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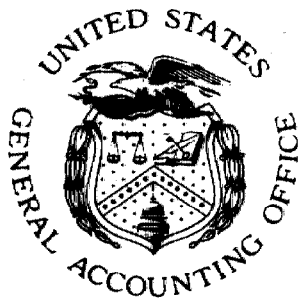
BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Secretary
Department Of State**

**Stricter Enforcement Of Refugees'
Transportation Loan Repayments Needed**

Since the mid-1970s, the United States has resettled and assisted hundreds of thousands of refugees from around the world. The Department of State is primarily responsible for managing and funding refugee assistance programs. One such program calls for State, through the Intergovernmental Committee for Migration and various domestic voluntary agencies, to issue loans to U.S.-bound refugees to cover their transportation costs. This program, although founded on the premise that refugees will repay their loans and make the program mostly self-sustaining, is costing the United States over \$30 million each year.

Most refugees do not repay these loans. From the program's inception through December 1984, only about 20 percent of the more than \$227 million loaned to refugees had been repaid. These low repayment rates have resulted primarily from the lack of enforcement. In this report, GAO recommends actions to ensure that refugees transported to the United States are held accountable for, and comply with, the terms and conditions of their loans.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-217679

The Honorable George P. Shultz
The Secretary of State

Dear Mr. Secretary:

We have reviewed the Department of State's transportation loan program, which is designed to move refugees to the United States. This letter summarizes our findings as well as our conclusions and recommendations. Details surrounding the findings are presented in appendix I.

Since the early 1950s, the United States has resettled and assisted refugees from around the world by providing them with various services, including the initial reception and placement of those entering this country. Since 1975 over 900,000 of these refugees have been permanently resettled in the United States. As you know, the Department of State has the primary authority and responsibility for managing and funding refugee assistance programs, including refugees' transportation to, and reception and placement in, the United States. State's program to transport refugees to the United States, although based on the premise that refugees will repay a large portion of the costs of their moves, has proven very costly in recent years. Unless procedural changes are made, State will continue to contribute over \$30 million a year to this program, which was intended to be mostly self-sustaining.

State finances the transportation of these refugees from temporary asylums overseas to the United States through a revolving loan fund administered by the Intergovernmental Committee for Migration (ICM), an international organization based in Geneva, Switzerland. According to agreements with State, ICM makes all the travel arrangements, pays the costs, and is reimbursed by U.S. government funds deposited in two ICM revolving refugee transportation loan accounts--the Refugee Loan Fund (for Europeans) and the Loan Fund for Refugees Outside Europe.

Before leaving their asylum countries, refugees sign interest-free promissory notes with ICM stipulating arrangements for repaying most of the costs of their move to the United

States. Generally, the refugees agree to make monthly payments to specified U.S. voluntary agencies and to liquidate their loans within a maximum period of 36 months. The voluntary agencies retain 25 percent of the amounts repaid to cover collection expenses, remitting the remaining 75 percent to the ICM revolving loan fund accounts.

According to its agreement with State, ICM is responsible for securing repayment of these transportation loans. However, when unable to obtain repayments directly, ICM regulations allow the transfer of such loan collection and enforcement functions to other organizations, which could include the U.S. government.

MOST REFUGEES DO NOT
PAY BACK THEIR LOANS

According to State and ICM reports, from the program's inception in 1951 through December 1984, only about \$44 million (20 percent) of the more than \$227 million loaned to refugees had been repaid. Refugees who arrived in the United States prior to 1982 signed loans totaling over \$144 million, which should already have been repaid in full. Additionally, at least \$29 million more should have been repaid from loans issued after 1982.

Nonpayment costs U.S. government
over \$30 million each year

The refugees' low repayment rates have required State to replenish the revolving loan accounts with over \$30 million from additional appropriations in both fiscal years 1983 and 1984. State estimates that moving the authorized 70,000 refugees to the United States in 1985 will cost approximately \$50 million. Considering current repayment rates, however, only about \$10 million (20 percent) will come from refugees' loan repayments. The U.S. government must bear the remaining \$40 million cost. Indications are that without significant changes in the repayment rates and annual refugee admissions, similar U.S. funding levels will be required to keep the program operational in future years.

LACK OF ENFORCEMENT PRIMARY CAUSE
OF LOW REPAYMENT RATES

Low refugee loan collection/repayment rates have resulted from two types of problems--inefficient collections methods used by the voluntary agencies and the lack of enforcement. Voluntary agencies' collection problems are mainly difficulties in maintaining refugees' current addresses, incomplete computerization of the loan portfolios, and, for a few agencies, lack of interest in and emphasis on collecting.

Most voluntary agencies, however, are improving their loan collection procedures and systems. In the past 2 years these voluntary agencies and State have increasingly demonstrated their concerns about improving collection procedures. For example, most of the voluntary agencies have improved the timeliness and accuracy of their billing process by computerizing their collection systems; the automated systems also assist in tracking and maintaining more accurate records on refugees, and in obtaining and using information on the refugees' continued migration within the United States.

