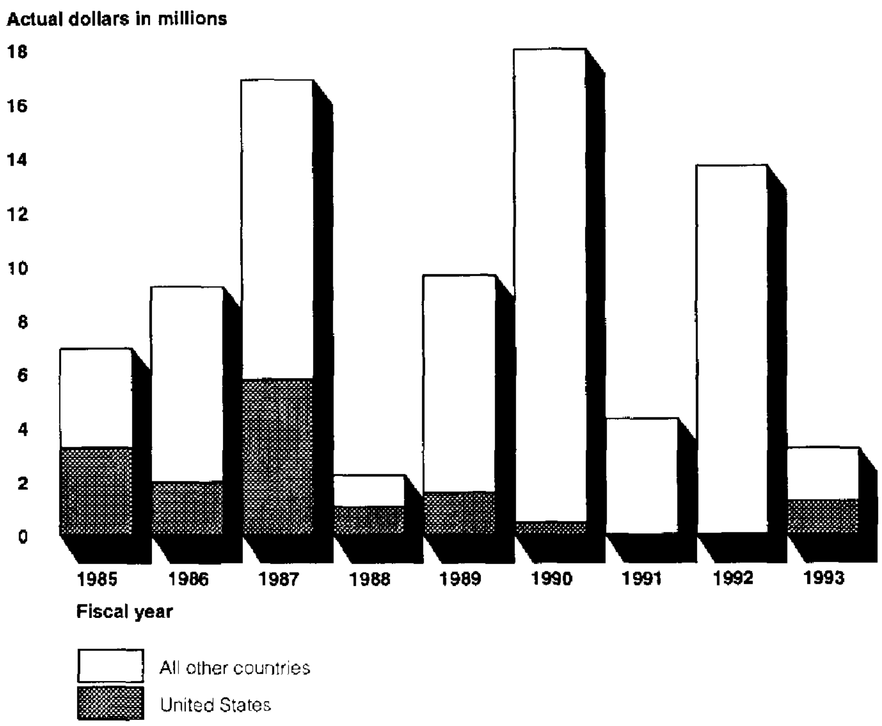
Figure 1: Share of Total CIP Procurements, Fiscal Years 1985-93



Source: AID.

The value of procurements from the United States declined both in real terms and in relation to the share attained by other countries between fiscal years 1988 and 1992. No procurements were made from U.S. suppliers in fiscal years 1991 and 1992, but procurements resumed modestly in fiscal year 1993 (see fig. 2). Mission officials attributed the decline between fiscal years 1988 and 1992 to tight credit conditions that existed in Mozambique and a lack of competitiveness of U.S. products. In addition to the procurements already made, about $29 million remained unspent or uncommitted under the Private Sector Support Program at the time of our review.

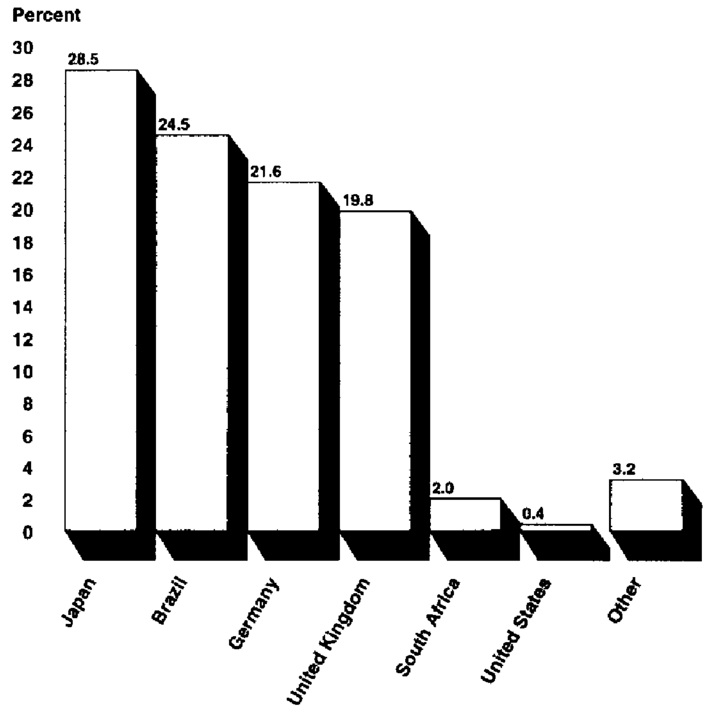
Figure 2: Total Value of Procurement Commitments Signed, Fiscal Years 1985-93



Source: GAO's analysis of AID data.

Trucks and related spare parts represented the largest share of procurements, accounting for $24 million (29 percent) of the total. Another $14 million (16 percent) was spent to procure tractors and related spare parts. The United States provided only three trucks (less than 1 percent) under the program during fiscal years 1985 through 1993. Four countries—Japan, Brazil, Germany, and the United Kingdom—supplied nearly all of the vehicles and spare parts (see fig. 3).

Figure 3: Truck and Tractor Procurements, Fiscal Years 1985-93



Note: Percentages include procurements of related spare parts.

Source: AID.

The low level of U.S. goods imported under the program appears to be at least partly the result of lack of interest and/or business investment by U.S. firms in the Mozambican market. Mission and embassy officials reported few American commercial contacts. U.S. foreign investment in Mozambique, discouraged by socialist economic policies, political instability, and a spillover effect from the sanctions against South Africa, was minimal during the course of the program; for example, in 1991, U.S. private sector investment was only about $70,000. Local importers had little contact with U.S. suppliers, and without established U.S. business links in country, the mission had no ready access to distribution points for American products. U.S. exports were chiefly bulk commodities that did not require an ongoing business presence. Mission officials and local importers said that if the importers were told that they had to buy equipment items from U.S. suppliers that did not have existing maintenance facilities or adequate supplies of spare parts, the AID program would not have generated any interest.

