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STUDY BY THE STAFF OF THE U.S. 127885

General Accounting Office

Compendium Of GAO Reports Pertaining To Public Law 480 From July 1973 Through August 1985

The Public Law 480 Food for Peace program is the basic program under which food is provided to needy countries. Food is provided on a grant and a concessional credit sales basis. GAO issued 39 reports about Public Law 480 from July 1973 through August 1985 dealing with such issues as transportation, development, host-country policy reform, local currency, and donor coordination.

This compendium contains background information on Public Law 480 and abstracts of GAO reports directly related to the Food for Peace program.

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FOREWORD

Food for the needy of famine-affected countries, such as those in drought-stricken Africa, is what Public Law 480 has come to symbolize to many. It is that and more. The original authorizing legislation, the Agricultural Trade Development and Assistance Act of 1954, commonly referred to as P.L. 480, stated numerous goals--expanding international trade between the United States and friendly nations, disposing of surplus U.S. agricultural commodities, promoting the economic stability of U.S. agriculture, encouraging economic development in developing nations, and promoting U.S. foreign policy. The emphasis among these goals has changed over time to reflect the changing needs of domestic agriculture and foreign policy objectives. Undoubtedly, they will continue to do so.

Between July 1973 and August 1985, GAO issued 39 reports that included information relating to P.L. 480. Subjects and issues covered have related to transportation, host-country policy reform, the World Food Program, local currency, donor coordination, commodity storage, agricultural development, and disincentives to host-country food producers. This study, as part of GAO's continuing assessment of national concerns and interests, gives background, legislative history, and historical trends of the P.L. 480 program. It identifies each report that discussed P.L. 480, briefly describes the P.L. 480 issues addressed, and presents abstracts of GAO's observations and recommendations and agency comments on them. This study is intended only to identify and summarize the matters discussed, and it is not an analysis of agency actions subsequent to the reports, although for some of the more recent reports, the abstracts reflect the agencies' actions.

GAO has in process a review of famine relief to Africa under Title II, and a report on this review should be issued in late 1985.

GAO believes this compendium will be useful to persons assessing P.L. 480 activities. Questions regarding it should be directed to Joseph E. Kelley or Roy F. Hutchens on (202) 275-5790.

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ABBREVIATIONS

AID	Agency for International Development
CCC	Commodity Credit Corporation
CUP	currency use payments
FAS	Foreign Agricultural Service
GAO	General Accounting Office
IDCA	International Development Cooperation Agency
IFAD	International Fund for Agricultural Development
O&M	operation and maintenance
OMB	Office of Management and Budget
PVO	private voluntary organization
USDA	U.S. Department of Agriculture
WFP	World Food Program

CHAPTER 1

BACKGROUND ON THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954

(PUBLIC LAW 480)

LEGISLATIVE HISTORY

The Food for Peace program has been an important element in U.S. agricultural and foreign policy since 1954. Original authorizing legislation, the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, commonly referred to as P.L. 480), stated numerous goals: expand international trade among the United States and friendly nations, dispose of surplus U.S. agricultural commodities, promote the economic stability of U.S. agriculture, encourage economic development in developing nations, and promote U.S. foreign policy. The emphasis among these goals has changed over time to reflect the changing needs of domestic agriculture and foreign policy objectives.

Public Law 480 consists of four titles. Title I authorizes concessional sales of commodities to friendly developing countries. Title II authorizes grants of food aid to needy people through U.S. or foreign private voluntary agencies; bilateral programs; and multilateral agencies such as the World Food Program. Title III authorizes multiyear Food for Development programs which provide for forgiveness of debt incurred under Title I agreements. Title IV contains miscellaneous administrative and reporting requirements.

Title I

Title I of P.L. 480 authorizes concessional credits on an annual basis for sales of U.S. farm products to developing countries. These credits are repayable in dollars at concessional interest rates of not less than 2 percent during the grace period and 3 percent thereafter. Repayment periods range from 20 years to 40 years with a grace period on principal repayment of up to 10 years. In addition, most agreements require an initial cash down payment of 5 percent. Recipient countries must agree to undertake self-help measures aimed, where appropriate, at expanding food production and improving food storage and distribution facilities. The program is designed to augment the aggregate supply of food within the recipient country and to be marketed through existing commercial channels.

Local currencies generated from Title I sales are available for use by the recipient government for mutually agreed upon purposes. In countries facing severe budgetary constraints and reductions in their development budget and programs, budget support provided by the Title I local currency proceeds can make a significant contribution to economic development, complementing activities financed with other resources. Local currency resources also support a variety of specific development programs, such as increasing the availability of farm credits, stabilizing price fluctuations of agricultural commodities, improving on-farm storage and distribution facilities, or expanding irrigation systems.

A major concern in Title I is that concessional sales of U.S. farm products not disrupt U.S. commercial sales or those from other friendly countries. The P.L. 480 legislation requires that Title I and III agreements establish Usual Marketing Requirements based on the previous 5-year average level of commercial imports for the same commodities. The recipient country explicitly agrees to purchase commercially the level of commodities specified in the agreement with P.L. 480 assistance "additional" to that base.

Current cargo preference rules (Merchant Marine Act of 1936) require that at least 50 percent of P.L. 480 cargo move on U.S.-flag ships. This cargo preference results in U.S. government payment of freight differential costs to U.S. shippers for Title I and III shipments.

Title II

Under this authority, the United States donates food principally for humanitarian purposes, such as emergency/disaster relief and programs to help needy people--particularly malnourished children and adults on work projects.

Section 201 of Title II provides that each year a minimum of 1.7 million metric tons be distributed under this Title. Of this minimum tonnage, at least 1.2 million metric tons must be distributed through nonemergency programs of nonprofit voluntary agencies and the World Food Program. These programs largely support maternal child health projects, school feeding programs, and food for work activities. (The International Security and Development Cooperation Act of 1985 changed the minimum quantity for fiscal year 1986 to 1.8 million metric tons including 1.3 million metric tons for nonemergency programs and for fiscal year 1987 to 1.9 million metric tons including 1.4 million metric tons for nonemergency programs.)

The unprogrammed reserve, a minimum of 500,000 tons, allows the United States not only to respond to emergency requests, but also to supplement regular programs. These emergency donations are currently channeled through U.S. voluntary agencies, as well as through the World Food Program of the United Nations, and in some cases bilateral government-to-government programs.

In accordance with Section 203 of Title II, the costs of ocean freight to designated points of entry (including cargo preference) and overland transport to landlocked countries and other costs for packaging, enrichment, preservation, fortification, processing, and handling are covered by the program. In 1984 the section was amended to cover certain in-country transportation, storage, and distribution costs in the case of commodities for urgent and extraordinary relief requirements.

Traditionally, Title II has been viewed primarily as a humanitarian program concerned with the immediate need to alleviate hunger and malnutrition. In recent years, however, the developmental benefits of Title II programs have been emphasized, such as food for work projects.

Title III

Title III (Food for Development) programs are similar to Title I programs in many respects, including the same components which can contribute to the development effort, such as local sales proceeds, self-help measures, and balance of payments support. Title III programs do, however, differ in some critical aspects from Title I in that they are designed with economic development as the primary objective. They are designed specifically to support agricultural and rural development programs in the recipient country, through required policy initiatives, institutional reform, and support for specific development projects. In addition, they provide for loan forgiveness if the recipient country implements the development program specified in the Title III agreement. Title III development programs provide multiyear commitments of up to 5 years and are required to complement and be an addition to other programs being supported either bilaterally or multilaterally.

Public Law 480 requires that 15 percent of Title I financing be allocated annually in support of Title III programs. Further, at least 75 percent of the volume of Title I food aid must be allocated initially to countries with annual per capita incomes at or below the poverty criterion of the International Development Association. Eligibility for Title III programs is limited entirely to this group of countries.

Title IV

Title IV of the act covers the general provisions of the P.L. 480 program, among which is the requirement that the Secretary of Agriculture determine commodity availability for shipment under the P.L. 480 program. All such commodities must be determined to be in excess of domestic requirements, including stocks and commercial exports, unless the Secretary determines that some part of the commodities should be used to carry out urgent humanitarian purposes of the act.

No agricultural commodities may be financed or otherwise made available under the act except on the determination by the Secretary of Agriculture (often referred to as the Bellmon determination) that (1) adequate storage facilities are available in the recipient country at the time of exportation of the commodity and (2) the distribution of the commodity in the recipient country will not result in a substantial disincentive or interfere with domestic production or marketing in that country.

BUDGET FORMULATION AND ADMINISTRATION

P.L. 480 is unique among programs of the U.S. government--including development assistance programs--in that the budget recommendations are made by two agencies--the Department of Agriculture (USDA) and the Agency for International Development (AID). Legislative authority for funding comes from a single bill, the Agricultural Appropriations Act. The Department of Agriculture projects commodity prices and availability. AID uses its internal review process to develop country allocations with the Department of State.

Major administrative responsibilities for P.L. 480 are delegated to the International Development Cooperation Agency (IDCA), AID, USDA, the Office of Management and Budget (OMB), and the Departments of the Treasury and State. All functions not specifically delegated remain with Agriculture. All functions under the act are subject to the responsibilities of the Secretary of State with respect to foreign policy.

AID responsibilities include negotiation of Title I agreements after interagency approval of such agreements. The function of administering the Title II donation program has been delegated to the AID Administrator as well.

Decisionmaking, including review and approval of P.L. 480 programs, is an interagency responsibility. Coordination and reconciliation of various individual agency interests are achieved by the Working Group of the Development Coordination Committee, Subcommittee on Food Aid. The Subcommittee is chaired by Agriculture. Its membership includes the Departments of Agriculture, Commerce, State, and the Treasury; the Office of Management and Budget; and AID. Decisions in the Working Group are reached by consensus, and any issues which cannot be resolved are referred first to the Food Aid Subcommittee and then to the full Committee or higher levels, as appropriate, for resolution.

HISTORICAL TRENDS

P.L. 480 shipments, which averaged 14.5 million metric tons in the late 1950's and early 1960's, have varied between 5.7 and 6.3 million metric tons in recent years.[1] Over this same period, U.S. commercial agricultural exports rose sharply from about 5 million metric tons to 35 to 40 million metric tons. The dollar value of the P.L. 480 shipments has remained basically constant, ranging from $1 billion to $1.3 billion per annum in most years. The volume of shipments has fallen because of inflation.

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[1]Fiscal year 1985 figures will be higher, reflecting the U.S. response to the African famine.

The program's importance varies by commodity, and the greatest decline in the importance of P.L. 480 exports has occurred in wheat and feedgrains. For other commodities--particularly wheat flour, rice, and processed or high-value products--the importance of the program as an export promotion device remains high.

The United States continues to be the largest contributor of food aid in both absolute and relative terms. World food aid, including cereals, vegetable oils, and milk, averaged 9.6 million metric tons annually from 1979-80 to 1983-84. Of this total, U.S. food aid averaged 5.6 million metric tons, or 58 percent.

From a regional perspective, Sub-Saharan Africa[2] has emerged as a substantial recipient of P.L. 480 donations and concessional sales. Many Title I shipments to Asia, where large programs in India, Korea, Vietnam, and Cambodia were terminated, have been sharply reduced, and other countries that formerly imported food under P.L. 480 have progressed economically to the point where such imports are no longer necessary. Japan, Taiwan, Korea, and Brazil are all examples of countries in which the United States now has commercial markets instead of P.L. 480 assistance.