Voluntary agencies, however, are still experiencing problems with maintaining current billing addresses for refugees due to their continued changes of residence. Overall, about 27 percent of the refugees with outstanding loans are not billed because they cannot be located. According to voluntary agency financial officers, this problem could be alleviated by billing refugees as soon after their arrival as possible; however, resolution of the problem is hampered by late receipt of needed billing documents from ICM.

The Department of State's Bureau for Refugee Programs is also exploring procedures to obtain from the Immigration and Naturalization Service (INS) the names and addresses of refugees who wish to adjust their residence status. Such information may help the voluntary agencies to locate and bill nonpaying refugees. Resolution of this problem is hampered by the lack of standard refugee loan identification numbers. Many of the voluntary agencies use internal loan numbering systems that are not compatible with either INS or other refugee identification systems. According to some voluntary agency officials, the use of refugees' "alien numbers" to identify to whom the loans were issued would greatly facilitate subsequent efforts to locate these people.

Overall, improvements to the collection systems are gradually taking place. However, according to State, ICM, and some voluntary agency officials, it is unlikely that these improvements will, by themselves, increase refugees' repayment rates much above their current levels.

Enforcement problems remain, due mainly to the administration and language of the loan agreement. We believe, as do many cognizant officials we contacted, that the lack of enforcement, widely recognized in the refugee communities, is the primary cause of continued low repayment rates. All parties associated with the loan program have been reluctant, for various reasons, to enforce repayment of these debts. ICM contends that because the signatures of the notes are not notarized, the notes may be invalid. Others are concerned that having refugees sign the notes just prior to their departure could be construed as having them signed under duress. In addition, State and voluntary agency officials are uncertain to whom the debt is owed.

A 1984 ICM audit report of the voluntary agencies' loan collection systems concluded that refusal by large numbers of refugees to honor their loan obligations was increasingly evident and that "even when located, many refugees outrightly refuse to acknowledge their debt obligation or make any payments." Our data on loan repayments supports this conclusion.

This observation was further supported by numerous voluntary agency and refugee assistance association officials who believe the loan repayment terms and conditions are reasonable and that most refugees can repay. Furthermore, most voluntary agencies have been very lenient and flexible in approving requests to extend or defer repayment terms. Nevertheless, nearly half of all refugees with outstanding ICM loans were neither making minimum payments nor requesting deferral of such payments. As one assistance worker noted, "refugees are just waiting" to see what happens if they don't pay.

CHANGES NEEDED TO ENFORCE
REFUGEES' LOAN OBLIGATIONS

If refugees' repayments of U.S.-funded transportation loans are to increase sufficiently to measurably reduce levels of future U.S. funding, loan terms and conditions must be enforced. However, ICM and voluntary agencies will not do the enforcing. The agencies believe their primary role must remain to resettle refugees, not collect on loans. ICM believes refugees should not be held legally responsible for repaying their loans.

We believe enforcement must be the responsibility of the U.S. government and may require changes in the language and/or administration of the loans. Refugees need to understand that they have a legal obligation to repay the loans, and the U.S. government must be able to take enforcement measures to encourage repayment. This enforcement authority will require either that the delinquent debts be assigned by ICM to the United States for collection, or that the notes clearly show that the loans are made on behalf of, and the debt owed to, the U.S. government.

The promissory note also may require revision to clearly show that it is the refugees' responsibility to understand and comply with its terms and conditions and to keep their sponsoring agencies informed if, because of undue financial hardship, they are unable to comply with the prescribed conditions. Furthermore, the promissory note should also contain reference to consequences established for nonrepayment.

To hold refugees accountable for their loans, the voluntary agencies (1) must identify those refugees who are neither complying with the loan terms and conditions nor notifying them of reasons for nonpayment, (2) declare their notes in default, and (3) submit to State the names and addresses of these refugees. State must then be willing and able to initiate the

action needed to obtain payment from these refugees determined able, but unwilling, to honor their loan obligations.

For refugees with delinquent loans, State should seek to enforce repayment. State could, for example, notify them that their continued nonpayment could result in (1) submission of their names and debt status to commercial credit bureaus and (2) denial of their own possible future requests to sponsor other refugees. State also could seek to restrict refugees' overseas travel documents, and even submit their loans to the Department of Justice for litigation.

When these changes are accomplished and refugees understand that the transportation loans represent legal obligations that will be enforced, we believe repayment rates will improve.

RECOMMENDATIONS

We recommend that the Secretary of State take the following actions to ensure that refugees transported to the United States comply with the terms and conditions of their promissory notes. In addition to maintaining ongoing efforts to improve voluntary agency collection efforts, State should:

- determine whether the current language of the promissory notes legally binds refugees to repay these loans;
- if the notes are considered legally binding; seek an agreement with ICM to assign its defaulted notes to State for collection;
- if the notes are not considered legally binding, revise future notes to assure their legal effectiveness and allow for them to be assigned to State.

In the event that existing and future promissory notes can neither be made binding obligations nor assigned for collection, State should consider changing the nature of its loan program so that the loans are made by State to the refugees. These changes will include revising the language of the promissory notes to establish that (1) they represent a legal debt owed to the U.S. government and carry with them penalties for nonpayment, (2) all funds paid over to ICM remain federal funds, and (3) the loan terms and conditions will be interpreted and enforced by the laws of the United States.