Despite encouraging developments in Mozambique's political situation, U.S. firms are taking a "wait and see" approach toward investment in the country. One way to gauge how U.S. firms view the investment climate in Mozambique is through their participation in the annual Maputo trade fair. Five U.S. firms planned to attend the 1993 trade fair versus 10 that attended in 1992, none of which were truck or tractor suppliers despite a recent U.S. monopoly on vehicle procurements under program financing (see below). During 1992, the mission sent letters to vehicle manufacturers in the U.S.—General Motors, Ford, Chrysler, Mack, Volvo/White, Navistar, and Paccar—of vehicle procurement opportunities and urged local importers to contact U.S. suppliers directly to establish representational agreements. The importers told us they did contact U.S. suppliers, but received little response.

U.S. Exports Were Not Sufficiently Promoted Under Mozambique Program

Until recently, AID management did not appear to give adequate consideration to the trade impact of private sector CIPs in deciding whether and how to finance Mozambique's development needs. The program assistance and approval documents, prepared throughout the program by mission staff and reviewed and approved at various levels within the agency, sufficiently disclosed the mission's intent for a large majority of the commodities financed under the program to be procured from non-U.S. sources. However, as far as we were able to determine, the mission's offshore procurement practices were never formally challenged by agency management until mid-1992 when private sector and congressional concerns were raised about them. These concerns prompted AID to cancel orders of over $6.1 million in non-U.S. origin vehicles and suspend all vehicle procurements under CIP from non-U.S. sources. AID's Africa Bureau and mission officials told us that the suspension of vehicle purchases from non-U.S. sources was not an admission of faulty procurement practice but a response to congressional concerns.

At the time of our review, AID was continuing to take steps to increase export opportunities for U.S. firms. Even though the suspension of vehicle procurements from non-U.S. sources was still in effect, AID had expanded the list of eligible commodities under the program to include the financing of lower cost late-model used trucks (under a parts and service warranty) that appeared to be in good demand.[2] Mission officials told us that they were also considering having U.S. consumables imported (i.e., rice, sugar, and wheat), even though they thought that importation of such commodities instead of investment items was counterproductive for development. In addition, to increase U.S. supplier participation, AID's Africa Bureau issued new guidance to the missions. The new guidance was aimed at improving procurement planning, including the adoption of monitoring procedures to ensure that large numbers of non-U.S. motor vehicles do not wind up being financed by AID.

AID officials consider the Mozambique CIP a success. Mozambique mission officials said that the program helped to revive the agricultural sector, which is critical to the country's overall economy. The mission unit was cited for superior performance by AID's Special Awards Committee in 1993. In addition, formal AID evaluations concluded that the program was well conceived and made a positive contribution to Mozambique's development needs. However, one contractor evaluation completed in March 1992 raised questions on whether the mission financed the best product mix to encourage agricultural production and did enough to promote procurement of U.S. goods by informing potential suppliers of the planned program and encouraging them to establish local dealerships and support facilities. The evaluation noted that if U.S. firms had learned earlier of the multiyear program, and if the program offered the prospects for commodity purchases in sufficient volume to make investments in Mozambique service and maintenance facilities worthwhile, more U.S. goods might have been imported under the program.

In fact, some market entry opportunities to sell U.S. trucks were missed because (1) mission officials were not fully aware of U.S. vehicle manufacturers' supply capability, (2) the officials did not explore the manufacturers' willingness to establish needed service facilities and supplies of spare parts in Mozambique, and (3) AID management did not adequately review and monitor the mission's offshore vehicle procurements. Between January 1986 and January 1992, the Mozambique mission issued letters of credit for CIP financing of offshore purchases of 322 8-ton or larger capacity trucks estimated to cost more than $11.6 million. Truck procurements were not advertised in the usual trade media because mission officials determined that there would be no purpose in doing so, since no U.S. vehicle supplier was established in Mozambique that could provide the required after-sales service and spare

[2] As of October 1993, a U.S. truck supplier told us it had agreed to supply 37 large late-model used trucks valued at $1.1 million under CIP and 46 older trucks through non-program financing.

parts support. Mission officials also initially justified the offshore vehicle procurements because they believed that no U.S. truck manufacturer built right-hand drive vehicles for 8-ton trucks. However, we found that over one-fourth (94) of the trucks actually procured offshore during this period were left-hand drive vehicles.

AID regulations require that motor vehicles must be made in the United States to be eligible for program financing, unless special circumstances exist. Special circumstances that may justify waiving this requirement include a present or projected lack of adequate service facilities and supply of spare parts for U.S.-made vehicles. There is some disagreement within AID regarding the requirement. An AID headquarters procurement official responsible for motor vehicle policy told us that U.S. suppliers should have had the opportunity to bid on vehicle requirements even if they did not have facilities in place to support the vehicles but were willing to commit to make the necessary investment to support them. However, in its comments on a draft of this report, AID said that commodity management and Africa Bureau personnel had insisted that relying on a promise by a U.S. supplier to establish vehicle maintenance facilities did not work. AID further commented that it had also had negative experiences in Africa when it relied on such a promise.

Regardless, mission officials responsible for determining potential procurement sources did not determine whether any U.S. manufacturer of the needed-size trucks was willing to make such an investment (estimated at 2 years of supply support) in service facilities and spare parts. A U.S. supplier's representative of such trucks also told us that the supplier probably would have been agreeable to make such an investment for any significant volume. (The quantity would have depended on circumstances, but it would have been below the level of procurement that actually occurred.)