REVIEWS OF P.L. 480

During the past decade, many General Accounting Office (GAO) reports have covered a wide range of issues related to P.L. 480. Transportation issues were included in nine reports. Host-country policy reform, development, the World Food Program, local currency, and donor coordination have also been topics for more than one study. Other topics have been program planning and financing, export promotion, commodity storage, and disincentives to host-country food producers. Chapter 2 contains abstracts of our observations and recommendations and, where applicable, agency responses to our recommendations. The abstracts do not attempt to address the agencies' comments, but their comments are addressed in each of the individual reports.

Some of the reports focused entirely on P.L. 480, but many reports discussed P.L. 480 in conjunction with reviews of other aspects of foreign aid. It is not apparent from the titles of these reports that P.L. 480 is discussed. This compendium is especially helpful in identifying such reports and the focus of the P.L. 480 discussion. The abstracts, to the extent possible, cover only P.L. 480 and not other matters included in the reports. A statement at the beginning of each abstract identifies the P.L. 480 issue.

Chapter 3 contains summaries of other reports that include observations on food issues in developing countries but do not make specific reference to P.L. 480.

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[2]Sub-Saharan Africa includes 45 countries south of Morocco, Algeria, Libya, and Egypt and excludes Namibia and South Africa.

GAO also issued a report that summarizes and updates 148 GAO reports issued since 1981 on topics that are addressed by the Agriculture and Food Act of 1981 (GAO/RCED-85-87, July 5, 1985). The report was prepared to assist the Congress in its deliberations concerning renewal and possible modification of the Farm Bill; since the subject of P.L. 480 was involved, that report may provide additional background information.

CHAPTER 2

CHRONOLOGICAL LIST OF P.L. 480-RELATED REPORTS: TITLE, REPORT NUMBER, DATE, P.L. 480 ISSUE, AND ABSTRACT

1. FINANCIAL AND MANAGEMENT IMPROVEMENTS NEEDED IN THE FOOD FOR DEVELOPMENT PROGRAM. Report to the Honorable George E. Brown, Jr., House of Representatives, by the Director, National Security and International Affairs Division (NSIAD-85-105, August 7, 1985).

P.L. 480 Issue: Progress had been made in achieving some of Title III's objectives, but problems were noted in managing local currencies, implementing development projects, and adopting policy reforms.

Abstract: Title III of P.L. 480 gives recipient countries an incentive to improve their domestic food supplies and the lives of poor people in rural areas. It allows the United States to enter into agreements with eligible recipient countries to provide multiyear food aid commitments under concessional financing. If recipients sell the commodities and use the local currency proceeds to pay for agreed agricultural, rural development, health, or family planning activities, the repayment obligations of the recipient to the United States are forgiven.

In response to a congressional request, we reviewed the procedures to manage the receipt and disbursement of local currencies, implementation of development projects, and adoption of policy reforms by the recipient countries. While we noted progress in achieving some of Title III's objectives, we also noted problems. For example, in some instances, local currencies generated by the sale of U.S.-financed commodities were not deposited in special accounts as required by the Title III agreements, were disbursed in excess of the amount budgeted for a project, and were insufficient for timely project implementation. Some recipients' reports did not contain required financial and other information, were not submitted in a timely manner, or were not approved and certified by appropriate host-country officials. Bangladesh, which received the largest portion of Title III resources (over $381 million in approved loans as of September 1984), used Title III local currencies primarily as its contribution to overall support of projects financed by other donors. The Bangladesh Title III agreements did not specify discrete elements of the projects which were eligible for support. This hampered AID from monitoring progress, evaluating effectiveness, and ensuring that expenditures were made for agreed purposes. In some countries, projects funded by local currency proceeds were delayed or not being fully implemented. In addition, host-country institutions were not well developed, trained personnel were not available, and AID mission personnel were not actively involved in monitoring and project implementation. Regarding policy reform, we found that instituting reforms could be a lengthy process and not all agreed-upon changes were being fully implemented. Additionally, it is difficult to directly attribute the adoption of any policy reforms to Title III. Other donors may have also promoted the reforms, or the recipient governments may have already been receptive to the needed changes.

Recommendations and Agency Response: We recommended that the AID Administrator direct that:

--Missions assist and work with recipients to establish systems which properly account for receipts and disbursements of Title III local currencies; special accounts should be a central mechanism of such systems.

--Proposed Title III agreements describe how recipients and AID missions plan to implement, manage, staff, and monitor development projects and activities or how such capacities would be provided.

--Requests for Title III funds to support other donors' projects identify discrete activities which would receive Title III support and how local currency expenditures and project implementation would be monitored.

We recommended that the Secretary of Agriculture direct that:

--Deliberations on approving Title III agreements and annual commodity deliveries ensure that adequate accounting systems would be in place or steps under way to develop such systems.

--Approval of annual commodity deliveries be based on progress in implementing development projects and adopting policy reforms or evidence that problems were being addressed.

In general, AID agreed with the report and believed it reasonably reflected the problems and difficulties in administering and implementing Title III programs. AID believed, however, that it did not adequately reflect the importance that policy reforms played in Title III programs or in the progress achieved. AID supported the recommendations and informed us of steps being taken or planned to implement them.

USDA agreed with the report's observations and recommendations. It said it would work toward achieving improvements and would request AID to ensure that the Title III program conformed with the intent of the recommendations.

2. TRANSPORTATION OF PUBLIC LAW 480 COMMODITIES--EFFORTS NEEDED TO ELIMINATE UNNECESSARY COSTS. Report to the Secretaries of Agriculture and Transportation by the Director, National Security and International Affairs Division (NSIAD-85-74, June 18, 1985.)

P.L. 480 Issue: Opportunities exist to reduce transportation costs of commodities shipped under the Title I program.

Abstract: The Cargo Preference Act of 1954 requires that at least 50 percent of Public Law 480, Title I, agricultural commodities be transported in privately owned U.S.-flag vessels if available at fair and reasonable prices. USDA pays the ocean freight differential, which is based on the difference between the higher transportation rates of U.S.-flag vessels and the average rate of foreign-flag vessels that would have been selected without cargo preference.

We found significant problems indicating that USDA might be paying higher freight differentials than necessary. USDA control over the bidding and negotiation process for ocean transportation was inadequate because foreign countries: (1) used closed bids which may have been submitted late or were based on knowledge of submitted bids, (2) might negotiate with any preferred vessel owner, which did not ensure the lowest possible rates, and (3) might serve as vessel brokers, which could lead to favoritism in rate negotiations. USDA is responsible for complying with cargo preference requirements, approving foreign vessel selections, and calculating ocean freight differentials; however, it did not consistently follow the standard provision for calculating differentials, or it applied the standard in a manner that reduced costs to foreign countries at the expense of higher USDA payments. Also, the Maritime Administration did not verify data used in calculating fair and reasonable rates (guideline rates) because it assumed that vessels returned to the United States without cargo. However, evidence suggested that vessels might carry cargo on the return voyage, which would allow them the potential to earn excessive profits. Additionally, the Maritime Administration had not prepared guideline rates on liners because of the difficulty in separating revenues and costs for the portion of the voyage covering only the P.L. 480 commodity; therefore, it did not know whether transportation rates for liners represented cost plus a reasonable profit.

Recommendations and Agency Response: We recommended that the Secretary of Transportation direct the Maritime Administrator to devise and institute a method for assessing whether transportation rates for liners represented cost plus a reasonable profit. Also, vessel owners should be required to have their independent accountants semiannually certify that vessel costs and operating data are accurate. We further recommended that the Secretary of Agriculture issue regulations requiring certification that nonliner U.S.-flag vessels did not carry cargo on a return voyage (backhauling) and were not scrapped.

The regulations should also provide that the guideline rate be recalculated (and the transportation rate adjusted) if a vessel obtains cargo on the return voyage or is scrapped or sold overseas.

In commenting on a draft of our report, the Department of Transportation said that the Maritime Administration was devising a methodology for determining the reasonableness of rates on cargoes subject to the Cargo Preference Act moving on U.S.-flag liner vessels. Transportation said that costs used for determining fair and reasonable rates should be verifiable, but it favored certification of data by vessel operators. Neither Transportation nor Agriculture accepted our recommendation concerning backhauling and scrapping. Transportation commented that although our recommendation was conceptually sound, it would be practical to implement the recommendation only for known one-way voyages or for backhauls involving preference cargo. Agriculture commented that the costs of monitoring and enforcing such a provision might exceed the revenues obtained and it might be unwise to create an implicit disincentive for U.S.-flag vessels to seek backhaul cargo.

Despite these comments, we reaffirmed our recommendations. As the report pointed out, substantial U.S. funds are involved and neither Agriculture nor Maritime routinely monitor shipments to identify when U.S. vessels backhaul or scrap. We believe that the best approach to identify these situations is through certification by vessel owners and that a method for calculating the guideline rates and adjusting the transportation rate can be devised which will not destroy the incentive to backhaul.

3. U.S. ASSISTANCE TO HAITI: PROGRESS MADE, CHALLENGES REMAIN. Report to the Honorable Walter E. Fauntroy, House of Representatives, by the Director, National Security and International Affairs Division (NSIAD-85-86, June 12, 1985).

P.L. 480 Issue: AID used P.L. 480 assistance in Haiti to further development efforts, foster government policy changes, and improve the population's health and nutrition. A Title III program approved in May 1985 could place additional administrative and monitoring responsibilities on AID.

Abstract: Although Haiti remains one of the world's poorest countries, development progress was being made through U.S. economic assistance administered by AID. Food assistance was an important component of AID's program in Haiti because it represented about half of all U.S. economic assistance since 1973. It provided sales proceeds to finance a significant portion of Haiti's contribution to development, as well as opportunities to influence needed policy changes and to address humanitarian concerns.

In response to a congressional request, we reviewed economic assistance programs being administered by AID in Haiti. With respect to P.L. 480, we found that the Title I commodity sales program had provided funds for the Haitian government, AID, and other donor development projects and had afforded AID opportunities to influence government policy changes. Haiti had made policy changes related to customs and tax administration and expansion of agricultural production. A Food for Development program (Title III) was approved in May 1985 to replace the Title I program. This program was intended to give AID the potential to influence more substantive policy changes and to enhance long-range government planning and management capacities. However, based on an evaluation of Title III programs in several other countries, such an ambitious program could place additional administrative and monitoring burdens on weak Haitian institutions, as well as on AID. Evaluations of selected Title II food donation programs showed that they were helping to improve the health and nutrition of beneficiaries. The mission and the implementing agencies had corrected some past implementation problems; however, further improvements were needed which would require continued AID technical assistance. Further, some evaluations had concluded that the program was not reaching its full development potential because of limited Haitian government involvement.

Recommendations and Agency Response: We made several recommendations to improve the administration of U.S. economic assistance in Haiti. Regarding the P.L. 480 program, we recommended that the AID Administrator have the current staffing structure in Haiti assessed to see if a shift was warranted to oversee P.L. 480 programs.