In addition, all U.S.-bound refugees should be thoroughly briefed on their loan obligations and sign their promissory notes as early as possible prior to their departure to allow ICM sufficient time to provide the voluntary agencies with the documents needed for collection. Also, agreements with the

voluntary agencies must be changed to ensure that they (1) establish loan criteria and milestones specifying when uncollected notes are delinquent and in default, and (2) submit to State for further action the names and addresses of those refugees whose loans become delinquent.

In responding to a draft of this report (see appendix II), officials of the Bureau for Refugee Programs concurred with our description of the program, reported findings, and recommendations. They also provided information on repayments, in addition to those we note on page 11 of appendix I, showing improvements in loan collections that have taken place as a result of Bureau actions over the past several years.

As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Committees cited above; the Senate Foreign Relations Committee, House Foreign Affairs Committee, and House and Senate Judiciary Committees; and the Director, Office of Management and Budget.

Sincerely yours,



Frank C. Conahan
Director

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ICM	Intergovernmental Committee for Migration
GAO	General Accounting Office



STRICTER ENFORCEMENT OF REFUGEES'TRANSPORTATION LOAN REPAYMENTS NEEDEDBACKGROUND

The United States has a long tradition of offering refugees resettlement opportunities. Between fiscal years 1975 and 1984, more than 900,000 refugees from around the world have resettled in this country. This includes over 680,000 Indochinese as well as thousands from the Soviet Union, Eastern Europe, the Near East, Latin America, and Africa. In fiscal year 1985 the United States expects to resettle as many as 70,000 additional refugees. While resettlement opportunities historically have been available, recent U.S. policy goals have been to minimize the resettlement of refugees in this country because of increasing costs and domestic economic and social strains.

In most cases, the Department of State assists refugees by supporting assistance and resettlement programs administered by numerous international organizations. One such program calls for State, through the Intergovernmental Committee for Migration (ICM)¹ and various domestic voluntary agencies, to help refugees pay for their transportation from temporary asylum locations overseas to the United States. ICM makes all the travel arrangements and pays the transportation costs. Refugees sign promissory notes agreeing to repay most of these transportation costs within their first 3 years in the United States. Repayments are made to U.S. voluntary agencies and then remitted to ICM and used to finance future refugee movement expenses. Deficits, resulting from expenses exceeding repayments, are made up yearly through State transferring additional federal funds to ICM.

LEGISLATIVE HISTORY OF THE
TRANSPORTATION LOAN PROGRAM

U.S. unilateral aid for refugees and escapees began in 1952 when the Mutual Security Act of 1951 (Public Law 165) authorized the President funds to support the freedom and maintain the economic stability of Europe by providing assistance to persons residing in, or escapees (refugees) from, Eastern Europe. In 1952, the U.S. Escapee Program (USEP) was established to provide escapees from communist countries in Europe and other areas of

¹Prior to November 1980, ICM was called the Intergovernmental Committee for European Migration--ICEM. Its designation was changed to reflect the increasingly international and diverse nature of its resettlement programs.

the world with reception, supplementary care and maintenance, resettlement, and local integration support. In 1962, State described the evolution and intent of the transportation assistance provided through the USEP program by saying

"It is USEP policy to provide only such aid as is not available from other governments and agencies and to place as much responsibility as possible for support on the escapees themselves. In earlier years, USEP made grants to ICEM for each escapee's transportation, thus freeing the escapee of the burden of debt in his new country. Since January 1961, the escapee has been asked to sign a note for this cost wherever this procedure is feasible. The cost of USEP loans will be capitalized by payments to an ICEM revolving loan fund. As escapees begin to repay their loans, it should eventually be possible for the revolving loan fund to cover most of the costs of future escapee transportation loans and for USEP to reduce substantially its payments to the fund."

The Mutual Security Act of 1952 (Public Law 400) further authorized the President to encourage the movement of migrants from some European countries by contributing to ICEM's predecessor, the Provisional Intergovernmental Committee for the Movement of Migrants from Europe. Section 8 of the Refugee Relief Act of 1953 (Public Law 203) authorizes the Secretary of State to arrange with ICEM the necessary finances for the overseas transportation of persons coming to the United States.

One year later, the Mutual Security Act of 1954 (Public Law 665) authorized the President to continue U.S. membership in ICEM. The Migration and Refugee Assistance Act of 1962 (Public Law 87-510), as amended, is the current legislation authorizing continued U.S. membership in ICEM.

U.S. funding of transportation loans

Since the loan program began in the early 1950s--but mostly after 1979--the United States has loaned over \$227 million for moving U.S.-bound refugees. In recent years, the refugees' transportation has consistently been the largest portion of State's domestic resettlement costs. In fiscal years 1984 and 1985, for instance, over 37 percent of the funds budgeted for refugee resettlement was expended to cover transportation costs--including the refugee transportation loan program.

<u>Program</u>	<u>Amount</u>	
	<u>1984</u>	<u>1985</u>
	---(millions)---	
Transportation	\$ 46.6	\$ 44.0
Reception and placement grants	39.5	40.0
Refugee processing abroad	20.5	18.0
Training and orientation	<u>10.4</u>	<u>15.3</u>
Total	<u>\$117.0</u>	<u>\$117.3</u>

State plans to continue financing transportation of refugees resettled in the United States by funding loans administered by ICM. Financing will come from repayments collected by the voluntary agencies sponsoring the refugees and additional U.S. appropriations as needed.