Managers at AID headquarters and regional overseas offices did not challenge the mission's proposed offshore procurement plans. In approving the initial program financing in September 1984, before DFA's enactment, the Africa Bureau and a Washington-based commodity manager gave clearances to buy 8-ton trucks and spares offshore because of a request for waiver, stating that no U.S. truck manufacturer produced right-hand drive vehicles in this required size. In addition, regional directors appeared to have relied on AID headquarters' prior approval of the waiver determination when they approved further mission offshore truck procurements in 1985 through 1987. However, a U.S. truck manufacturer told us that it did produce 8-ton right-hand drive vehicles at the time of the initial and subsequent offshore procurements. An AID commodity official acknowledged that such vehicles were available in the United States at the time and conceded that clearances to buy the vehicles offshore should not have been given without first determining whether U.S. suppliers could have responded to the mission's requirements.

AID managers also did not notify U.S. suppliers of the continuing commodity requirements under the Mozambique program. According to AID procurement instructions for private sector and other types of financing programs in which commodities are procured on a negotiated basis, AID will distribute to the U.S. business community and periodically update (at least every 2 years) for each cooperating country a list of commodities that are expected to be imported and the names and addresses of importers that have traditionally purchased those commodities. According to an AID official responsible for such lists, the only listing prepared for the Mozambique program was in November 1984, announcing an initial $6 million procurement of various agricultural commodities, including 8-ton trucks. The listing did not specify the quantities of items being procured. Another AID official believed that publication of such notices was only required at the commencement of a new program.

Aside from trucks, it appeared that mission officials sought to have commodities procured from the United States whenever they thought it was possible. However, the officials regarded certain commodities to be better suited to U.S.-origin procurement than others. Although AID policy does not require individual private sector procurements to be advertised, mission officials advertised those commodities they judged to be more accessible in the United States in the Department of Commerce's Procurement Information Bulletin. During our review, we obtained copies of advertisements dating back to 1985 for such items as raw materials, seeds, gasoline, hardware, and miscellaneous agriculture equipment and supplies. However, mission officials did not advertise for the under 75-horsepower tractors needed by small farmers because they determined (and we verified) that tractors of this size were not made in the United States at the time.

Buy America Guidance Was Clear but Not Effectively Implemented

The Mozambique mission's financing of commodity procurements in certain instances from offshore rather than U.S. sources resulted from ineffective implementation of AID's Buy America guidance. Although AID is exempt from certain federal procurement laws and regulations, its policy is to promote procurement of U.S. goods and services, to the maximum extent practicable, in accordance with the government's Buy America requirement.[3] However, no specific requirement explicitly instructs mission directors on when to restrict procurements to a U.S. source or perform the required procedures to procure offshore. Rather, the AID Administrator instructed mission directors to use common sense to determine what procurement source would be most understandable to the American taxpayer. Except for DFA-funded and certain other programs, AID procurements not supported by individual waivers on a transaction-by-transaction basis are generally restricted to U.S. source or origin.

AID's policy that goods and services should be procured from the United States to the maximum practicable extent did not change when DFA was established, even though DFA-funded procurements are also exempted from the Buy American Act requirements.[4] Instead, DFA expedited the procurement process to make it more responsive to the recipient country's needs. In addition, AID headquarters undertook sufficient efforts to make clear to overseas missions the agency's view on Buy America under DFA-funded programs.

In April 1988, AID's Africa Bureau issued a special set of policy rules governing the missions' implementation of DFA. The rules transferred virtually all DFA implementing authority to the missions, giving them much flexibility in exercising the blanket waiver exemption allowed under legislation. The rules also permitted missions to execute procurements offshore without processing a waiver for AID headquarters' approval (in most cases without special documentation), thus achieving the statutory purpose of eliminating the onerous waiver procedures that were affecting program development. The guidance informed mission staff that the DFA exemption authority should be used sparingly and that significant

[3]AID's Buy America requirement refers to a provision of the Foreign Assistance Act of 1961, as amended, which allows AID to use funds from the act for procurement outside the United States only if the President determines that such procurement would not adversely affect the United States. In 1961, President Kennedy made such a determination, authorizing AID to procure from developing countries for AID-financed procurement but not from industrialized countries without a special case-by-case waiver. Recent legislation (P.L. 102-391, Oct. 6, 1992) modified the provision by restricting the procurement eligibility of "advanced developing countries."

[4]22 U.S.C. 2293(n)(4).

decreases in overall U.S. source commodity purchases as a result of the exemption were not intended or expected. The missions were instructed to develop their DFA procurement plans to ensure a high level of U.S. source procurement to the maximum extent practicable; specifically, they were instructed to procure U.S.-manufactured vehicles whenever they could be made available.

No ambiguity existed at the Mozambique mission about the agency's view on Buy America under DFA-funded programs. Past and present mission officials told us that they were well aware of and clearly understood the agency's view on Buy America both before and after DFA was passed. Furthermore, they told us the mission was aware of the low level of U.S. source procurements under the program and tried to address this concern by expanding the list of eligible commodities to increase the participation of U.S. suppliers. Nevertheless, in exercising the DFA authority, the Mozambique mission financed vehicles and possibly other commodities offshore without fully exploring the capability and willingness of U.S. suppliers to meet program requirements.