AID considered the report to be a generally thorough and fair analysis which correctly reflected the development progress being made in Haiti. In response to the recommendation concerning the P.L. 480 program, AID said it planned to hire an additional person to help monitor food donation programs and would reassess staffing needs when the Food for Development program got under way.

4. AN OVERVIEW OF THE EMERGENCY SITUATION IN ETHIOPIA. Letter report to the Administrator, Agency for International Development, by the Director, National Security and International Affairs Division (NSIAD-85-70, April 12, 1985).

P.L. 480 Issue: The situation in Ethiopia presented some special difficulties for U.S. officials charged with oversight of the emergency food program (Title II) because of the size of the monitoring task and the travel constraints within the country.

Abstract: As part of an overall review of U.S. famine relief to Africa, we visited Ethiopia in February 1985 to obtain an overview of the emergency situation. We discussed the emergency situation with private and voluntary organizations, as well as United Nations, other donor, and host-government officials. We also visited two feeding centers and observed the operations at the Port of Assab.

Firm statistics concerning the number of people at risk of starvation were difficult to establish. But in December 1984, donors generally agreed that about 7.7 million would be at risk of starvation in 1985 and the number could double if the next harvest failed. Although improvements had been made in increasing the port capacity for scheduling and offloading operations, the increased capacity may not help considering the difficulties in moving food inland from the ports. We were told that there was a shortage of trucks to distribute food due to the inadequate number available and the number that were inoperable. Also, the United Nations appointed an Assistant Secretary General to oversee relief operations, and he improved donor coordination. With respect to the U.S. emergency relief program, the situation in Ethiopia presented some special difficulties for U.S. officials charged with program oversight. With the volume of U.S. food assistance pledged for fiscal year 1985 at over 326,000 metric tons as of March 1985 and expected to go higher, the five permanent AID staff in Ethiopia would likely have a difficult time carrying out the monitoring function in addition to their program approval and implementation responsibilities. An important constraint was the time-consuming process of obtaining passes for travel outside Addis Ababa. The apparent tendency of the host government to grant approval at the last minute, if at all, could add considerably to the difficulties faced by the AID staff in carrying out their responsibilities.

Recommendations and Agency Response: The report did not include recommendations and was not commented on by the concerned agencies.

5. THE UNITED STATES' RESPONSE TO THE ETHIOPIAN FOOD CRISIS. Report to the Honorable Byron L. Dorgan, House of Representatives, by the Director, National Security and International Affairs Division (NSIAD-85-65, April 8, 1985).

P.L. 480 Issue: The United States had provided more relief assistance to Ethiopia than any other government or international organization; however, the initial U.S. response was delayed because of strained relations between the two governments and several policy and administrative concerns related to providing relief aid to Ethiopia.

Abstract: The United States knew that a potentially serious food shortage situation existed in the northern province of Ethiopia in late 1982. This condition was substantiated in the spring of 1983 when representatives of two international private voluntary organizations made extensive visits to the northern province of Tigray and reported that acute malnutrition and serious drought existed. The food availability situation in the rest of Ethiopia was unclear until March and April 1984 when the U.S. Embassy began to report its concerns over the failure of the spring rains and the impact this could have on the country.

In response to a congressional request, this report discusses the need for massive food aid in Ethiopia and policy concerns raised within the U.S. government and among other members of the international donor community about providing emergency food aid to Ethiopia. It also discusses when and how the United States responded to the crisis. The circumstances surrounding the food program in Ethiopia were not typical of those normally confronting the United States when it carries out Title II emergency food programs. As a result, the initial U.S. response was delayed. For example, the time lapses between AID's receipt and approval of requests for emergency food assistance from the Catholic Relief Services were considerably longer than the time required to process typical private voluntary organization food requests. The basic problems impacting on the program included extremely poor relations between the two governments; the lack of an AID presence in the country; government restrictions on the movement of foreigners in Ethiopia, which limited external donors' capabilities to verify the extent of the food needs; and the existence of hostilities between the government and rebels in the northern provinces, which created additional difficulties in delivering food to millions of hungry people. Despite these conditions, the United States had provided, overall, more drought and famine relief to Ethiopia than any other government or international organization.

Recommendations and Agency Response: Because the Ethiopian situation was unique, we did not make specific recommendations.

As Congressman Dorgan had requested, we did not seek official agency comments. However, we provided agency officials with a draft of the report and obtained their informal views. They generally agreed with its contents.

6. OVERPAYMENT OF TRANSPORTATION COSTS FOR PUBLIC LAW 480 COMMODITIES. Letter report to the Administrator, Foreign Agricultural Service, Department of Agriculture, by the Associate Director, National Security and International Affairs Division (NSIAD-85-21, October 24, 1984).

P.L. 480 Issue: Because of an error, USDA overpaid about $144,507 for U.S. transportation expenses for shipping P.L. 480 Title I commodities to Egypt.

Abstract: During our study of costs for transporting Public Law 480 Title I commodities, we identified an error by the Foreign Agricultural Service's (FAS) Ocean Transportation Division in computing the ocean freight differential involved in a shipment of wheat to the Arab Republic of Egypt. FAS pays the freight differential, which is essentially the difference between the transportation rates of U.S.-flag vessels transporting the commodity and the rates of foreign-flag vessels that would have been selected without cargo preference. Division representatives concurred that they had used a foreign flag bid in the computation that was nonresponsive since the bid was received after the deadline. As a result of this error, FAS paid about $144,507 in excess payments for the benefit of Egypt. The oversight increased U.S. transportation expenditures for the shipment by about $144,507 and decreased Egypt's expenditures by an equal amount.

Recommendations and Agency Response: Because the overpayment was erroneously based on a late bid, we recommended that FAS seek to recoup these funds from Egypt. The report was not formally commented on by USDA.

On November 20, 1984, FAS requested that the Republic of Egypt reimburse the United States for the overpayment of freight differential.

7. OPPORTUNITIES FOR GREATER COST EFFECTIVENESS IN PUBLIC LAW 480, TITLE I FOOD PURCHASES. Report to the Secretary of Agriculture by the Director, National Security and International Affairs Division (NSIAD-84-69, April 19, 1984).

P.L. 480 Issue: Title I financing costs were increased because recipient countries were permitted to buy premium commodities, specify restrictive commodity specifications, and require short lead times for shipping the commodities. Moreover, some recipient countries' proportions of commercial imports from the United States had declined.

Abstract: In fiscal year 1982, USDA financed about $722 million worth of agricultural commodity purchases by developing countries under the Title I program. Recipient countries purchase the commodities from U.S. grain exporters on a bid basis in response to public tenders, or invitations for bids, issued in the United States by the recipient countries. USDA's Foreign Agricultural Service administers Title I and must approve all purchases before financing is provided. The Secretary of Agriculture determines the kinds and quantities of commodities available for inclusion in Title I agreements. Specific programs are developed in consultation with several U.S. government agencies, and the actual agreements are negotiated with foreign governments through diplomatic channels. After an agreement has been signed, the recipient country applies to FAS for a purchase authorization, which stipulates the type and grade of commodity, approximate quantity, maximum dollar amount authorized, and delivery period and outlines conditions for financing and shipping the commodities. To obtain ocean transportation, the importing country issues public freight tenders for both U.S. and non-U.S. flag vessels. At least 50 percent of the Title I commodities must be shipped on U.S.-flag vessels to the extent they are available at fair and reasonable rates. FAS must review and approve all freight terms and vessels; generally, an attempt is made to match the commodity and vessels which result in the lowest combined cost.

This review focused on whether the program was being operated in a manner that made the maximum amount of food available at the minimum cost and on the extent to which U.S. commercial markets were being protected. An examination of 54 of the 86 purchases made in fiscal year 1982 (involving approximately 65 percent of the total tonnage for the year) showed that opportunities existed to better control or reduce program costs in a number of areas. For example, in 26 percent of the cases reviewed, buyer purchasing practices were not conducive to achieving the full benefits of open competitive tendering or obtaining the lowest prices. Some developing countries tended to purchase either the most expensive class of a particular commodity or requested stringent or hand-tailored specifications that, in some cases, exceeded either their commercial import specifications or grain standards, and specified very short shipping leadtimes. With respect to protecting U.S. commercial markets, 6 of the 27 countries receiving Title I assistance during 1977-1981 showed declines in the U.S. historical share of their markets for at least 1 commodity. Moreover, several countries received substantial amounts of concessional imports from the United States but purchased little or no food commercially from the United States during 1977-81. The review questioned the credibility of the price review system to ensure commodities were financed at reasonable prices. FAS tended to approve all supplier bid prices, even when the purchase price exceeded the market price. Also delays in signing Title I agreements resulted in many purchases being concentrated within a 4-month period in the spring and early summer, when commodities tended to be in shorter supply and their prices higher. Overlapping purchases for Titles I and II could also cause upward pressure on prices.

Recommendations and Agency Response: We recommended that the Secretary of Agriculture direct the FAS Administrator to (1) work for earlier signing of Title I annual agreements and a wider spread of procurements over the year, (2) establish a required minimum amount of time between bid opening and the first delivery date, (3) reemphasize the requirement of the Title I regulations that buyers select the lowest responsive bids, (4) eliminate close or overlapping Title I and Title II P.L. 480 purchases, (5) require buyers to finance the extra cost associated with premium commodities unless the buyers could establish and justify definite needs, (6) monitor import statistics more carefully and emphasize the legislative requirement to take reasonable precautions to maintain the historical U.S. share of recipients' commercial imports and increases in their imports, and (7) disapprove any Title I bid price that exceeded an export market price for the comparable commodity specification and shipping mode and develop a system for evaluating Title I rice prices that used the broadest practical range of information sources. We also recommended that the Secretary of Agriculture direct the Administrator, Agricultural Stabilization and Conservation Service, to strengthen export market price gathering operations for wheat flour and spring wheat.

FAS, which provided comments on the report, generally agreed with the recommendations and, as of November 1984, had reported some action on the recommendations was in progress. However, FAS did not agree with the recommendation to disapprove Title I bid prices that exceeded the market price, as developed by the Stabilization and Conservation Service's field offices. It stated that since recipient countries were required to accept the lowest responsive bid under an open, public bid process, the Title I bid price represented the true market price.

8. FOREIGN CURRENCY PURCHASES CAN BE REDUCED THROUGH GREATER USE OF CURRENCY USE PAYMENTS UNDER PUBLIC LAW 480 COMMODITY SALES AGREEMENTS. Report to the Secretaries of Agriculture, State, and the Treasury and the Administrator, Agency for International Development, by the Director, National Security and International Affairs Division (NSIAD-84-76, April 10, 1984).

P.L. 480 Issue: Local currencies payable to the United States for commodities provided under P.L. 480 sales agreements were not being collected on a timely basis. Timely collections would aid the U.S. balance-of-payments position and reduce Treasury borrowing requirements.

Abstract: Although P.L. 480, Title I, loans are generally repayable in dollars, some sales agreements specify that partial payments be made in local currencies upon demand after the delivery of commodities. Such payments are known as currency use payments (CUP) and are made available to U.S. agencies abroad to meet in-country expenses. An equivalent amount in dollars is charged to the agencies' appropriations and credited to the Commodity Credit Corporation, which finances P.L. 480 commodity sales. If the Corporation's total receipts, including those from agencies' CUP collections, fall short of its budget estimates, then it must meet its needs by obtaining additional appropriations, resorting to its borrowing authority, reducing program levels, or using some combination of these means. Local currency collections also improve the U.S. balance-of-payments position by reducing dollar outlays to meet current expenses in the recipient countries. Reducing dollar outlays has the effect of reducing Treasury borrowing requirements.