U.S. involvement in and monitoring of loan program

Until the early 1980s, direct U.S. involvement in the ICM transportation loan program was generally limited to discussions of the program. There were few concerns about repayment rates, and little monitoring was done of the voluntary agencies responsible for collections. This may have been due to the relatively small number of loans issued prior to 1979.

Until the mid-1970s, most of the refugees admitted to the United States were Eastern Europeans and Cubans, and repayment rates were not considered a problem. In 1975, the first large influx of Indochinese refugees began, and through 1977, most of them were transported on military carriers and not required to sign promissory notes. After 1979, admissions of Indochinese, Eastern Europeans, and refugees from other parts of the world increased dramatically.

Collection rates on revolving loan funds during the 1950s and 1960s varied greatly. A 1955 report by a Special Committee of the House Committee on the Judiciary noted the need to improve the administration of the existing revolving fund, citing a projected loss of about half a million dollars due to low collections.

In 1966, State examined the U.S. Escapee Program collection rates for loans issued between 1961 and 1965 and found that 28 percent of the loans were repaid, and concluded that "The loan procedure has worked well to date." According to State, the rate of repayment for the European Program from 1970 through 1974 ranged from 57 percent to 70 percent, but sharply decreased thereafter.

In 1981, State began to realize that changes were needed to reverse the downward trend in collections. It recognized that refugees from Indochina and other less developed areas of the world were initially going on welfare and that voluntary agencies generally were not actively attempting to collect these loans. Concerns also arose as to the enforceability in the United States of the promissory notes prepared by ICM. State initiated efforts to improve the agencies' procedures to increase repayments and to ensure that throughout the program these notes were treated as loans, and not as grants. Established and included in the voluntary agencies' Reception and Placement Agreements with State were minimum collection goals, accounting and auditing procedures, and guidelines for transportation loans. Also, in 1983, State renegotiated its Memorandum of Understanding with ICM and required ICM's best efforts to ensure that

- refugees and migrants benefiting from the transportation loan program sign promissory notes agreeing to repay the established amounts to the sponsoring voluntary agency and
- voluntary agencies establish and maintain a collection system that provides for (1) prompt notification to the refugee or migrant of the loan amount due, (2) subsequent collection follow-up, and (3) timely and orderly recording of collections from individual note holders.

State also changed the language on the promissory note and attempted to have a tripartite agreement with ICM and the voluntary agencies. The latter effort, however, was not supported by ICM.

OBJECTIVES, SCOPE, AND METHODOLOGY

Congressional interest in ICM's overall role in the movement of refugees and migrants worldwide and the administration's concerns about continued low loan repayment rates by refugees resettled in the United States led us to review the Department of State's role in, and management of, the ICM refugee transportation loan program. Our objective was to determine whether the program is being implemented in a manner which will incur a minimum cost to the U.S. government and if not, to determine what program changes are needed. We identified ICM and U.S. program

goals and objectives and roles and responsibilities, and examined their ongoing efforts to improve loan collections. We also assessed potential impacts of these and other possible program improvements.

We made our review in Washington, D.C., New York City, and Los Angeles from May to November 1984. In Washington, we reviewed legislation relevant to U.S. refugee resettlement policies, including U.S. participation in the transportation loan program. We met with State, Bureau for Refugee Programs officials and analyzed program and budget documents, monitoring reports, communications with ICM and the voluntary agencies, and Department cables and memorandums. With officials of State's Legal Adviser Office we discussed the promissory note's legal nature and the implications of enforcing loans using the agency's current funding procedures.

We met with ICM officials in Washington and New York and reviewed transportation loan fund documents, including budget and financial reports and opinions on the legal nature and enforceability of the loans. We reviewed U.S. congressional documents, including pertinent public laws, acts, and appropriation and authorization reports. We also met with Washington representatives of three voluntary agencies to discuss their loan collection functions and with heads of local refugee assistance associations to discuss their perceptions of refugees' attitudes toward repaying their outstanding loans.

In New York City we met with executives, financial officers, and other collection officials of six voluntary agencies² that account for about 88 percent of total ICM loans issued to refugees migrating to the United States. We discussed the history and expectations of the loan programs, examined their billing documents and procedures, and compiled data on their loan collection rates. Since approximately 90 percent of the loans were issued after 1979, most of the data collected and reviewed involved loans issued after 1979. In California, we discussed, with officials of voluntary agencies, the major loan collection problems and alternatives for improving collection rates.

In evaluating the effectiveness of the loan program we identified both State's and ICM's stated objectives and expectations of the program. Offices involved in loan collections were queried as to their views of current collection rates. To determine what could be considered acceptable collection rates, we

²American Council for Nationalities Service (ACNS), Church World Service (CWS), Hebrew Immigrant Aid Society (HIAS), International Rescue Committee (IRC), Lutheran Immigration and Refugee Service (LIRS), and the United States Catholic Conference (USCC).

also obtained data on comparable recovery rates for other federally funded and private loan programs. Our work was conducted in accordance with generally accepted government auditing standards.