We stated in an April 1991 report that AID's DFA procurement guidance did not permit the missions to take full advantage of the flexibility offered by Congress.[5] In response to our report, AID agreed to re-examine the guidance; as a result, it determined that the guidance would be more effective if it were simplified and liberalized. AID's Africa Bureau reissued the guidance in February 1993. The new guidance satisfactorily addressed the failure to adequately pursue U.S. procurement in some assistance programs and specified a broader range of actions necessary to maximize U.S. procurement at the mission level and for non-project assistance programs.[6] Some of the actions included (1) mandatory mission procurement plans to be submitted to the African Bureau for screening, (2) an explanation why each case of non-U.S. source procurement is not practicable, (3) mission suggestions on ways to involve U.S. suppliers, and (4) proactive monitoring by management staff of mission procurement plans that appear to contain significant opportunities for U.S. suppliers.

[5]Foreign Assistance: Progress in Implementing the Development Fund for Africa (GAO/NSIAD-91-127, Apr. 16, 1991).

[6]Commodity import programs are categorized as non-project assistance programs.

Procurements From South Africa Did Not Violate U.S. Sanctions

On October 2, 1986, Congress enacted sanctions against South Africa under the Comprehensive Anti-Apartheid Act as a means of pressuring the South African government to change its apartheid system. Specifically, section 314 of the act prohibited U.S. government organizations from entering into procurement contracts for goods or services from South African government parastatals[7] except for items necessary for diplomatic and consular purposes; it did not cover U.S. government-financed procurements by private entities. The sanctions restricted procurements from South African government entities but allowed them from the country's private sector. On July 10, 1991, after determining that the South African government was irreversibly committed to repealing apartheid and to negotiating with leaders of the black majority, President Bush signed an executive order lifting specific sanctions, including section 314.

AID's financing of commodity procurements from South Africa did not violate the act's sanctions because (1) the procurements were not made by AID but by private importers in Mozambique and (2) none of the items imported from South Africa were purchased from South African government entities. The private importers procured commodities with AID financing provided to the government of Mozambique (conditioned on economic policy reforms and restricted for private sector use) and selected these commodities from AID-approved eligibility lists.

Pursuant to the act, an executive order required the Secretary of State to determine which South African corporations, partnerships, or entities were parastatals within the meaning of the act. The Department of State issued a list of South African parastatals in November 1986 and updated the list in March 1987. We used this list to examine commodity procurements from South African suppliers and found that no procurement financed under the Mozambique CIP was from any of the parastatals identified by the Department.

Mozambican importers utilized the services of private South African cargo companies and, in a few instances, South African Railways—a government parastatal—to transport commodities during the period when the sanctions were in effect. Section 314 of the act did not address how commodities procured in South Africa were to be transported if private cargo services were not available. However, AID's policy was to permit the private importers to use South African government railway and port services if no other practical alternatives existed. We believe that AID's policy was reasonable under the circumstances and confirmed that the

[7]These are entities that are owned, controlled, or subsidized by the South African government.

private importers used the government railway services only when no other practical transportation services were available.

Under the Mozambique CIP, AID has financed nearly $11.9 million in agricultural and agricultural-related commodities from South Africa. During the period the sanctions were in effect, AID financed $6.6 million in commodities from this country. The majority of the procurements from South Africa were for petroleum products, seeds, and agricultural equipment. AID mission officials cited the following reasons why these procurements took place:

- South Africa's geographic proximity to Mozambique made its petroleum products the most cost-competitive. The United States is an importer of petroleum; thus, a U.S. supplier was not a viable option.
- Certain varieties of required seeds for commercial and family farms were not available from the United States due to different climatic and soil conditions and the non-adaptability of some varieties to the Mozambique environment. The mission financed over $4 million (59 percent) of its total seeds from South Africa and over $0.9 million (14 percent) from the United States.
- South African firms provided after-sales service for their agricultural equipment, consisting mostly of irrigation equipment. No other suppliers had this capability in Mozambique.

Recommendation

To ensure that U.S. suppliers are notified as soon as possible of any planned commodity procurements under private sector CIPs or other AID-financed programs, we recommend that the AID Administrator (1) compile and circulate importer lists to interested U.S. suppliers and determine whether new or additional methods are needed to appropriately publicize purchases and (2) cooperate with other federal agencies to assist U.S. suppliers in making early contact with local distributors in new or developing markets where export opportunities may exist.

Agency Comments and Our Evaluation

In its comments on a draft of this report, AID generally did not take issue with the report's findings. It suggested some clarifications to the text and we incorporated changes where appropriate. AID's comments appear in appendix II.

AID acknowledged that improved methods might be needed to publicize or provide adequate advance notice of private sector CIPs to U.S. suppliers and to inform local importers in recipient countries of the availability of U.S. goods and services. However, on the basis of recent disappointing experience, AID doubted that earlier active solicitation of U.S. suppliers—accompanied by a ban on non-U.S. vehicle imports—would have significantly increased the number of U.S. trucks and tractors purchased by the targeted Mozambican small farmers and entrepreneurs. In fact, AID said its recent experience suggested that even if it had actively solicited U.S. suppliers earlier, the program probably would have failed to achieve its development objectives. AID emphasized that the development program's success depended on its ability to provide financing for trucks and tractors that had existing adequate service facilities and spare parts support, a requirement that it said effectively excluded U.S. manufacturers.

AID's suggestion that it probably would have failed to achieve its program development objectives had it actively solicited U.S. vehicle suppliers earlier is speculative and misses the point. AID is required by law to make information concerning program purchases available to U.S. suppliers as far in advance as possible and to inform prospective foreign purchasers of the availability of U.S. goods and services.[8] Early notification of AID programs helps U.S. suppliers decide whether to invest in needed service and maintenance facilities abroad. By providing the affected U.S. suppliers and local importers with the essential program information and requirements and acting in a facilitative role if needed, AID can then properly leave the primary investment and procurement decisions in the suppliers' hands.