Quarterly CUP transaction reports and semiannual foreign currency purchase reports prepared by the Treasury for October 1981 through September 1983 showed that (1) $29 million was outstanding in September 1983, which if collected, could have reduced local currency purchases from commercial sources and (2) the potential existed for including CUP provisions in a greater number of P.L. 480 sales agreements. In addition, no system had been established to ensure timely CUP collections. In some cases, Treasury sent reminders to the U.S. missions but it had no authority to enforce collections. According to the Treasury, collections were the responsibility of the Department of State, which, in turn, assigned responsibility to the individual missions. The missions, however, did not directly benefit from their CUP collection efforts as they gave up dollars for any local currencies used, even if the currencies were CUP collections. Increased use of CUP provisions could be constrained by State's political concerns and AID's policy of minimizing CUP levels in those countries where the use of sales proceeds is integrated with its overall development programs. The report concluded that CUP collections should be used to meet U.S. needs to the extent possible and should be made on a timely basis and that CUP provisions should be included in sales agreements to the extent appropriate.

Recommendations and Agency Response: We recommended that (1) the Secretary of Agriculture take the lead in establishing guidelines and procedures governing the use of CUP, (2) the Secretary of the Treasury establish procedures for identifying delinquent local currency payments and promote greater use of CUP provisions, (3) the Secretary of State issue a directive to the missions to expedite CUP collections, and (4) the AID Administrator collaborate with other members of the Subcommittee on Food Aid, which coordinates Title I program activities, in establishing interagency CUP guidelines and ensure that the Agency's guidelines were applied in a manner that balanced the Agency's development mandate with the desirability of reducing dollar outlays to meet U.S. local currency needs.

Agency representatives generally agreed with the recommendations for a more efficient CUP collection system. They also indicated they would favor Subcommittee guidelines for the use of CUP provisions. AID officials disagreed with an initial proposal that the Administrator change the Agency's CUP guidelines to give greater recognition to meeting U.S. currency needs. They stated that their guidelines for establishing CUP levels were intended to be used as a frame of reference and were sufficiently flexible so as not to impede the interagency CUP determination process.

As of August 1984, AID had expressed its intention to collaborate with other members of the Food Aid Subcommittee in establishing interagency currency use payment guidelines and to apply its own guidelines in a manner that balanced its economic development mandate with the desirability of reducing outlays to meet U.S. local currency needs.

The Department of State had issued a directive to the missions to expedite collections and to obtain prior approval before delaying collection actions.

The Department of Agriculture stated that guidelines and procedures were adequate to ensure timely collection if properly administered and followed. Agriculture said it would work with Treasury to identify delinquencies and bring such delinquencies to the attention of the Subcommittee on Food Aid when appropriate. Agriculture also indicated that proposals had been made for expanded use of currency use provisions and an overall policy on utilization of currency use provisions was expected to be developed. The Department indicated it would be more appropriate to establish guidelines and procedures after that policy was developed.

9. ECONOMIC EFFECTS OF CARGO PREFERENCE LAWS. Report to the Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, by the Chief Economist (OCE-84-3, January 31, 1984).

P.L. 480 Issue: In 1980, P.L. 480 cargo accounted for about 90 percent of the federal government's additional transportation costs incurred because of cargo preference laws.

Abstract: Cargo preference laws require that at least 50 percent of the cargo shipped or financed by the U.S. government travel aboard U.S.-flag vessels. These laws were enacted, in part, to help ensure adequate sealift capacity in time of national emergency or war. The P.L. 480 program has been a major source of cargo carried on U.S.-flag ships because of cargo preference laws. In fact, most U.S.-flag dry-bulk charter ships that were built before 1970 carry P.L. 480 commodities. About 2.2 million tons of P.L. 480 cargo and over 800,000 tons of Title II cargo were shipped on U.S.-flag vessels in 1980. To comply with cargo preference laws, USDA must pay the difference between foreign-flag and U.S.-flag costs if U.S.-flag ships are used to transport Title I goods.

At the request of the Chairman, House Committee on Merchant Marine and Fisheries, we analyzed the dependency of the U.S.-flag fleet on cargo preference laws, the economic effects of cargo preference, and the effect of eliminating the cargo preference requirement for the P.L. 480 program. Using 1980 shipping data, we concluded that because of cargo preference laws, additional U.S.-flag ships and American crews were employed in transporting government cargo. This benefit to the maritime industry and its workers has a cost to the government when using U.S.-flag ships as it increases the government's transportation costs beyond what it would pay to use foreign-flag ships that are not used because of cargo preference laws. The economic effects, however, fluctuate from year-to-year because both the amount of cargo carried on U.S.-flag ships due to cargo preference and the cost differential between U.S. and foreign-flag ships will vary. To transport Title I goods in 1980, USDA paid $58 million for the difference between using foreign-flag and U.S.-flag ships due to cargo preference laws. Actual difference between foreign flag and U.S.-flag charters carrying Title II cargo averaged about $60 a ton and cost the federal government an extra $2.1 million. Overall, in 1980, P.L. 480 cargo accounted for 60 to 75 percent of the total cargo carried on U.S.-flag ships because of cargo preference laws and approximately 90 percent of the government's additional transportation costs. These numbers will change from year-to-year in accordance with changes in the size of the P.L. 480 program and the other programs that ship cargo subject to cargo preference laws.

Recommendations and Agency Response: The report did not include recommendations, but we sent a draft of the report for review to AID and the Departments of Defense, Transportation, Agriculture, and Energy. The Department of Defense said that it had no objections to the contents of the report. AID and the Departments of Agriculture and Energy pointed out some differences in cargo data, which were reconciled. These agencies also noted that there were indirect costs of cargo preference (higher purchase price for strategic reserve oil and reduced exports from the United States). These indirect costs may have existed but the scope of the analysis was limited to a calculation of the government's additional cost to ship commodities. Accurate estimates of indirect costs would be difficult to develop. The Department of Transportation did not provide comments.

10. AFRICA'S AGRICULTURAL POLICIES--A MORE CONCERTED EFFORT WILL BE NEEDED IF REFORM IS EXPECTED. Report to the Administrator, Agency for International Development, by the Director, National Security and International Affairs Division (NSIAD-83-36, September 8, 1983).

P.L. 480 Issue: Many AID missions were not fully using P.L. 480 programs to influence reform of host-country policies which acted as disincentives to increasing agricultural production.

Abstract: Both AID and GAO have long maintained that sound host-government policies are fundamental to agricultural growth and to effective economic assistance in developing countries. For example, AID's 1978 policy paper on Food and Agriculture supported reform of economic policies to ensure that adequate incentives exist for increasing agriculture production. Likewise, we have repeatedly concluded that a major reason why developing countries have not had greater agricultural production has been the existence of certain governmental policies which act as disincentives or which provide insufficient economic incentives.

Based on a survey of 26 AID missions, we concluded that many missions were not fully using P.L. 480 concessional agricultural commodity programs to influence policy reform. In fact, P.L. 480 assistance appeared to be the most underused policy reform tool among the Sub-Saharan Africa missions. Missions having Title III programs used them to influence host-government reform, but only 6 of the 9 missions having Title I programs used or planned to use Title I assistance as a policy tool, and only 8 of 23 missions having Title II programs used or planned to use such assistance to influence policy reform.

Recommendations and Agency Response: We recommended that the AID Administrator require a definitive policy reform plan from the mission in each country, including an assessment of the probability for policy reform. Each plan was to recognize the difficulties in motivating the country to make needed reforms and the potential and likely long-term nature of such an effort. We also recommended that in conjunction with preparing each plan, the Administrator require an analysis showing how all components of AID assistance, including P.L. 480 programs, would support the action plans and a justification if all program elements were not being fully used.

The State Department stressed that the AID agricultural policy reform effort needed to be placed in the context of overall U.S. foreign policy objectives; although important, agricultural policy reform was only part "of the larger economic/financial and, ultimately, political stabilization picture." AID said it recognized that inappropriate host-government policies were a prime suppressant of agricultural output growth in Sub-Saharan Africa. It has taken action to implement our first recommendation, but has not been fully responsive to our second recommendation.

As of September 1984, AID reported it had emphasized the importance of policy reform and upgraded its staff. Missions were preparing detailed policy analyses and AID had hired, both for Washington and for the African missions, a number of economists to undertake policy dialogue. AID had begun projects to improve host-government policy reform capabilities. The proposed Economic Policy Initiative will reward those countries that reform their economic policies.

AID disagreed with the need for special incentives for staff to promote policy reform because, according to AID, such reform was receiving greater attention, especially since non-project assistance (which is often policy related) was becoming more common in Africa. AID said it had consulted with other major donors and was working to improve donor coordination in both Washington and the field.

11. IRRIGATION ASSISTANCE TO DEVELOPING COUNTRIES SHOULD REQUIRE STRONGER COMMITMENTS TO OPERATION AND MAINTENANCE. Report to the Administrator, Agency for International Development, by the Director, National Security and International Affairs Division (NSIAD-83-31, August 29, 1983).

P.L. 480 Issue: To help develop self-sustaining irrigation systems, AID could use local currencies generated from the sale of P.L. 480 commodities as a short-term source of funds for operation and maintenance.

Abstract: Irrigation systems cost billions of dollars and are often funded directly by the United States through AID and indirectly through the international development banks. Many systems in developing countries, however, are poorly maintained. Operation and maintenance (O&M) problems will likely increase in the future and will become more complex because of continued irrigation development and increasing inability of developing countries to finance the recurrent costs of development programs.

In view of the continuing emphasis on developing irrigation to help feed the world's people, we reviewed U.S.-financed irrigation systems in Indonesia, Sri Lanka, and Thailand to determine how AID could (1) improve irrigation operation and maintenance practices of developing countries and (2) design irrigation projects that adequately emphasize O&M problems. In general, many donor-financed irrigation systems were in poor condition due to inadequate funding of day-to-day regular operation and maintenance. Donors normally restricted their financial involvement to design and construction and viewed O&M as a recipient country responsibility. To varying degrees, systems as designed and constructed did not adequately consider minimizing O&M requirements, provide the necessary supervision to ensure that design specifications were met, involve the farmers in the design and construction process, or provide for an appropriate transition from construction to operation and maintenance.

Recommendations and Agency Response: Because of the need to develop self-sustaining irrigation systems, we recommended that the AID Administrator require that recurrent cost plans be developed in conjunction with recipient governments and other donors as an integral part of project planning and as a condition for project approval. A possible short-term source of funding for irrigation systems' operation and maintenance or pilot O&M projects could be local currencies generated through the import and local sale of U.S. commodities provided concessionally under P.L. 480. Both AID and the Congress had a strong interest in integrating P.L. 480 programs with development assistance programs and in improving self-help measures under the P.L. 480 program. Selective short-term use of generated local currencies for irrigation operation and maintenance could serve both objectives.