ICM'S PURPOSE AND FUNCTIONS

The Intergovernmental Committee for Migration (ICM) was created in December 1951 to arrange the transport of European emigrants to countries overseas. Since then, ICM has assisted over 1 million migrants and more than 2.2 million refugees in their migration. One of ICM's primary functions is arranging transportation at reduced costs for moving refugees and other migrants to countries offering them resettlement opportunities. ICM also provides them such services as documentation, orientation, counseling, medical processing, reception, placement, language training, and integration assistance.

Organization, objectives and budget

ICM, headquartered in Geneva, Switzerland, consists of representatives from the United States and about 29 other countries, mostly in Europe and Latin America. Other interested governments and international governmental and nongovernmental agencies have observer status. Its main objectives are to

- process and move refugees,
- provide other migration assistance to meet specific needs of emigration and immigration countries,
- transfer technology through the movement of qualified manpower in order to promote the economic, educational, and social advancement of developing countries.

ICM's administrative and operational financing comes from two major sources. Its administrative budget, used mainly for headquarters salaries and benefits, communication, travel, rent, and supplies is funded from assessments paid by all member governments according to an agreed percentage scale. Fees charged to administer the refugee loan funds also supplement the administrative budget which in 1984 amounted to \$8.2 million or about 8.5 percent of ICM's total expenditures.

The operational budget is financed mainly from governments' voluntary contributions and from repayments for ICM reimbursable expenses such as the refugee transportation loan program. Migrants, sponsors, and voluntary agencies also make contributions to cover ICM's operational costs. Processing and transporting refugees represent the bulk of ICM's operational expenditures, which in 1984 were \$88.6 million. Approximately \$68.3 million (77 percent) was used to move refugees from Asia and

Europe to permanent resettlement locations--primarily to the United States. An additional \$7.3 million was used for field staff and services.

Concept and design
of transportation loans

ICM's transportation loan programs, whereby refugees and migrants sign promissory notes agreeing to repay amounts loaned them to cover most of their migration costs, have been in existence since the Committee's founding in 1951. ICM was initially beset with financial constraints, and loan programs offered an opportunity to fulfill its mandate. In establishing its operating charter, ICM prepared a plan for the overseas movement of refugees, particularly those from Eastern Europe, under agreements with government and nongovernmental organizations. The main objective of the plan was ". . .to provide, at the lowest possible costs, an efficient mechanism for the movement of those (refugees) unable to move in the absence of the proposed arrangements." In a few cases, refugees with insufficient resources could be provided financial assistance through direct subsidies or loans. According to the plan:

"Through this medium interested governments would have available to them services and facilities which would aid in the most effective development of their migration programmes and which they could utilize in whole or in part as may be dictated by their particular requirements."

In 1952, ICM established the Voluntary Agency Revolving Fund to finance passage and incidental costs for both migrants and refugees. That year, ICM also assumed responsibility for the transportation duties of the International Refugee Organization (ICM's predecessor agency involved in the global movement of refugees), including its portfolio of transportation loans. These two loan funds depended on voluntary agencies for securing the notes and collecting the amounts due.

Recognizing in 1958 that the loan program concept was viable and represented a satisfactory approach for moving migrants and refugees, ICM authorized the Director to (1) seek opportunities, wherever possible, to increase the proportion of migrants and refugees moved under ICM auspices in which the migrants or refugees undertake to repay, under appropriate conditions, loans for such costs and (2) develop more effective and economic methods for collecting such repayments.

According to the current ICM Regulations for the Refugee Loan Fund (ICM Document MC/742/Rev. 1, dated December 8, 1965):

"The purpose of the Fund is to permit the financing, in part or in whole, of the cost of transport and related services of refugees by interest-free loans made to refugees whose movement to areas of permanent resettlement is included in programmes approved by the Council. Repayment of such loans shall be secured by promissory notes duly signed by the refugee, his legal representative or his sponsor.

. . . .

"(1) After consultation with the government of the country in which the signatory of the promissory note is residing, and after all other efforts to secure repayment have failed, the Director may resort to legal action to effect collection of any defaulted note, and

"(2) Repayment may be collected either directly by ICM personnel or indirectly by voluntary agencies or other organizations under special arrangements with the Director."

These regulations indicate that the ICM Director has authority to take legal action to collect defaulted notes or to turn such collections over to other organizations, which could include the U.S. government.

Goals and objectives

The underlying objectives of the loan funds were both financial and humanitarian. ICM has justified the use of a loan program to pay refugees' transportation costs on the assumption that it would be mostly self-sustaining. According to the 1951 plan, "the program would be largely self-financing on a pay-as-you-go basis at costs that should assure important economies." In May 1960, ICM concluded that even though some member governments held the view that "migrant repayments on passage loans may have a depressing effect on the movement of migrants and handicap and retard their assimilation in countries of destination," many migrants were being effectively moved under ICM auspices. Consequently, ICM continues to seek opportunities to increase the number of migrants moved under a program in which the migrants would repay some of their own transportation costs.

