



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

096529

~~2.52.18~~

~~72-0489~~

JUN 15 1972

6

B-172450



Dear Mr. Price:

Pursuant to your request of April 6, 1972, we have reviewed the Agency
1 for International Development's reply to your March 8, 1972, letter to the 97
2 Secretary of State concerning our report on United States Participation in 32
- the Foreign Assistance Programs For Indonesia (B-172450, dated September 7,
1971) and related matters. Our review was directed towards an assessment
of the extent to which the Agency answered or failed to answer the questions
which you raised. We also performed additional work to obtain certain infor-
mation which was not included in the Agency's response to you.

You stated in your letter to us that you were not satisfied that your
questions had been answered in an adequate manner. We believe that, in
some cases, this might be attributed to the Agency's interpretation of your
questions; in a few cases, however, the answers could be considered incomplete.

Our comments on each item of the Agency's response are enclosed along
with additional reports and material for your information. We are also
returning the attachments to the Agency's response per your request. We
trust that our comments will assist you in your consideration of these
matters.

We plan to make no further distribution of this report unless copies
are specifically requested and then we shall make distribution only after
your agreement has been obtained or public announcement has been made by
you concerning the contents of the report.

Sincerely yours,

Deputy *[Signature]*

Comptroller General
of the United States

Enclosures

C1+R
The Honorable Bob Price
House of Representatives

~~701155~~

096529

COMMENTS ON THE AGENCY FOR INTERNATIONAL DEVELOPMENT'S
RESPONSES TO QUESTIONS RAISED BY THE HONORABLE BOB PRICE

The following comments are numbered in the same order as in Mr. Price's letter of inquiry to the Department of State and the Agency for International Development's (AID) response.

1. Arrangements between Indonesia and her creditors for repayment of debts and Indonesia's imports and exports.

AID's response on Indonesia's debt includes only previously prepared information, such as a March 1971 report and a few schedules showing the debt status in 1970. Although repayments were scheduled to start in 1970, the information furnished by AID does not state whether payments have actually been made. Accordingly, we are providing the following information.

As of March 1972, bilateral agreements for the rescheduling of the pre-July 1966 debt, in accordance with the Paris Minute, had been signed with all the participating countries except the United Kingdom. The United States signed its bilateral agreement on March 16, 1971. Agreements with non-participating creditor countries have been concluded with Czechoslovakia, East Germany, Poland, Romania and Russia.

Under the U.S. bilateral agreement, Indonesia has made repayments of \$6.2 million. In so doing, Indonesia elected to defer until the period 1992-1999, 50 percent of the first 12 semi-annual installments due on the principal amount. The U.S. bilateral agreement allowed for the deferral of up to 50 percent of any of the first sixteen installments, not to exceed the sum of six installments; but such deferral is subject to agreement by Indonesia's other creditors to similar deferrals of debts owed them. We have been unable to ascertain whether such deferrals were agreed to by the other creditors. The Department of the Treasury requested confirmation of such agreement from Indonesia in November 1971, but as of May 8, 1972, the Department had not received confirmation.

Information on payments made to other creditor countries was not available at AID or the Department of State. However, a recent report of the International Monetary Fund indicated that, on an overall basis, Indonesia has been making payments on its pre-July 1966 debt to other creditor countries.

Attachment D of AID's response lists the most recent amounts of foreign aid being furnished to Indonesia. There are no Communist countries on the list. Therefore, the situation with regard to indirect flows of U.S. and other country assistance funds to the Communist countries, as stated in our report, is still present.

The information furnished by AID on exports and imports is as of 1970. It does not show a breakout of commodities by country. We were informed that this is the best information AID could readily furnish and that a breakout by country is not available in the Department of State or AID. A breakout of commodities by country would be available on a limited basis in the Organization for Economic Cooperation and Development (OECD) publications of exports and imports, the latest of which is 1969. Such a breakout, however, would require an extensive compilation and would be limited, since it would relate only to OECD member countries.