AID substantially agreed with the findings and recommendations and identified the following specific actions under way as of November 1984: (1) proposals in the Fiscal Year 1985 Congressional Presentation for the design of operation and maintenance projects in Indonesia and Sri Lanka representing assistance levels of $25 million and $19 million, respectively, (2) approval of $2 million in supplies and equipment to develop effective O&M procedures in Sri Lanka's soon to be completed reservoir system, (3) funding of a recurrent costs study by the Asia Bureau to identify ways to design workable and self-sustaining O&M programs, and (4) sponsoring an international conference during July 1984 in Jakarta, Indonesia, to bring together national policymakers to discuss issues of operation and maintenance. Participants were from both Asia and Africa, and recommendations were made to national governments and donors to make a firm commitment to farmer participation in irrigation programs.

12. AID'S ASSISTANCE TO JAMAICA. Letter report to the Administrator, Agency for International Development, by the Director, International Division (ID-83-45, April 19, 1983).

P.L. 480 Issue: AID assistance to Jamaica, including P.L. 480 funds, had not been used to achieve substantial influence over economic policies; the government of Jamaica had been slow to meet local currency provisions of P.L. 480 and other assistance; and AID had not performed an active role in selecting or monitoring development projects financed by local currency.

Abstract: To help Jamaica cope with its foreign exchange and budget deficits, AID had provided $188 million in quick-disbursing balance-of-payments support--$153 million as cash transfers through the Economic Support Fund (ESF) and $35 million through P.L. 480, Title I, concessional food sales. Such balance-of-payments assistance could contribute to development by making assistance conditional on implementation of reforms to encourage private sector and overall economic growth and by requiring Jamaica to provide local currency equivalent to the value of U.S. balance-of-payments assistance for agreed-upon development purposes.

The government of Jamaica was slow to meet the terms of P.L. 480 and ESF agreements requiring that it provide local currency equivalent to the value of U.S. balance-of-payments assistance for agreed-upon development purposes. AID had performed a relatively passive role in selecting projects which would receive local currency proceeds. AID relied on the government of Jamaica to select up to 90 percent of the projects which would receive local currency proceeds, and did not plan to perform on-site monitoring of local currency projects to ensure that budget funds were in fact provided for agreed-upon purposes and to determine if projects were progressing adequately.

Recommendations and Agency Response: We recommended that the AID Administrator attempt to identify an increasing portion of development projects for which local currency would be allocated and monitor on a spot basis the end use of the local currency.

In its response to the recommendations, AID said it was doing a good job of administering balance-of-payments support to Jamaica and did not need to improve its procedures. AID believed that (1) its participation in deciding how local currencies were to be used should not increase, (2) closer monitoring of end use was unnecessary and impracticable given existing AID staff resources, and (3) it had influenced substantial policy changes by providing foreign exchange. Although AID believed that it had done a good job in the past, it said it had established a new system to monitor Jamaican progress in implementing policy changes.

13. MANAGING THE TRANSPORTATION OF U.S.-DONATED FOOD TO DEVELOPING COUNTRIES. Letter report to the Honorable Edward R. Madigan, Ranking Minority Member, Committee on Agriculture, House of Representatives, by the Director, International Division (ID-83-24, March 3, 1983).

P.L. 480 Issue: Procedures for booking and forwarding Title II commodities were generally adequate to protect the interests of the federal government, but monitoring and auditing activities could be improved.

Abstract: AID and USDA arrange for commodity shipments under P.L. 480, Title II. AID does this through freight forwarders chosen by designated private voluntary organizations (PVOs) and other organizations and uses the funds of the Commodity Credit Corporation of USDA to reimburse PVOs for all Title II ocean freight expenditures. PVOs, in turn, use the services of private freight forwarders for booking cargo and preparing all shipping documents. USDA purchases and arranges deliveries of all Title II commodities to U.S. ports and performs the cargo booking and freight-forwarding function for 50 percent of the U.S.-donated commodities to the World Food Program (WFP) and for government-to-government programs. WFP uses a private freight forwarder in the United States as its agent for the remaining 50 percent of the U.S.-donated commodities, for which it pays the freight; the United States pays the ocean freight for all other Title II shipments. Combined AID and USDA ocean transportation and overland transportation costs to landlocked countries were about $196 million in fiscal year 1982.

In response to a congressional request we reviewed the administration of P.L. 480, Title II, shipping. The review included AID's administration of shipping functions and procedures for payments of private freight forwarders and ocean freight and a comparison of those procedures with USDA's procedures for managing its segment of the Title II program. In general, the procedures followed by private freight forwarders in behalf of PVOs and AID and those used by USDA for booking and forwarding ocean freight were similar and generally adequate to protect the interests of the federal government.

Several areas were identified, however, where monitoring and auditing of Title II transportation activities could be improved. First, because monitoring was not done routinely, USDA had no assurance that private freight forwarders or its Ocean Transportation Division were conforming to its established guidelines covering ocean freight rates. Second, PVO freight forwarders could and did receive "reimbursement" for ocean freight expenditures before the carriers were paid--a violation of AID regulations, which resulted in interest-free advances of federal funds. Third, AID did not review Title II freight vouchers, which PVOs submitted, either on a preaudit or postaudit basis. Therefore, AID had no assurance that the amounts which the forwarders paid ocean carriers were in accordance with the established tariffs.

Recommendations and Agency Response: We recommended that (1) the Secretary of Agriculture require procedures be established to routinely examine actual freight charges to help ensure that they did not exceed the lowest landed cost, (2) AID

determine if the practice of freight forwarders receiving payment before the carriers were paid was fair and equitable and, if necessary, revise the regulations concerning such payments, and (3) AID require PVOs to monitor the activities of their freight forwarders by comparing, prior to payment, freight forwarder payment requests with USDA guidelines to verify that ocean freight charges complied with the lowest landed cost determination. We also recommended that AID proceed with efforts to have vouchers postaudited by the General Services Administration.

AID and USDA had no fundamental disagreements with our conclusions and observations. According to AID, the General Services Administration had agreed to audit all transportation vouchers for P.L. 480, Title II, shipments at 3-month intervals. Beginning in fiscal year 1985, AID would require PVOs to certify that shipments met USDA guidelines for lowest landed cost. This certification must be on all ocean freight vouchers. Also in fiscal year 1985, AID would establish new reimbursement procedures for PVO freight forwarders under a direct letter of commitment. USDA believed that its procedures were adequate to ensure that the lowest available freight rates were obtained for its own shipments and that ultimate responsibility for examination of freight bills for PVOs rested with AID.

14. INTERNATIONAL ASSISTANCE TO REFUGEES IN AFRICA CAN BE IMPROVED. Report to the Congress by the Comptroller General (ID-83-2, December 29, 1982).

P.L. 480 Issue: Inequitable amounts and types of food assistance had been provided to refugees by the U.N. High Commissioner for Refugees (UNHCR) through which the United States channels its emergency food program. Also, refugee benefits could be improved by better planning, program guidance, and resource coordination.

Abstract: AID provides assistance to refugees through the P.L. 480 program. Its assistance to African refugees is mostly in the form of emergency food channeled primarily through the UNHCR. In Somalia, during fiscal year 1981, AID provided $28 million in food assistance; in fiscal year 1982, the amount of food aid was expected to total about $10 million. Food aid had also been provided for refugees in other African countries, including Djibouti, Sudan, Chad, and Cameroon.

In the four African countries we visited, inequitable amounts and types of assistance had been provided. In addition, the programs of the UNHCR tended to be open ended and did not have plans for phasing out assistance. Continuous and high levels of assistance, in addition to being costly to the international community, often served as a deterrent to achieving the preferred lasting solution--refugees' voluntary repatriation. At two camps, for example, the amount of assistance provided to refugees exceeded the living standards of the local population.

African refugee programs were also not sufficiently evaluated because the Department of State's in-country assessment of, and reporting on, UNHCR activities and projects was limited, and because about 95 percent of U.S. contributions to the program were unrestricted and were inherently difficult to track. In some countries, governments considered the refugees as guests and limited the extent to which refugees could effectively resettle and integrate into the economy.

Recommendations and Agency Response: We recommended that the Secretary of State (1) encourage the UNHCR to better plan, coordinate, and implement material assistance programs and (2) in conjunction with AID, establish a means to better evaluate and report on the High Commissioner's African refugee assistance activities and programs. We also recommended that the AID Administrator ensure African asylum-country governments remove barriers to economic integration of refugees before U.S. funds are committed.

Both AID and the Department of State generally concurred that the findings and recommendations reflected many problems related to the High Commissioner's program in Africa. They said, however, that the High Commissioner had in the preceding 2 years made improvements in African program management and administration. In addition, the State Department said it had taken specific measures in Somalia and elsewhere to ensure more effective use of U.S. contributions.

15. CARGO PREFERENCE REQUIREMENTS ADD TO COSTS OF TITLE II FOOD FOR PEACE PROGRAMS. Report to the Honorable Millicent Fenwick, House of Representatives, by the Director, Program Analysis Division (PAD-82-31, August 2, 1982).

P.L. 480 Issue: Cargo preference requirements cost the U.S. government about $15.6 million for the Title II program in fiscal year 1981--enough to provide an additional 41.7 thousand metric tons of wheat to India.

Abstract: P.L. 480 commodities are subject to the cargo preference requirements of Section 901(b) of the Merchant Marine Act of 1936, as amended. This act requires that at least 50 percent of P.L. 480 tonnage be transported on U.S.-flag ships. AID monitors Title II shipping arrangements and ensures compliance with the cargo preference requirements. The United States pays the entire shipping cost for all Title II commodities except for World Food Program shipments to Mediterranean and African countries.

A congressional request asked for estimates of how much the Title II cargo preference requirements costs the government and how much additional food might be shipped at no additional cost to the program if the requirement were removed. In fiscal year 1981, the government spent nearly $250 million to ship Title II commodities. Of this amount, $15.6 million was estimated to be due to the cargo preference requirement. If the maximum estimated money saved from the removal of cargo preference was used to provide more food, an additional 41.7 thousand metric tons of bulgur (parched, crushed wheat) could be sent to India or 33.1 thousand metric tons of corn soya milk could be sent to the Philippines.

Recommendations and Agency Response: No recommendations were made. At Representative Fenwick's request, official comments on the matters discussed in the report were not obtained.

16. FOOD FOR DEVELOPMENT PROGRAM CONSTRAINED BY UNRESOLVED MANAGEMENT AND POLICY QUESTIONS. Report to the Congress by the Comptroller General (ID-81-32, June 23, 1981).

P.L. 480 Issue: Increased use of the Title III program was constrained due to a number of problems, including the fact that no one agency had lead responsibility for the program's development aspects and demanding, complex, multiple program requirements were imposed on recipient countries.

Abstract: Title III, Food for Development, was added to the P.L. 480 program in 1977 to provide an incentive for recipient countries to take greater self-help measures in alleviating their food problems. As an inducement for Title I food aid loan recipients to undertake development efforts, Title III authorizes a multiyear food-aid commitment and a forgiveness of the debt if certain conditions are met. The program is administered on an interagency basis with participation by USDA, the International Development Cooperation Agency, AID, OMB, and the Departments of State and the Treasury. No one agency has lead responsibility and decisions are reached by consensus. Through 1981, six agreements had been signed with a combined value of about $400 million to be disbursed over a 5-year period.