In 1968, ICM reported that ". . .if it were not for the loan system, large numbers of migrants and refugees would not be able to put their migration plans in effect and that, for a given

amount of money, about three times as many migrants and refugees can be moved as would be possible under a system of forfeitable subsidies." ICM further recognized that although migrants might be burdened by this debt on arrival in the United States, their financial participation might strengthen their determination to make a success of their migration. ICM also stressed the importance of refugees repaying their loans because the money would be used to assist in the transport of new refugees.

ICM had high expectations of the extent to which refugees would repay their loans, and in 1968 concluded that (1) an average collection rate of 80 percent must be considered satisfactory and would only rarely be exceeded and (2) total losses on loans, including collection costs and administrative fees, could be estimated at 35 percent.

Later in 1968, ICM lowered its collection estimates to 73 percent, noting that for humanitarian reasons "the repayments have to be waived more often for refugees than for national migrants." At the end of 1983, ICM's external auditors estimated that the net recoverable value of notes outstanding for refugees in the United States probably would not exceed 25 percent.

Voluntary agencies responsible for resettling refugees in the United States sign agreements with ICM and State, agreeing to collect refugees' outstanding transportation loans. To cover their collection expenses, they are entitled to retain 25 percent of the amounts they collect. The remaining 75 percent is remitted to ICM and redeposited to the revolving transportation loan fund accounts maintained to finance future movements of refugees to the United States. The voluntary agencies are required to maintain an individual record on each refugee case moved and to keep full and complete records and books of accounts, but are not required to attain any minimum level of collection.

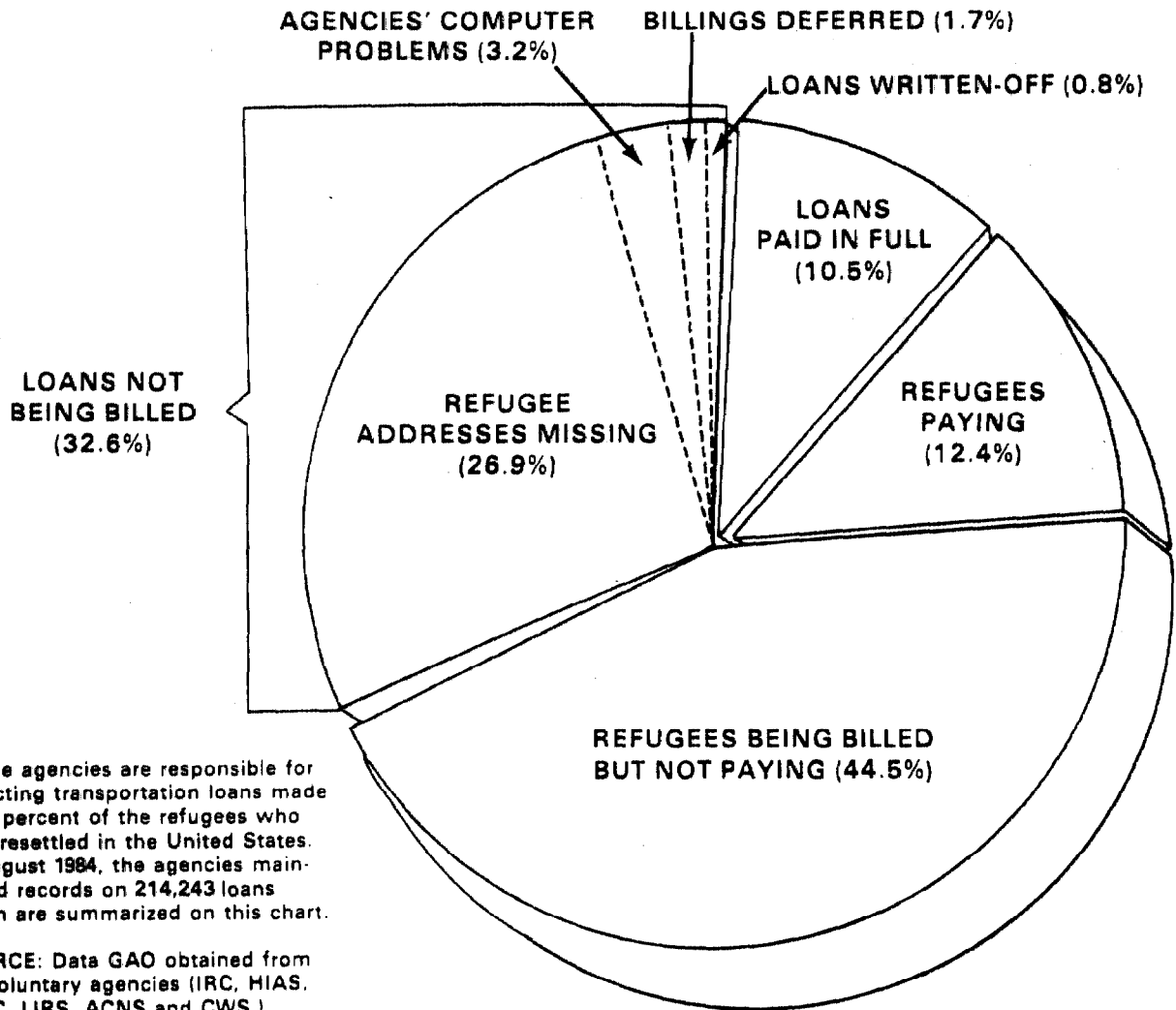
REFUGEE REPAYMENT RATES ARE LOW

Since 1952, the U.S. government has loaned over \$227 million to cover refugees' transportation. About \$200 million has been loaned since refugee admissions began increasing dramatically in 1979. Of this amount, at least \$144 million should have been repaid in full and most of the collections redeposited in the ICM transportation loan accounts. To date, only about \$44 million (20 percent) of all loans issued has been repaid. Clearly, most refugees coming to the United States are not repaying their transportation loans. As a result, over \$30 million of additional federal funds are being required annually to continue the program.