AID said it fully agreed that appropriate publicity or advance notice was necessary for private sector CIPs, but it questioned how much notice was necessary when dealing with the private sector in a developing country, such as Mozambique. It suggested that we revise the first part of our recommendation to require the Mozambique mission to compile an importer list to be circulated to interested U.S. suppliers by the Washington commodity procurement office and for the agency to review new or additional methods of appropriately publicizing private sector CIP purchases to increase competition and provide opportunities for U.S. suppliers under such programs. To meet these statutory mandates, AID said it planned to conduct a review of publicity and notification requirements for private sector CIPs during the next 6 months and would provide us with the results of the review.

[8]Section 602 of the Foreign Assistance Act of 1961, as amended.

We modified part one of the recommendation to include AID's suggested revision but broadened its applicability to all AID-financed private sector or commodity programs. We will monitor AID's review of publicity and notification requirements for these programs.

Scope and Methodology

We conducted our work at AID headquarters in Washington, D.C. We also visited the AID mission and the U.S. embassy in Maputo, Mozambique, and private sector importers and consumers of AID-financed agricultural commodities. Our review focused mainly on AID's procurement of high-cost items—for example, large trucks, tractors, and spare parts from U.S. foreign competitors. We did not review whether the program achieved its stated development objectives. To study why AID's commodity import program primarily benefited U.S. trade competitors, we obtained information and interviewed officials in AID's Africa Bureau, the U.S. embassy, and the AID mission responsible for program administration. We also interviewed officials of U.S. truck and tractor suppliers and other affected organizations to gain their views on the Mozambique program.

To determine whether changes in law or regulation are needed to prevent procurement imbalances, we obtained, reviewed, and analyzed Buy America and DFA legislation as well as AID's DFA and Buy America procurement policy. In addition, we interviewed officials from AID's Office of the General Counsel responsible for issuing the procurement guidance to the missions and former and present mission officials responsible for implementing the guidance.

To determine whether AID's financing of commodity procurements violated U.S. sanctions against South Africa, we reviewed the Comprehensive Anti-Apartheid Act of 1986 and relevant legislative data. We also interviewed officials and obtained information from the Department of State's and AID's Offices of the General Counsel, the AID mission in Maputo, and the Congressional Research Service.

We conducted our review between April and August 1993 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce this report's contents earlier, we plan no further distribution until 7 days from its issue date. At that time, we will send copies to the Administrator of the Agency for International Development and interested congressional committees. We will also provide copies to others on request.

Please contact me on (202) 512-4128 if you or your staff have any questions on this report. Major contributors to this report are listed in appendix III.

Sincerely yours,

Joseph E. Kelley

Joseph E. Kelley
Director-in-Charge
International Affairs Issues

AID's Procurement for Mozambique Commodity Import Program, Fiscal Years 1985-93

Dollars in millions

Commodity	Japan	Brazil	South Africa	Germany	United Kingdom	United States	Other countries	Total	U.S. percent of total
Vehicle procurement									
Trucks and spare parts	$10.72	$3.97	$0.75	$8.15	$0.14	$0.13	$0.14	$24.00	0.54
Tractors and spare parts	0	5.24	0	0	7.33	0.01	1.06	13.64	0.07
Subtotal	**10.72**	**9.21**	**0.75**	**8.15**	**7.47**	**0.14**	**1.20**	**37.64**	**0.37**
Non-vehicle procurement									
Agricultural equipment	0.22	3.38	1.82	0	0.23	0.40	1.28	7.33	5.5
Fertilizers	0	0	0	0	0	6.85	0.95	7.80	87.8
Raw materials	0	0.36	0.05	0.01	0	6.74	1.13	8.29	81.3
Seeds	0	0	4.02	0	0	0.93	1.89	6.84	13.6
Petroleum	0	0	5.24	0	0.05	0	10.58[a]	15.88	0
Computers	0	0	0	0	0	0.17	0	0.17	100
Subtotal	**0.22**	**3.74**	**11.13**	**0.01**	**0.28**	**15.10**	**15.47**	**46.32**	**32.6**
Total	**$10.95**	**$12.95**	**$11.88**	**$8.16**	**$7.75**	**$15.24**	**$16.69**	**$83.96**	**18.2**

Note: Figures may not total due to rounding.

[a]Singapore provided 87 percent and Nigeria and Zimbabwe provided 13 percent of petroleum products.

Source: AID.

Comments From the Agency for International Development

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

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

December 29, 1993

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

Dear Mr. Conahan:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled "MOZAMBIQUE: Insufficient Effort Made to Attract U.S. Suppliers Under AID Commodity Programs" (GAO/NSIAD-94-73, dated November 1993).

Since 1984, the Commodity Import Program in Mozambique has been USAID's main instrument for achieving policy reforms in support of a market economy, particularly in the agricultural sector. The program worked on two mutually supporting levels -- policy, where we promoted a shift from a Marxist, command economy to a free market, and, on-the-ground, where we ensured that the commodities ended up in the hands of small farmers and entrepreneurs. The bulk of the commodities USAID/Mozambique financed were purchased by one-truck transport companies and one-tractor farmers. The productivity of these groups was instrumental in convincing government officials to make the policy changes that led to the demise of the collective farm and state purchasing systems that were installed in the late 1970s and early 1980s. This program has been the subject of several independent external evaluations, the most recent in early 1992. All have concluded that the program was successful in achieving its development objectives. It was the ability to take advantage of existing capacity for service and maintenance that contributed to the program's success, absent U.S. dealerships. The equipment funded by USAID is by and large still operational, while the wrecked fleets funded by other donors litter the countryside.