We reviewed the program because of the emphasis in recent years on more closely relating U.S. food aid to recipient country self help efforts and because of congressional concerns that the Food for Development program had not been implemented more rapidly on a larger scale.

In general, use of the Title III program had been made difficult by a number of administrative problems. Demanding, complex, multiple program requirements had caused some countries to avoid the program. Countries had the choice of food aid within the Title III framework or of the already highly concessional food aid under Title I with less demanding requirements. The poorer countries, with the most urgent needs to overcome inadequate agricultural production, had been the least capable of meeting Title III requirements. The program had struggled under a myriad of varying and conflicting interpretations of program requirements within and among the agencies which administer the program. The lack of an agency with primary responsibility and authority and inadequate U.S. government programming organization and staffing to deal with developmental uses for food aid had also constrained the program.

Recommendations and Agency Response: We recommended that AID be given lead agency responsibility for the Title III program and that it develop specific country food and agriculture analyses to serve as the foundation for program planning; prepare detailed guidance to U.S. overseas missions for the preparation of specific Title III proposals; and provide technical assistance, when requested, to U.S. missions and recipient governments. Also, we recommended that the Secretary of Agriculture establish or refine, as necessary, standards (1) tailoring the terms and self-help measures of food aid to the purposes for which such assistance is provided and to the needs of recipient countries and (2) basing the concessionality of future assistance on the degree of recipient countries' self-help performance.

IDCA and AID agreed with the proposal to assign lead agency responsibility to AID but other agencies--the Departments of Agriculture, State, and the Treasury, and OMB--believed the existing process best served the multiple objectives of the P.L. 480 program and was necessary if each agency was to meet its responsibilities under the program. The Department of Agriculture agreed with our recommendation to establish or refine standards.

17. U.S. ASSISTANCE TO EGYPTIAN AGRICULTURE: SLOW PROGRESS AFTER FIVE YEARS. Report to the Congress by the Comptroller General (ID-81-19, March 16, 1981).

P.L. 480 Issue: The use of P.L. 480 as a mechanism to promote Egyptian policy reform had not been fully exploited, and the adverse effects of U.S.-financed agricultural imports on Egyptian domestic producers needed to be assessed.

Abstract: Since 1975, AID had committed more than $357 million to projects aimed at increasing food and agricultural production in Egypt. From 1975-77, AID's agricultural assistance program stressed developing capital or public works and industrial type projects, such as constructing and equipping grain silos and irrigation facilities. In 1977, the emphasis shifted to food and agriculture production projects. Food aid valued at $1.2 billion had also been provided since 1975 under P.L. 480. The P.L. 480 food shipments demonstrate U.S. involvement while helping to fulfill a primary need in Egypt. Through the program, many Egyptians were better fed. In the past, the large P.L. 480 program was justified on economic as well as political grounds. However, Egypt's strong balance-of-payments performance in 1979 and 1980 weakened the economic case.

We assessed the progress of the Egyptian agricultural assistance program and identified how program impact could be improved. Although our report focused primarily on problems encountered in implementing development assistance projects and the need for AID to develop a method for transferring technology to the Egyptian farmer, it also included observations on the P.L. 480 program. For example, the report noted AID's efforts to promote Egyptian agricultural policy reforms through the use of mechanisms like the P.L. 480 program had yielded limited results. Egyptian food policies had limited productivity while also subsidizing the middle and upper classes. Egyptian food policies had also led to rapid increases in food imports, financed in part, under the AID Commodity Import and P.L. 480 programs. AID financing provided implicit support for Egypt's food import and consumption policies. This support required that close attention be given to the adverse effects of imports on domestic producers. Assessing the effects of rapidly increasing food imports would provide the basis for determining the desirability of U.S. financing, as well as provide the analytical basis for Egyptian policymakers to evaluate the implications of food import policies and the actions needed to alleviate the impact on local producers.

Recommendations and Agency Response: The report made several broad recommendations to the AID Administrator to ensure that program benefits reached small farmers and to speed project implementation. With respect to the P.L. 480 and the Commodity Import Program, it recommended that the Administrator assess the effect of U.S.-financed imports on local producers.

AID said the data and other material in the report was correct, and it generally agreed with the conclusions and recommendations regarding project implementation.

18. COMPETITION AMONG SUPPLIERS IN THE P.L. 480 CONCESSIONAL FOOD SALES PROGRAM. Report to the Chairman, Subcommittee on Limitations of Contracted and Delegated Authority, Senate Committee on the Judiciary, by the Comptroller General (ID-81-6, December 19, 1980).

P.L. 480 Issue: Since fiscal year 1969, seven major grain firms had supplied most of the grain sold under the P.L. 480 program; several barriers existed to greater industry participation.

Abstract: Section 103(e) of P.L. 480, Title I, requires, in part, that USDA "take appropriate steps to assure . . . that small business has adequate and fair opportunity to participate in sales made under the authority of this Act . . . ." This section was added to P.L. 480 in 1966 because of congressional concern that the economies offered by large shipments were making it easier for large exporting companies to bid and receive Title I sales awards, in effect giving them a competitive advantage over smaller companies. Largely because of irregularities in the bidding and award of contracts, the Congress in 1977 added a new Section 115 to Title I which provides, in part, that

> ". . . No purchase of food commodities shall be financed under this title unless they are made on the basis of an invitation for bid publicly advertised in the United States. All awards in the purchase of commodities financed under this title shall be consistent with open, competitive, and responsive bid procedures, as determined by the Secretary of Agriculture . . ."

This amendment further strengthens the ability of all suppliers to compete.

We were asked to determine (1) whether other firms and farmer cooperatives had successfully competed against seven major grain firms for P.L. 480 sales since fiscal year 1969, (2) whether USDA had promoted competition by other suppliers, and (3) what legislative or management changes might increase supplier competition and make the program more effective and efficient. Sales statistics for 1969-78 showed that, in several years, other firms and export cooperatives supplied significantly more grain or rice than several of the seven major firms. But the seven major firms had collectively supplied 70 to 90 percent of the grain for the 11 fiscal years from 1969 to 1979. For a variety of reasons, other firms and cooperatives bid only sporadically for the sales, whereas the seven major firms bid aggressively for most of the commodities. USDA had acted to encourage greater participation by other suppliers, and USDA policy and regulations basically met the requirements of the existing legislation. However, grain suppliers were experiencing problems with certain Title I procedures and requirements, such as unreasonable performance bond requirements, cumbersome bid bond procedures, and restrictive procurement specifications. These problems were acting as barriers to greater industry participation, particularly by smaller firms or cooperatives.

Recommendations and Agency Response: We recommended that the Secretary of Agriculture direct the General Sales Manager of USDA to take appropriate action to develop standardized invitations for bids, limit the size of individual sales and seek to develop a more orderly distribution of sales throughout the year in keeping with the annual cycle for each commodity, standardize performance bond requirements, improve procedures to provide earlier payment to suppliers, simplify bond requirements, and standardize the letter-of-credit procedures.

The General Sales Manager generally agreed with the recommendations with one exception. He agreed that procedures should be changed to provide earlier payment to suppliers of bagged commodities. However, he commented that since bulk grains were fungible--that is, they could be freely substituted or traded while in export elevators--they did not present as much risk of loss to the suppliers as did bagged commodities. Thus, USDA could not support implementation of the recommendation for bulk grain sales.

19. PROMOTING AGRICULTURAL EXPORTS TO LATIN AMERICA. Report to the Chairman, Subcommittee on Foreign Agricultural Policy, Committee on Agriculture, Nutrition and Forestry, United States Senate, by the Comptroller General (ID-81-05, December 11, 1980).

P.L. 480 Issue: Increased U.S. assistance in financing agricultural commodities through programs like P.L. 480 could expand exports to Latin America.

Abstract: The Foreign Agricultural Service, through the Office of the General Sales Manager, administers the Department of Agriculture's export credit and insurance programs. These include the Commodity Credit Corporation's (CCC) nonconcessional, shortterm, and intermediate export credits, P.L. 480 concessional credit programs, and the Non-Commercial Risk Assurance Program. By enabling foreign buyers to purchase U.S. agricultural commodities, these programs also help to promote U.S. agricultural exports. In fiscal year 1979, three Latin American countries received CCC credits totaling $134.6 million and seven received P.L. 480 credits totaling $80.3 million.

In response to a congressional request, we reviewed federal government efforts to promote agricultural exports to Latin America. With respect to P.L. 480, financing agricultural sales had been an important factor assisting U.S. exports. Selected Latin American countries that could not afford cash purchases had purchased U.S. commodities financed by P.L. 480 and/or CCC credits. Importers and foreign government officials in several countries said that in past years export credit was the deciding factor in purchasing large quantities of bulk commodities from the United States. However, the program had become less effective as a marketing tool because 75 percent of all food commodities were required by law to be allocated to countries whose gross national product per capita met the poverty criterion for International Development Association financing. Most countries meeting that criterion had relatively little immediate potential as commercial markets. The remaining 25 percent of commodities was often allocated on the basis of political or other objectives unrelated to U.S. agricultural interests or to the establishment of commercial markets overseas.

Recommendations and Agency Response: The report did not contain recommendations, but it concluded that the Foreign Agricultural Service could do more to promote U.S. exports to Latin America by, among other things, increasing financing assistance through programs such as P.L. 480.

The Foreign Agricultural Service said it was in essential agreement with the main points in the report and that the observations were reasonable.

20. COOPERATION IN AGRICULTURAL ASSISTANCE: AN ELUSIVE GOAL IN INDONESIA. Report to the Congress by the Comptroller General (ID-80-29, June 11, 1980).

P.L. 480 Issue: P.L. 480 was the largest component of U.S. aid to Indonesia--a major recipient of foreign aid since 1970. The Indonesian government and foreign donors, however, had not achieved a concerted, integrated development effort focused on priority needs.

Abstract: In 1979 major donors, including the World Bank, the Asian Development Bank, AID, and other bilateral donors, provided Indonesia about $1.9 billion in concessional assistance which was largely directed at helping reduce Indonesia's heavy dependence on food imports and developing its agricultural production. Titles I and II were a consistent component of the overall U.S. assistance program in Indonesia and were considerably larger than AID's development assistance program. In 1978, for example, P.L. 480 assistance totaled $122.7 million while development assistance totaled $73.9 million; in 1979, the respective amounts were $111 million and $92.8 million.

The report assessed the nature and extent of foreign-donor and recipient-government cooperation in the agricultural development of a food-deficit country. It examined donor and host-country relationships in Indonesia and the factors behind the difficulties in achieving closer coordination. The report highlighted the need for stronger leadership in coordinating the assistance efforts of a variety of donors, for an assessment of ways to improve Indonesia's capacity to absorb foreign assistance, for more information sharing among donors, and for more closely relating consideration of multilateral development bank loans to other forms of U.S. assistance.

The report addressed P.L. 480 primarily as an element of the total aid program to which the overall conclusions and recommendations related. The report noted that within the U.S. government, Title I concessional sales were not viewed as a deterrent to local production in Indonesia. Rather, Indonesia's rice needs were so great, its rice imports so high, and its policies already so supportive of rice production that Title I sales did not hinder local production. The extent to which the United States should promote wheat sales to Indonesia, however, was discussed. On the one hand, Indonesia had virtually no capacity to grow its own wheat, and policies which encouraged consumption of wheat would lead to further import dependence. On the other hand, an import dependence on wheat might be less risky than an import dependence on rice, because the world market availability and variety of supply sources were greater for wheat than for rice.