We obtained loan collection statistics from the six major voluntary agencies responsible for resettling refugees and collecting their loan repayments. Cumulatively, these voluntary

agencies reported in August 1984 that only 10.5 percent of their 214,243 loans had been paid in full. Of the remaining 191,807 refugees with outstanding loans, 121,982 were being actively billed by the voluntary agencies. However, only 26,540 were making payments. Following is a chart showing the repayment status of the loans carried by the six major voluntary agencies.

**STATUS OF REFUGEE TRANSPORTATION LOANS
FOR WHICH
SIX VOLUNTARY AGENCIES¹ HAVE COLLECTION RESPONSIBILITY
AUGUST 1984**



VOLUNTARY AGENCY COLLECTION EFFORTS

Increasing voluntary agency and State emphasis on collecting refugee transportation loans and the installation and operation of effective, computerized collection systems by most of the agencies have resulted in better accounting and billing capabilities. The lack of current addresses for approximately 27 percent of the refugees with outstanding loans presents a continuing problem, but overall these improvements have increased collections and reduced U.S. program costs.

Since 1981, a series of meetings between State's Refugee Bureau, ICM, and the voluntary agency officials have been held to improve collection capabilities and have resulted in significant increases in repayments. For example, according to the Refugee Bureau, collections increased from about \$1.5 million in 1980 to about \$10 million in both 1983 and 1984.

New emphasis on collecting

Voluntary agency efforts to collect on the loans, through 1981, were minimal and inconsistent. A 1981 State assessment of loan collections concluded that the agencies were not actively attempting to collect the loans because of inconsistent State program goals, uncertainties about whether the loans were to be collected, questions about the enforceability of the loan notes, and collection problems. In addition, many of the voluntary agencies were philosophically opposed to the program being run on a loan basis. According to State, an ICM audit report that year also determined that the agencies did not keep adequate or complete billing and receipt records and that collection practices were uneven. Much of this has now changed.

In 1981, ICM and voluntary agency senior financial officials began a series of semiannual problem-solving meetings to search for better and more efficient ways to collect the loans. Workshops also were held to learn about collection techniques.

During our discussions with the heads and financial officers of the voluntary agencies, we noted that only a few agencies remained opposed to the enforcement of the loans, and there is now overall acceptance of the program. Most agencies now recognize and accept their responsibilities to maintain effective collection systems.

Computerized systems improve billing

According to a 1984 ICM audit report, most of the voluntary agencies have completed the transition from manual to automated

accounting and loan collection systems. Only four of the agencies (accounting for about 6 percent of outstanding loans) still use manual systems.

A 1983 State Inspector General report concluded that the current automated systems "clearly are more effective than manual systems, as attested by the higher collection rates." In addition to being more economical to operate, the automated systems allow the agencies to bill refugees soon after their arrival in the United States, thus ensuring contact with refugees before they migrate from their initial resettlement locations.

The agencies with automated systems are now attempting to send out the initial billings within 3 months of the refugees' arrival in the United States and follow-up billings at least every 2 months thereafter. These agencies are better able to record refugees' addresses, payments, and outstanding balances and to send them follow-up delinquency notices. Their use of computerized payment coupons also facilitates the refugees' payments.

Missing addresses
remain a problem

According to a February 1984 ICM audit report of nine voluntary agencies' transportation loan collection programs, the continued migration of the refugee population represents the largest single difficulty in collecting on loans. The agencies generally agreed that between 20 and 30 percent of their loan portfolios have been lost due to incorrect addresses. However, while one agency noted that its losses were currently as high as 45 percent, another indicated that missing addresses represented only 3 or 4 percent of its loan portfolio.

State is attempting to assist the agencies in tracking refugees by obtaining some refugees' addresses from the INS. According to a Bureau official, they have met with INS officials several times to obtain computerized lists of names and addresses of those refugees requesting that their immigration status be adjusted to permanent resident or naturalized citizen. These lists can be matched with sponsoring agencies' lists of refugees whose loans are delinquent or in default. A Bureau official notes that such a procedure, still to be worked out, could enable the agencies to contact refugees who arrived in the United States as far back as 6 years ago.

The voluntary agencies are now attempting to establish and maintain contact with refugees as soon as they arrive in this country in hopes of reducing the address problem. They are hoping to bill them within 3 months of their arrival and at least every other month thereafter. They are also exploring ways to use their local offices to track refugees. Some agencies are

providing these offices with financial incentives to search for, and submit to their headquarters, refugees' current addresses. Other methods of communication, including personal and telephone contacts, are also being examined.