Our detailed comments are enclosed and are divided into two sections. The first discusses the major finding: "some market entry opportunities to sell U.S. trucks were missed because AID officials did not actively solicit or notify U.S. suppliers of planned vehicle requirements or adequately explore the suppliers'

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2

capability to build 8-ton or larger right-hand drive vehicles and their willingness to establish service facilities and supply spare parts to support them." The second part raises questions about specific statements in the draft. We have also included for your information an historical perspective on publicity requirements for private sector Commodity Import Program (PRCIPs).

We would like to propose a change to the recommendation that the USAID Administrator require potential U.S. suppliers to be notified of planned commodity procurements by the private sector as far in advance as possible. USAID fully agrees with the GAO that an appropriate degree of publicity or advance notice is necessary in connection with PRCIPs, such as the one in Mozambique. The question, however, is what degree of advance publicity and/or notice is appropriate when dealing with the private sector in a developing country.

See p. 16.

We would like to suggest that recommendation number one be revised to read something similar to the following: "We recommend that the USAID Mission in Mozambique compile an Importer List and that the USAID/Washington commodity procurement office have the responsibility for circulating it to interested U.S. suppliers, keeping in mind that this should be done so as to avoid extending lead times for individual procurements. We also recommend that USAID review whether new or additional methods of appropriately publicizing private sector CIP purchases can be found to increase competition and opportunities under such programs for U.S. suppliers." Based on the USAID plans noted above, we hope that once an Importer List is assembled, GAO will agree to regard the recommendation as closed.

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

Sincerely,

Larry E. Byrne
Assistant Administrator
Bureau for Management

Enclosures: (1) USAID Comments on the GAO Draft Report
(2) Historical Perspective and Proposed Review of Publicity Requirements for Private Sector Commodity Import Programs

USAID Comments on the GAO draft report
"MOZAMBIQUE: Insufficient Effort Made to Attract U.S.
Suppliers Under AID Commodity Program"
(GAO/NSIAD-94-73, dated November 1993)

Section 1.

See p. 16.

Throughout the report, there is the impression that U.S. vehicles might have been imported in considerable numbers had USAID more actively solicited U.S. suppliers. Our experience of the last 18 months, however, suggests that this is either untrue or true only on an extremely limited scale. Furthermore, if we had earlier pursued our present course -- active solicitation of U.S. suppliers accompanied by a ban on non-U.S. vehicle imports -- then the program would probably have failed to achieve its development objectives.

USAID has made an effort over the last 18 months to encourage the import of U.S. trucks, including the following:

a) Beginning in March 1992, USAID/Mozambique spoke with all major dealers in Mozambique, and encouraged them to establish relations with U.S. manufacturers. Later in the year, USAID was instrumental in assisting Navistar in the identification of a local dealer.

b) In May 1992, imports of non-U.S. trucks and tractors under the program were halted.

c) In July 1992, USAID/Mozambique wrote to all U.S. manufacturers of trucks, listing potential dealers and encouraging them to establish dealerships in Mozambique. Most responded that they were not interested or that they had forwarded the letter to their nearest regional representative. Although our letter made clear that U.S. origin vehicles were targeted, GM proposed that we purchase Isuzus from their Kenya-based subsidiary.

d) In early 1993, USAID agreed to finance the import of used Navistar trucks (official concurrence was given in July 1993).

e) In May 1993, based on importers' claims and an evaluation finding that lack of medium- to long-term credit was a major constraint to the import of trucks and other heavy equipment, USAID changed the terms of the CIP to allow long-term credit through the banking system, outside of normal credit ceilings and with some relief on interest rates. This brought the USAID CIP in line with a March 1993 change in Government of Mozambique regulations, and would not have been possible earlier.

2

To date, the result of these actions -- which go beyond the recommendations of the GAO report -- has been a firm order for three U.S.-origin trucks with a total value of $131,297. A further order of 37 used trucks, valued at $1,122,800 is imminent, but the financing of used vehicles is contrary to USAID policy and, therefore, highly unusual. Throughout the period from early 1992 to the present, over $20 million in foreign exchange was available under the program. USAID/Mozambique made it clear to all interested parties that it could be used for U.S. trucks.

In conclusion, while USAID does not dispute the recommendation that private sector procurements should be regularly advertised, we believe it is unlikely that any opportunities were missed under the Mozambique CIP. The report's only effort at quantifying this states, after citing the $11.6 million figure for 1986 to 1992 purchases of trucks of eight- or more ton capacity: "(The quantity would have depended on circumstances, but it would have been below the level of procurement that actually occurred.)" Given our disappointing experience over the past 18 months, we do not believe additional advertising would have made any difference. This is supported by the interviews conducted in Mozambique by the auditors, who, in the draft, page 11, state that "local importers said that if the importers were told that they had to buy equipment items from U.S. sources when suppliers did not have existing maintenance facilities or adequate supplies of spare parts, the AID program would not have generated any interest."

Now on p. 7.

See comment 1.

See comment 2.