Recommendations and Agency Response: To help alleviate Indonesia's food problems, broad recommendations were made to make U.S. assistance more cohesive. For example, we recommended that the Secretary of State and the Director, International

Development Cooperation Agency, reemphasize to other bilateral donors the need for both increased information sharing and their participation in effective coordination.

AID officials agreed with the conclusions and recommendations and complimented the report's constructiveness. State Department program officials agreed with the report but noted that State and AID had made a major effort over the preceding year to encourage other bilateral donor coordination but that the effort had not been favorably received, largely because many bilateral donor programs were commercially oriented. The Treasury Department maintained that some of the report's recommendations were unnecessary.

21. SEARCH FOR OPTIONS IN THE TROUBLED FOOD-FOR-PEACE PROGRAM IN ZAIRE. Report to the Subcommittee on Africa, Committee on Foreign Affairs, House of Representatives, by the Comptroller General (ID-80-25, February 22, 1980).

P.L. 480 Issue: Losses and abuses in the P.L. 480 program in Zaire raised serious questions on how best to achieve U.S. objectives.

Abstract: Providing food to Zaire had been an important part of U.S. assistance to this economically troubled country since 1976. But from the beginning of the program, monitoring and controlling food distribution had been a problem. During March 1979 hearings, for example, testimony regarding corruption in the Title I rice program was presented to the Subcommittee on Africa, House Committee on Foreign Affairs. It was alleged that, due to profiteering of politically connected businessmen, U.S. rice sold to Zaire on a concessional basis was being resold in Zaire at markups as high as 400 percent, well beyond the means of the average citizen of Zaire. In addition, claims were made that some of the U.S. rice bound for Zaire was being diverted to neighboring Congo-Brazzaville, where higher prices could be realized.

In response to a congressional request, several aspects of the P.L. 480 program in Zaire were reviewed, including implementation of the fiscal year 1978 rice distribution plan; AID's capability to effectively monitor rice distribution, as well as the use of counterpart funds--Zaire local currency generated by sale of Title I commodities; and the need for controls for Title I commodities other than rice. In the judgment of U.S. officials in Zaire, distribution of rice under the 1978 distribution plan improved over prior years. However, the scarcity of accurate records and limited monitoring made it impossible to measure how well the distribution plan had been adhered to at the retail level. Available records and discussions indicated that 13 percent of the rice, or over 2,000 metric tons, was unaccounted for by the time it reached the major importers/ distributors. There were reported instances of rice being sold at higher prices, improperly sold to government officials, and diverted to the black market. Other commodities, such as wheat, cotton, and tobacco, were processed into other products before consumption and appeared to be better controlled. Two major problems with management of counterpart funds were identified. Overdue deposits of at least 9.5 million zaires (equivalent to about $4.7 million) had not been made to the counterpart fund, and funds equivalent to $1.3 million were released to government officials without the AID mission having approved the projects. The problems related to control of local currency were not unique to U.S.-generated funds, and a coordinated effort among all donors would be necessary.

Recommendations and Agency Response: The report concluded that given the experience of the United States and other donors in Zaire, some food losses and abuses would likely continue. It also suggested that appropriate monitoring would be desirable. More importantly, it raised questions about the best method of achieving U.S. objectives. Options were discussed, including substituting of wheat and other commodities for rice, and transferring rice from a Title I to a Title II program. There were no simple answers. The vastness of Zaire, the lack of adequate storage and transportation facilities, the economic conditions which fostered an extensive black market, along with the limited capability of the U.S. mission to monitor the program, raised serious questions about the extent to which program abuses and commodity losses could be controlled.

The report did not include recommendations and was not formally commented on by concerned agencies.

22. COORDINATING U.S. DEVELOPMENT ASSISTANCE: PROBLEMS FACING THE INTERNATIONAL DEVELOPMENT COOPERATION AGENCY. Report to the Congress by the Comptroller General (ID-80-13, February 1, 1980).

P.L. 480 Issue: Improvements could be made in coordinating P.L. 480 assistance within the U.S. government by limiting membership of the interagency Food Aid Subcommittee to essential members; creating a small IDCA staff for food aid programs; and better integrating food programs with country planning.

Abstract: This report examined the nature of the development coordination problem; analyzed existing mechanisms for improving coordination; and critiqued the administration's reorganization plan, which created an International Development Cooperation Agency. It suggested improvements that could be made in the coordination process under IDCA. Observations on the coordination of food aid follow.

P.L. 480 legislation has always been characterized by multiple and potentially conflicting goals. During the 25 years of the P.L. 480 program's existence, it has been utilized to dispose of U.S. agricultural surpluses; to promote markets for American agricultural products; to support American foreign policy; to provide humanitarian assistance to persons, groups, and nations; and to promote economic development. The existing system is preoccupied with attempting to reconcile the various purposes of the program as reflected in the views of various U.S. agencies. There has been relatively little attention to the relationship between the development aspects of the P.L. 480 program and other development programs and activities. Although AID is deeply involved in the process of programming food assistance, its Food for Peace Office, which handles P.L. 480, has traditionally been poorly integrated into the rest of AID and inadequately cognizant of its activities. A satisfactory vehicle for relating the food aid program to overall country development and to country aid strategies has not yet been found.

There has also been neglect of the relationship between U.S. food aid programs and other bilateral and multilateral programs relating to food production and agricultural development. The relationship of the U.S. program to the International Fund for Agricultural Development has, for example, been virtually ignored. While there has been some informal communication and coordination with other food donors, it is minimal and is not related to the U.S. food aid decision-making process.

The creation by the Congress in 1977 of a new development-related title of P.L. 480 (Title III) raised new organizational questions. Partly because this title involves the use of local currency resources generated under Title I, which is under strong Department of Agriculture influence, and partly because of the new development orientation of Agriculture, that Department has insisted on playing a large role in the programming of assistance under the new title. It is questionable whether Agriculture's role with respect to Title III improves development coordination. P.L. 480 has always been inadequately integrated into the overall aid program, and the failure to assign principal responsibility for the new development title to the aid agency both reflects and reinforces this tendency.

Finally, there are no links between decision-making with respect to food aid and interdepartmental decision-making with respect to overall U.S. agricultural policy. This lack of coordination with overall policy may not be a serious defect so long as there is a surplus of food but it can become a serious problem in time of food shortage.

Recommendations and Agency Response: The report made the following recommendations.

- --The membership of the Food Aid Subcommittee, its Working Group, and the committees for each of the P.L. 480 titles should be limited to the essential members: Agriculture, IDCA/AID, State, and OMB; OMB's role should be limited to its legitimate concern with the implications of program decisions for the budget.

--A serious effort should be mounted by AID and IDCA staff to better integrate food aid programs into country planning.

--To provide a better information base for both the overall program planning and day-to-day decisionmaking, IDCA should undertake or sponsor an evaluation of the relative effectiveness of P.L. 480 in achieving its several goals.

--IDCA/AID should have final responsibility--not subject to veto by other agencies--to (1) review and approve the multiyear Title III proposals submitted by eligible countries and (2) monitor program implementation.

--For the longer run, once IDCA is well established, IDCA/AID should take over the chairmanship of the Food AID Subcommittee and its Working Group.

--The IDCA Director should create a small staff for food aid which would be capable of utilizing and directing existing staff expertise on food aid in AID's Program and Policy Coordination Bureau and Food for Peace Office.

Most agencies provided oral comments during a series of meetings held with them on the draft report. Agriculture believed that the existing arrangements for administering P.L. 480 were basically sound and that, in particular, Title III should continue to be administered jointly by AID and Agriculture. Agriculture did not believe that assignment of responsibilities to IDCA (particularly with respect to P.L. 480) would remedy any problem. OMB was skeptical as to whether the proposed division of responsibilities for Title III was workable. The Department of State questioned whether the small IDCA staff would be able to perform all the proposed functions.

23. WORLD HUNGER AND MALNUTRITION CONTINUE: SLOW PROGRESS IN CARRYING OUT WORLD FOOD CONFERENCE OBJECTIVES. Report to the Congress by the Comptroller General (ID-80-12, January 11, 1980).

P.L. 480 Issue: Food aid and security were critical aspects of world hunger which needed improvement. Although then running nearly 10 million metric tons annually, there was no assurance that U.S. and other donor food aid programs would continue at that level.

Abstract: The United States contributes to alleviating world hunger and malnutrition through the $1 billion-plus yearly P.L. 480 program. P.L. 480 programs give high priority to providing U.S. food aid to nutritionally vulnerable groups in developing countries and especially to the poorer food-deficient countries. At least 75 percent of Title I concessional food sales commitments shall be in countries meeting the International Development Association poverty criterion. Under Title II, the United States donates nutritious foods for special feeding projects, such as maternal and child health projects.

The report describes the progress and problems in implementing resolutions of the 1974 World Food Conference and discusses some of the constraints involved in U.S. and international efforts in relieving global hunger and malnutrition. Many of the conference resolutions relate to P.L. 480. For example, Resolution 18 calls for improved policies on food aid and asks for, among other things, the provision of at least 10 million tons of grain annually for global food aid. The United States has vigorously supported this objective. Section 3 of P.L. 480 urges the President to sustain significant U.S. contributions to the goal of 10 million metric tons, and to encourage other countries to maintain and increase their contribution levels as well. Between 1973 and 1980, the United States was, in fact, by far the largest donor. Overall, however, in 1978-79, donor countries did not reach the target of 10 million metric tons of food aid as expected. Meanwhile, some parties were expressing concern about the adequacy of the goal in the longer term. According to projections in a World Food Program report, 14 million to 16 million metric tons of food aid in cereals might be needed annually by 1985. The World Food Conference also stressed the importance of evolving a longer term food aid policy to ensure a reasonable degree of continuity in actual supplies. The United States attempted to improve the continuity of its own food aid program. For instance, in 1977, minimum commitments for Title II food were specified in P.L. 480. Similarly, Title III provides a certain degree of continuity by allowing the United States to enter into multiyear supply agreements with recipient countries in connection with development projects.

Recommendations and Agency Response: Although there were no recommendations specifically addressing P.L. 480, the report made a series of recommendations for more effective U.S. participation in efforts to relieve global hunger and malnutrition. For example, the Secretaries of State and Agriculture and the AID Administrator, working with other concerned executive agency officials, should (1) increase their commitments on behalf of world hunger, especially through greater cooperation with their developing country and international organization counterparts and by fostering the political will needed to significantly reduce the level of global hunger and malnutrition, (2) encourage donor countries to unite in urging developing countries to prepare food and agricultural development plans and projects, which include measures to remove deterrents to increased food production, and (3) urge developing countries to make increased food production one of their highest development priorities and significantly increase their own capital, labor, and related resources. In addition, the heads of U.S. agencies involved in development activities, particularly those of Agriculture and AID, should direct that more of their administrative resources and funds allocated for food and agriculture be devoted to assisting those countries needing more technical aid in the design of suitable development proposals and strategies. A small high-level office should be established to lead and coordinate U.S. efforts in overcoming world hunger and malnutrition.