ENFORCEMENT OF LOAN OBLIGATIONS

The six voluntary agencies we contacted are now reaching 121,982 refugees with outstanding loans; however, less than one in four is responding and paying on their loans. Furthermore, 95,442 of those refugees reached by these agencies have either discontinued making payments or have never made a single payment. To date, there is no penalty or consequence for not repaying these loans. Loan repayments are not enforced.

We believe repayment of these funds has not been enforced because State, ICM, and the voluntary agencies historically have perceived and treated the loans as grants. Only since 1981 has State unequivocally declared that these ICM-administered loans should be repaid. While ICM formulated the program on the basis that it would be mostly self-sustaining, it also believes repayment should be voluntary and, over the years, has not considered taking many enforcement measures.

Enforceability of the promissory notes

ICM, State, and the voluntary agencies have differing views on whether the terms and conditions in the promissory notes signed by the refugees and witnessed by ICM overseas legally bind the refugees to repay the loans in the United States. ICM contends that it never has considered the notes to be legal obligations; the Refugee Bureau is concerned that U.S. courts would not enforce payment; and the voluntary agencies have mixed opinions about legal status of the notes.

Responding to recent GAO inquiries concerning the legality of the promissory notes, ICM stated that "Historically, legal enforcement of Promissory Notes has never been applied nor any judicial judgments sought," and it considers the notes "a moral obligation and not a legal one." It also stated that ICM "cannot force the refugee to pay, but once the payment has been made, the refugee cannot claim that he had no legal duty to do so and ask for reimbursement." ICM concluded that from the time it was created, compulsory repayment of the notes by enforceable legal procedures was never envisaged.

According to ICM officials, various legal opinions were informally sought in the early 1960s concerning the legal validity of the notes. Based on these, they concluded that:

". . .it was unlikely that promissory notes would be considered valid if brought to court (one of the reasons was the lack of notarization of signature in some countries). As a result, in 1965 the ICM decided that the text of the notes should give the impression of being legally valid and that migrants should be put under the threat of (hypothetical) legal action."

Even though ICM contends that refugees who are moved to the United States are not legally obligated to repay their loans, ICM has in the past exercised its authority to take legal action to collect other defaulted notes. For example, refugees who migrated to Australia and New Zealand in the 1960s and who received assistance through the Individually Financed Emigration program (EFI) signed similar promissory notes containing the following language:

"In default of payment of any installment of the whole of the said amount. . .remaining unpaid is to become immediately due and payable on demand."

A 1967 ICM report describing the extent to which ICM could take legal action on these defaulted notes explains that:

". . .solicitors letters threatening legal action are dispatched and in selected cases, court action is initiated. During the years 1962 through 1966, court action was taken against 211 cases."

Of the six voluntary agencies we contacted, three felt the notes were legal obligations and three did not. All of the agencies, however, prefer to not become involved in loan enforcement. Some are concerned that direct involvement in loan enforcement could prove counterproductive to their primary function of placing and resettling refugees; others are opposed to burdening refugees; others are opposed to burdening refugees with a debt reminder upon arrival.



United States Department of State
APPENDIX II

Comptroller

Washington, D.C. 20520

JAN 29 1985


Dear Mr. Conahan:

I am replying to your letter of December 31, 1984 to the Secretary which forwarded copies of the draft report: "Stricter Enforcement of Refugees' ICM Transportation Loans Needed".

The enclosed comments on this report were prepared in the Bureau for Refugee Programs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,


Loria A. Jurvis
Acting

Enclosure:
As stated.

Mr. Frank C. Conahan,
Director,
National Security and
International Affairs Division,
U.S. General Accounting Office,
Washington, D.C. 20548

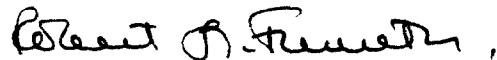
GAO DRAFT REPORT:

STRICTER ENFORCEMENT OF REFUGEES'
ICM TRANSPORTATION LOANS NEEDED

The Bureau for Refugee Programs has reviewed the U.S. General Accounting Office's draft of a proposed report on the Department of State's transportation loan program for refugees being admitted to the United States. The reported findings appear to accurately document the Bureau's historical perceptions and actions in connection with its role in the loan collection process. The philosophical and administrative problems of ICM and of the voluntary agencies in regard to this program are also correctly described.

While the report takes note of the general interest of the Bureau in improving the collection rates, it does not provide adequate details to demonstrate the substantial improvements in loan collections that have taken place as a result of the Bureau's actions over the last several years. In 1980, just under \$1.5 million dollars was repaid; in 1981 \$5.5 million; in 1982 \$8.8 million; in 1983 \$9.6 million and last year over \$10.6 million was collected. Of the reported \$44 million collected since the inception of the program in 1951, over eighty percent (80%) has been collected in the past four years.

The Bureau concurs with the recommendation to revise the language of the loan notes, if needed, in order to ensure they are legally enforceable. While this change can be easily accomplished, changes in the collection procedures of ICM and the voluntary agencies may require considerable effort and time to fully implement.



Robert L. Funseth
Acting Director
Bureau for Refugee Programs

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