It is important to note that many of the actions listed above could not have been taken earlier than they were. The purpose of the CIP, from its inception, was to encourage free market policies and a stable macroeconomic environment. The emphasis was on the agricultural sector, which was dominated in the early to mid-1980s by large unproductive collective farms and marketing parastatals, kept afloat with the lion's share of the foreign exchange and credit available from sources other than USAID. Trucks and tractors were critical commodities in this USAID effort to promote the private sector. In 1991, when the government in effect gave up on the parastatals, trucks, tractors and other commodities became available to the private sector from a variety of sources. Accordingly, the CIP was amended so that it became more of a disbursement mechanism in support of sectoral policy dialogue; and USAID -- as noted in the report -- expanded the eligibility list in an effort to increase procurement from the U.S. -- not of trucks, which continued to prove problematic, but of computers, bulk commodities and other goods where U.S. exports appeared likely to be more competitive. Before these changes in Mozambique's economy, the progress of this highly successful development program depended on USAID's ability to finance trucks and tractors from non-U.S. sources in support of Mozambican private farmers, a group that was completely ignored during the Marxist period.

Section 2.

Now on p. 1.

■ Results in Brief, page two of the draft, states that "the program was geared towards small farmers and employed a strategy that gave importers flexibility to buy commodities from whatever source they chose."

Because the program was geared towards small farmers who generally purchase single units, USAID required extensive service facilities and spare parts stocks in the sale areas. It was this requirement -- not right-hand drive -- that effectively excluded U.S. manufacturers. In a given province, for a given commodity (and the list of eligible commodities was itself limited), importers had little freedom to "choose" their source (although the Mercedes dealer could buy from its Brazilian, German or South African plants). Furthermore, in a country that was overrun by generally inferior Eastern bloc commodities, only free world (Code 935) products were purchased under the program.

See comment 3.

Now on p. 2.
See comment 3.

■ On Page four, while USAID submits a Congressional notification for each activity, Congress does not "approve" a CIP. The first sentence on page four should read "AID approved a CIP..."

Now on p. 3.

■ The top of Page five states that CIPs alleviate a balance of payments problem by generating local currency. Rather, under the Development Fund for Africa, a CIP provides generalized financial resources to assist with the implementation of agreed-upon sectoral goals and objectives. Both the balance of payments assistance and the local currency generations are, therefore, by-products of the support to sectoral reform.

See comment 3.

Now on p. 4.

■ Page six states that "Mission officials told us that unsuitability for local conditions and high unit cost were also factors in the importers' decisions to procure certain commodities from non-U.S. sources."

Although cost may have been a factor in the importer's decision, USAID does not generally consider cost differential as a justification for buying from a 935 source a commodity that is both suitable and available in the U.S. USAID/Mozambique applies this policy under the CIP. Cost is allowable as a factor in justifying purchases from 941 countries (e.g., Brazil).

See comment 4.

Now on p. 9.

■ Page 13 paraphrases the March 1992 evaluation as follows: "However, one contractor evaluation completed in March 1992 raised questions on whether the mission financed the best product mix to encourage agricultural production and did enough to promote procurement of U.S. goods by informing potential suppliers of the planned program and encouraging them to establish local dealerships and support facilities. The

4

evaluation noted that if U.S. firms had learned earlier of the multiyear program, and if the program offered the prospects for commodity purchase in sufficient volume to make investments in Mozambique service and maintenance facilities worthwhile, more U.S. goods might have been imported under the program."

See comment 5.

This evaluation statement has been taken out of context, on both points. On the question of "optimal mix", the evaluators immediately point out that to have insisted on lower technology goods, which they believed would have had a more profound impact on agricultural development, would have sacrificed the more important principle of letting the private sector decide what goods to import. The overall finding of the evaluation was that the program played a crucial role in supporting the shift from a Marxist, administratively-controlled economic orientation to a market-driven economy. On the second point, the evaluators were looking to the future, not reflecting on the past, and the statement is, in fact, one of approval for then current mission plans to expand U.S. commodity purchases. The concluding line of the relevant paragraph is "Resolution of internal security issues and an increase in the market size in the coming years, will make investment in Mozambique more attractive. USAID, with the U.S. Embassy, should investigate promoting such opportunities for U.S. exports." As noted in Section 1, that is what the Mission did.

Now on p. 10.

■ Pages 14 and 15 state "Mission officials also initially justified the offshore vehicle procurements because they believed that no U.S. truck manufacturer built right-hand drive vehicles for 8-ton trucks. However, we found that over one-fourth (94) of the trucks actually procured offshore during this period [1986-1992] were left-hand drive vehicles."

See comment 1.

The central argument for financing only non-U.S. trucks is not the side the steering wheel is on, but the unavailability of service or parts. It is true, nonetheless, that the waiver for trucks under the first CIP, in September 1984, cites the unavailability from U.S. sources of right-hand drive 8-ton trucks as a factor, but the primary justification was the absence of spare parts or service facilities. The subsequent waiver for trucks (September 1985) does not even mention the question of steering wheel location, citing only the lack of service and parts.

See comment 6.
Now on p. 10.

Only 16 left-hand drive trucks were imported -- in 1990 -- not 94 between 1986 and 1992 as stated on the top of page 15. These 16 were modified to right-hand drive by the Mercedes dealer in its Maputo (four trucks) and Beira (twelve trucks) workshops.

Now on p. 10.

■ Page 15 states: "AID headquarters procurement official responsible for motor vehicle policy told us that U.S. suppliers should have had the opportunity to bid on vehicle requirements

5

even if they did not have facilities in place to support the vehicles but were willing to commit to make the necessary investment to support them."

See comment 3.

While a USAID/Washington procurement official was quoted in this section, there has been some disagreement within USAID on this premise, and the report should reflect this disagreement. For instance, at the time Navistar visited AA/AFR in 1988, both SER/COM and the Africa Bureau were adamant that reliance on a promise to establish maintenance facilities would not work. Thus, a sentence should be added to the effect that "however, the Agency has also had negative experiences in Africa when it has relied on this procedure for vehicles."

See comment 3.