It is also to be noted that the amounts given by AID for principal exports and imports (Attachment F of AID's response) exceed those given for the total exports and imports (Attachment E of AID's response). These data were furnished by Indonesian authorities and such situations often occur with regard to their statistics. The inconsistency of statistics on Indonesian trade is also evident when compared with other sources. Enclosure II contains statistics published by the Department of Commerce on:

- a. U.S. trade with Indonesia by Major Commodities, 1969-1970
- b. Direction of trade, 1968-1969
- c. Principal Indonesian Exports, 1968-1970
- d. Principal Indonesian Imports, 1968-1969

2. Increasing emphasis on multilateral agreements;
who designs, manages, and awards contracts

AID's response to this group of questions includes a general statement as to its reasons for participating in assistance consortia and briefly describes how this mechanism is being applied to the U.S. bilateral program in Indonesia. The information furnished by AID could be considered responsive; but your questions seemed to apply more to the overall changing direction in methods used for providing foreign assistance rather than just the Indonesia program.

It is true, as AID states, that in the final analysis, the U.S. portion of the Indonesia program is bilateral. However, the program is designed within a multilateral framework. AID did not comment on whether the U.S. program levels in Indonesia are influenced by the multilateral framework. The extent of such influence would be difficult to ascertain and document; however, the United States continues to increase its program in conformity with the increasing overall Indonesia requests for assistance, even to the extent of liberalizing its sharing formula. It is evident, therefore, that the United States has obligated itself to follow the design set forth by the multilateral framework.

AID answered the question on the awarding of contracts with regard to the U.S. portion of the program in Indonesia. AID did

not discuss this matter with regard to the more than \$100 million annual portion of the program furnished by multilateral organizations. There is some question whether the United States is obtaining a reasonable share of contracts let by multilateral organizations to which it provides significant support. This matter is discussed under point 3 below.

3. Percentage of United Nations and World Bank contracts to American firms

AID's response is correct in stating that most of the United Nations organizations are primarily engaged in providing technical assistance rather than capital assistance, and that it has been relatively limited in Indonesia. During the period 1959-1970, United Nations Development Program (UNDP) project expenditures in Indonesia amounted to \$16.5 million, or 1.3 percent, of the Program's world-wide project expenditures.

AID's response did not, however, answer the question regarding the percentage of contracts secured by American business firms under United Nations programs. While data was not available for the various independent United Nations organizations, most of the budget of the main United Nations body in New York is spent in the United States for operating expenses. In regard to the UNDP, the largest United Nations aid program, the Department of State estimated in December 1971, that more than 90 percent of the U.S. contributions over the past three years have been spent for goods and services purchased in the United States. This percentage was somewhat less for 1971. According to the UNDP, about \$60 million, or only 70 percent, of the 1971 U.S. contribution of \$86 million was returned in the form of expenditures in the United States.

It is also interesting to note that, for other than administrative expenses, the U.S. share of procurement was very small in 1971. Of the returned expenditures of \$60 million in 1971, \$24 million was returned in the form of administrative expenses. Total UNDP costs for other than administrative expenses amounted to about \$279 million in 1971, and the United States received \$36 million, or only about 13 percent.

AID's response also discusses the World Bank Group programs. It states that, overall, these programs have had a favorable impact on the U.S. balance-of-payments, and that, through the end of 1970, a total of 33 percent of all procurements by the Bank and the International Development Association (IDA) have been placed in the United States. However, during the period 1965-1970, the American suppliers' share of Bank procurements have ranged between 19.8 and 26.4 percent, and for IDA between 13.6 and 27.8 percent. (See Enclosure III - Excerpt from fiscal year 1972 Senate Committee on

Appropriations hearings on Foreign Assistance and Related Programs.) Although Indonesia has not received any loans from the World Bank, U.S. suppliers were getting about 14 percent of IDA financed procurements for Indonesia as of December 31, 1971. (We were unable to obtain data regarding the U.S. share of Asian Development Bank (ADB) procurements for Indonesia.)

We also noted that the favorable impact on the U.S. balance of payments in the past was related to the World Bank's success in borrowing abroad and from its policy of investing heavily in long-term U.S. securities in cooperation with the U.S. balance-of-payments program. However, the effects of Bank operations may not be as favorable in the future. Over the long run, Bank operations could possibly become a substantial drain on the U.S. balance-of-payments unless the Bank is able to borrow a high percentage of its funds abroad. Although Bank operations had a favorable impact of \$576 million on the U.S. balance-of-payments in 1970, information available to us shows that Bank operations adversely effected the U.S. balance-of-payments in fiscal year 1971 in the amount of about \$50 million.

When the United States contributes to multilateral organizations, it gives up certain management and policy related controls which are normally inherent in the bilateral aid program. In addition, constraints on actions that can be taken unilaterally limit the ability of the United States to bring about changes in these organizations since the United States cannot stipulate the policies and procedures under which multilateral organizations operate. This is evident in the United Nations where each member country has one vote regardless of the size of its contributions. In the international lending institutions, voting is weighed according to contributions; however, the United States is still unable to stipulate where and how the funds are to be expended.

As an example of the matters discussed above, we are enclosing a copy of our report on Management Improvements Needed in U.S. Financial Participation in the United Nations Development Program (B-168767, dated March 18, 1970). (See Enclosure IV.) This is one of our six completed reviews concerning international organizations. We are currently reviewing U.S. participation in the international lending institutions; we would be happy to make reports on these reviews available to you as soon as they are released. We are also enclosing the Comptroller General's statement of March 5, 1970, before the Subcommittee on International Organizations and Movements, House Committee on Foreign Affairs, on U.S. financial participation in the United Nations development assistance activities. (See Enclosure V.)

4. Reasons for nature and level of consumables furnished by the United States; World Bank role in establishing U.S. share of assistance

AID's response to this group of questions is very similar to that presented to us by AID during our review of the Indonesian programs. We would like to make the following comments.

AID acknowledges that the foodstuffs and cotton provided by the United States are greatly needed by Indonesia but continues to disregard these items as part of the U.S. share under the one-third sharing concept. Although the United States has excess productivity of these foodstuffs and cotton, these items are nonetheless assets of the United States and should be included in determining the U.S. share of the Indonesia program. Furthermore, as shown in our report, the Agency in originally presenting the program informed the Congress that the one-third share would include P.L. 480 commodities.

AID states that the United States now contributes less than one-third of the total requirements. This comment is evidently based on the non-inclusion of food aid and the inclusion of multi-lateral inputs, such as those from the IDA and ADB. We do not consider this treatment appropriate. The initial one-third share concept was based upon bilateral assistance, including food aid, and the later addition of multilateral inputs to which the United States contributes substantially and non-consideration of food aid distorts the percentage. The following table shows that the United States is currently furnishing more than 41 percent of the bilateral aid total as compared to under 30 percent in 1967.

	<u>1967</u>		<u>1971/72</u>	
	<u>Amount</u> <u>(millions)</u>	<u>Percentage of</u> <u>countries total</u>	<u>Amount</u> ^{1/} <u>(millions)</u>	<u>Percentage of</u> <u>countries total</u>
United States	\$ 65.3	29.8	\$215.0	41.6
Japan	60.0	27.4	155.0	30.0
Other countries	<u>93.7</u>	<u>42.8</u>	<u>146.7</u>	<u>28.4</u>
Countries Total	219.0	<u>100.0</u>	516.7	<u>100.0</u>
IDA	-		85.0	
ADB	<u>-</u>		<u>20.0</u>	
Total	<u>\$219.0</u>		<u>\$621.7</u>	

^{1/} Per Attachment D of AID response

AID's response discusses its reasons for furnishing consumable type commodities. We do not necessarily question this item by itself but rather as an element of a situation whereby, overall, we are furnishing much more than was once contemplated with less long-range potential benefit.

In response to your question as to what extent the World Bank is instrumental in establishing the U.S. share, AID states that the U.S. share is determined by the United States itself. In the final analysis, this is true; but, as we stated under point 2 above, the United States is apparently obligated to follow the design of the multilateral framework. The World Bank plays a major role in the determination of this design.

5. Benefits to Indonesian Government from Pertamina oil revenues

In response to this question, AID did not agree that U.S. assistance to Indonesia can benefit Communist nations. As we stated in item 1 above, Communist countries are not currently providing assistance to Indonesia. Therefore, the situation with respect to indirect flows of U.S. and other country assistance funds to the Communist countries, as stated in our report, still exists.

On the question of oil revenues, AID's response referred to a recently enacted law which provides that a great deal of the revenues earned by Pertamina is to be turned over to the Indonesia Government. If this law is effectively implemented, it would go a long way toward correcting the inequitable conditions to which your question was addressed.

In various press articles, it has been alleged that Pertamina has been connected with corruption or, at least, loose financial accountability. It is difficult to say at this time whether the recently enacted legislation will contribute to the correction of these alleged problems.