Under private sector CIP procedures, there is generally no bid process, since the importers are private sector dealers, often tied to the manufacturers. The U.S. manufacturer must sell vehicles to the private sector in Mozambique which, in turn, must secure local currency (or credit) before availing itself of the foreign exchange available from USAID. These procedures, which reflect normal commercial practice, are less attractive than using a U.S. government direct purchase of several vehicles to gain a foothold, and then expanding to serve the market. We believe this is why USAID's July 1992 letter explaining the terms was met with very little interest. The GAO report does not adequately explain the major difference between the purchase by USAID of $11.6 million worth of trucks and the financing of goods by USAID under a CIP. In the latter case, USAID acts like a bank, issuing letters of credit in exchange for local currency. The amount of influence we can exercise over the importers' choice of commodities is quite limited, since there are alternate sources of foreign exchange.

Now on p. 12.

- The description (Page 18) of USAID's requirements for restricting procurement to the U.S. and approving exceptions to them is not accurate.

See comment 3.

There are many programs other than the DFA that do not restrict procurements to the U.S. without a waiver. These include, without limitation, any program with a "notwithstanding any other provision of law" clause, such as the Office of Foreign Disaster Assistance or the Newly-Independent States, and the funds not authorized under the FAA, such as PL 480 grant funds. The Agency generally permits authorization of Code 941 procurements for grants to LDCs (Hb. 1B, Ch 5A1d). Additionally, Handbook 1B, Ch. 5B4a contains explicit criteria for source/origin waivers.

Conclusion

USAID suggestions for modification of recommendation one are contained in the cover letter. We note that the second recommendation, requiring USAID to assist U.S. suppliers in

6

making early contact with potential distributors, is a responsibility that USAID shares with the Department of Commerce and, overseas, with the commercial staff of the U.S. Embassy.

Historical Perspective and Proposed Review of Publicity Requirements for Private Sector Commodity Import Programs

The Foreign Assistance Act of 1962, as amended, requires that USAID programs "to the maximum extent practicable carry out programs of assistance through private channels" (22 USC Sec. 2351(b)(5)). USAID has consistently interpreted this provision as, among other things, directing us to minimize the administrative burdens and controls we place on private sector commodity import programs (PRCIPs) to those necessary to ensure the prudent expenditure of funds for eligible transactions, and to harmonize our programmatic approach insofar as possible with commercial practices. On the other hand, PRCIPs are also subject to the requirements of FAA Section 602, which states that we must make information concerning program purchases available to U.S. suppliers as far in advance as possible, and must inform local importers in the recipient countries of the availability of U.S. goods and services.

Prior to 1974, USAID implemented the above provisions by requiring that importers delay their purchases for 45 days while waiting for us to advertise the purchases in the U.S. The delayed purchase system ensured substantial notice to U.S. suppliers, but was criticized by the importers and others as imposing harmful and distortive delays on the private sector. The GAO reported this criticism in 1971. GAO Report No. B-161854 (August 2, 1971), "Procedures to Assist U.S. Small Business and Shorten Commodity Procurement Cycle in India Need Improvement." GAO recommended that USAID make the notification system optional for Indian importers, and that we implement a number of alternative techniques to achieve an appropriate degree of advance notice.

USAID agreed with GAO and, in 1974, approved the "Colombia Plan" under which we compiled country "Importer Listings" (which we had done on an ad hoc basis since the Marshall Plan) in lieu of strict requirements for case by case publicizing. These Importer Listings were to be made available to interested U.S. suppliers as important reference tools. A supplier could contact an importer on the list and offer its goods and services. If the importer were interested in the offer, it could compare it to a reasonable number of additional quotations in accordance with good commercial practice, without full publicizing. The "Colombia Plan" has been followed since 1974 in most PRCIPs.

Given the diversity of CIPs today, which range from single-commodity programs to macroeconomic programs of broad eligibility to focused sectoral programs; the increase in information sources as to developing country markets, such as the U.S. Foreign Commercial Service; and the availability in many cases of alternative financing for importers, it is not clear that the

2

Colombia Plan is an optimal approach for achieving the balance between advance notice and commercial purchasing.

See p. 16.

USAID commodity management personnel believe that the time has come to consider new methods for PRCIPs. Consequently, USAID/Washington will be conducting a review of publicity/notification requirements for PRCIPs during the next six months, with the goal of identifying specific techniques to meet the statutory mandates mentioned above, while maximizing competition and opportunity under the programs. The Mozambique CIP will be used as one of the reference points in this review. When the review is completed, we will provide a copy to the GAO for its reference.

The following are GAO's comments on the Agency for International Development's letter dated December 29, 1993.

GAO Comments

1. We agree that AID cited unavailability of service or parts as the primary justification for financing only non-U.S. trucks. However, this situation did not excuse AID from fulfilling its notification requirements. Further, as noted on page 10, a U.S. supplier probably would have made the necessary investment to support the vehicles if it had known about the proposed procurement.

2. The requirements of section 602 of the Foreign Assistance Act to notify U.S. suppliers of program purchases as far in advance as possible and to inform local importers in the recipient countries of the availability of U.S. goods and services have existed since the Mozambique program began.

3. The report has been modified to reflect this information.

4. The report does not discuss AID's procurement decision-making.

5. We do not agree that the contractor evaluation statements were taken out of context. The evaluators were discussing program shortcomings that could have been avoided. Even though it is true that the program design limited the mission's influence over the importers' choice of commodities, it did not prevent the mission from informing U.S. suppliers of the multiyear program or encouraging them to establish local maintenance facilities.

6. The figure of 94 left-hand drive trucks was derived from letter of commitment data provided to us by the Mozambique mission.

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