Several U.S. executive agencies and offices reviewed the report. Agency officials were generally complimentary, stating that many conclusions were sound and warranted endorsement. A number of objections were raised, however, regarding the recommendation to establish a central office which would direct and coordinate U.S. efforts to alleviate global hunger and malnutrition. Many officials thought that this was unnecessary and that the Development Coordination Committee, the interagency committee including representatives from the agencies with interests relating to food aid, represented an already established coordinating mechanism.

24. CHANGES NEEDED IN THE ADMINISTRATION OF THE OVERSEAS FOOD DONATION PROGRAM. Report to the Congress by the Comptroller General (ID-79-25, October 15, 1979).

P.L. 480 Issue: The overseas food donation program needed to better contribute to development in the poorest countries, and the program's split administration needed to be centralized.

Abstract: Basically, Title II authorizes the donation of U.S. food commodities to voluntary relief agencies, international organizations, and friendly governments for free distribution abroad. The legislative objectives include (1) reaching the poorest people in the poorer countries, especially children, and (2) contributing to the overall development process in the poorer countries. The legislation also provides that food may be made available to meet famine or other urgent or extraordinary relief requirements, to combat malnutrition, to promote economic and community development in friendly developing areas, and to feed needy persons and those in nonprofit school lunch and preschool feeding programs.

The primary objective of the review was to assess the extent that the Title II program was reaching the poorest people in the poorer countries and contributing to the overall development process. The review revealed that the congressional priorities were not being effectively met. Shortcomings in the voluntary-agency and host-country storage, transport, and distribution networks restricted the program. To a lesser extent, the program tended to be driven by availability of commodities. In addition, the program was not coordinated with the U.S. development assistance program. In the existing management arrangements, AID, USDA, and OMB shared most operational decision-making authority. This system fragmented the authority of AID to conduct the program, clouded accountability for the use of Title II moneys, and inhibited accomplishment of the "New Directions" mandate. Centralization of authority and responsibility for the program and its appropriations in the foreign development agency, AID, and its new umbrella organization, the International Development and Cooperation Agency, would better achieve Title II's humanitarian and development objectives.

Recommendations and Agency Response: We suggested that legislation be enacted to centralize authority for Title II in IDCA/AID. We also recommended that the AID Administrator (1) require that Title II be planned and programmed as an integral part of each country's assistance program, (2) establish a long-range planning and programming system to direct more food aid away from advanced countries and expand the program in poorer countries, (3) develop better means of identifying where and who the neediest people were in each country and focus food on them, and (4) work with the voluntary agencies and host governments to build up the necessary country level infrastructure that would be required to support expanded food aid programs in the poorer countries.

AID generally agreed with the thrust of the recommendations directed to the Administrator. The executive branch agencies, however, did not agree with the proposal to transfer program responsibility to IDCA/AID. They saw little to be gained by transferring authority and argued that the interagency system worked well and protected the interests of each agency.

25. U.S. DEVELOPMENT ASSISTANCE TO THE SAHEL--PROGRESS AND PROBLEMS. Report to the Congress by the Comptroller General (ID-79-9, March 29, 1979).

P.L. 480 Issue: With some exceptions, very little was being done to convert U.S. food assistance from short-term emergency uses to development applications.

Abstract: AID is participating in an international, long-term development effort to help the peoples of eight Central and West African countries--an area called the Sahel--repair the damage of the 1968-73 drought and establish some measure of food self-sufficiency and economic improvement. U.S. assistance to the Sahel during and immediately following the great drought was primarily emergency food assistance under Title II. By 1974, the United States was the largest food donor.

We examined AID's use of P.L. 480 as a development resource. Based on visits to three AID missions in the Sahel, examination of pertinent data on 24 development projects, and discussions with appropriate U.S. and host-country officials, we concluded that the P.L. 480 program could help the Sahel countries more significantly in achieving food self-sufficiency.

Food assistance since 1974 had been provided mostly for emergencies programmed on a year-to-year basis and aimed at supplementing annual food shortages. AID needed to use food assistance more effectively in the long-term development of the Sahel. The agency could use P.L. 480 resources more effectively through planning and consultation with recipient governments. Inattention of the host government and the AID mission had, in some cases, also resulted in an ineffective use of local currency P.L. 480 sales proceeds (counterpart funds) to acquire potential development benefits. AID, in keeping with the congressional mandate, issued policy guidelines for the programming of P.L. 480 food assistance. Despite the directive, the missions and the private voluntary organizations, with certain exceptions, continued to propose food assistance primarily for emergencies and had not successfully identified and/or initiated many new development projects.

Recommendations and Agency Response: We recommended that the AID Administrator analyze the short- and long-term development potential of Titles I, II and III in the Sahel and develop an overall strategy for the use of P.L. 480 resources for both humanitarian and development objectives. Such a strategy should include (1) linking the P.L. 480 program with other AID programs to foster needed revisions of host-country policies and solve priority development problems, (2) collaborating more closely with private voluntary agencies, missions, and recipient governments, (3) assessing the recipient governments' ability to finance development by utilizing and accounting for proceeds from the sale of P.L. 480 commodities, and (4) designing more food-for-work projects to provide labor compensation.

The report was discussed with appropriate agency officials, but it contained no officials' comments on P.L. 480 matters.

26. EFFORTS TO IMPROVE MANAGEMENT OF U.S. FOREIGN AID--CHANGES MADE AND CHANGES NEEDED. Report to the AID Administrator by the Director, International Division (ID-79-14, March 29, 1979).

P.L. 480 Issue: Greater effort was needed by AID missions to provide information satisfying the Bellmon Amendment, which requires that adequate storage facilities be available when P.L. 480 commodities are shipped from the United States to a recipient country and that commodities not result in substantial disincentives to domestic production in that country.

Abstract: This report was the result of a follow-up review of actions taken by AID to improve management of its overall operations. Observations on the P.L. 480 program related to the Bellmon Amendment.

The August 1977 Bellmon Amendment to P.L. 480 resulted from congressional concern about disincentives to agricultural production and storage problems. Under the amendment, AID missions provide data from which determinations are made that (1) adequate storage facilities are available when P.L. 480 commodities are shipped from the United States to a recipient country and (2) commodities will not result in substantial disincentives to domestic production in that country.

Information provided by the missions to help satisfy the Bellmon Amendment was sketchy. Certain missions' files generally did not contain supplementary written information detailing the countries' food storage capabilities or the potential impact of P.L. 480 commodities on local food production. Therefore, the missions' evidence, provided to enable the Secretary of Agriculture and the Working Group of the Development Coordination Committee Food AID Subcommittee to make the determinations required by law, was thin. Part of the problem may have stemmed from the lack of guidance and criteria established for missions to ascertain what constituted adequate storage facilities and a substantial disincentive to domestic production. Nevertheless, the missions routinely should have been able to provide written evidence from their files concerning their efforts to discourage agricultural production deterrents and to be apprised of the adequacy of storage facilities.

Recommendations and Agency Response: We recommended that the AID Administrator (1) require that close monitoring be maintained over efforts made at overseas posts to support full adherence with the Bellmon Amendment provisions and (2) develop guidelines setting forth criteria to help missions determine what constituted adequate storage facilities for comparison with less developed countries' actual inventory of storage facilities. Shortfalls in such comparisons could serve as indicators of problems in the overall food supply system. The AID Office of Food for Peace and the various geographic bureaus should make a combined, extensive effort to identify and appropriately deal with economic disincentives to increased agricultural production in less developed countries.

AID's Office of Food for Peace agreed that stronger efforts were needed to more effectively carry out the Bellmon Amendment and stated that a soon-to-be printed revised AID Handbook on P.L. 480 activities would, in fact, require that additional efforts be exerted preparatory to approving Title I and II programs. The new handbook would include additional instructions for accumulating data for determining the adequacy of storage facilities available for P.L. 480 foods. However, AID officials considered the issue of disincentives to be difficult. They believed the issue was different in each country, making unproductive the establishment of broad worldwide criteria for determining that P.L. 480 programs would be significant disincentives to increasing agricultural production in recipient countries. They preferred to deal with the disincentive issue on a country-by-country basis.

27. CARGO PREFERENCE PROGRAMS FOR GOVERNMENT-FINANCED OCEAN SHIPMENTS COULD BE IMPROVED. Report to the Congress by the Comptroller General (CED-78-116, June 8, 1978).

P.L. 480 Issue: P.L. 480 shipments were meeting U.S.-flag shipping requirements under the Cargo Preference Act, but information on some shipments financed by AID was not reported to the Maritime Administration.

Abstract: P.L. 480 shipments constitute most of all nonmilitary cargoes moving under the Cargo Preference Act of 1954. USDA was responsible for 4.8 million, or about 73 percent, of the approximately 6.5 million tons reported by the Maritime Administration as shipped under the act in 1975. Of the 4.8 million tons reported, virtually the entire tonnage represented shipments made by USDA under Title I of P.L. 480. AID, World Food Program, and government-to-government shipments under Title II of P.L. 480 totaled about 250,000 tons.

We reviewed the cargo preference programs of nine Federal departments and agencies to assess how effectively the programs were promoting U.S.-flag vessels and to determine how effectively Maritime Administration reviewed cargo preference programs and reported on them to the Congress. In general, agencies were meeting U.S.-flag requirements for their shipments when U.S.-flag vessels were available. However, although some agencies had improved in submitting data to Maritime, other agencies had not submitted all required information. Therefore, Maritime's cargo preference statistics in its annual reports to the Congress were incomplete and it was handicapped in carrying out its regulatory role. Based on a sample of transactions for calendar year 1976, USDA did a good job of submitting bills of lading to Maritime, but only 32 percent of the bills of lading for Title II shipments had been submitted by AID.

Recommendations and Agency Response: To improve the completeness of the cargo preference data submitted to Maritime and to improve its monitoring ability, we recommended that the Secretary of Commerce direct the Assistant Secretary for Maritime Affairs to amend Maritime's cargo preference regulations to require submission to Maritime of available summary shipment or other data as well as bills of lading for all federal agency cargo preference shipments.

Department of Commerce officials stated that they concurred with the intent of the recommendations.

28. OPPORTUNITIES TO REDUCE THE OCEAN TRANSPORTATION COSTS OF P.L. 480 COMMODITIES. Letter report to the Secretary of Agriculture by the Director, Community and Economic Development Division (CED-77-127, September 7, 1977).

P.L. 480 Issue: Commodity Credit Corporation payments to reimburse foreign purchasers for the difference in rates between foreign-flag and more costly U.S.-flag vessels delivering P.L. 480 commodities could be reduced if greater consideration were given to a country's total commodity requirements and consideration were given to an entire geographic region's requirements.

Abstract: The Cargo Preference Act requires that at least 50 percent of the tonnage of food commodities purchased by foreign buyers through the Title I program be transported by privately owned U.S.-flag vessels. The Commodity Credit Corporation is authorized by P.L. 480 to reimburse foreign purchasers for ocean freight charges to the extent that such charges are higher than those charged by foreign-flag vessels. In most instances the use of U.S.-flag vessels costs more than use of foreign-flag vessels. The difference in rates between foreign-flag and more costly U.S.-flag vessels is referred to as ocean freight differential.

As part of an overall review of the Maritime Administration's regulation and monitoring of the U.S. Cargo Preference laws, we examined the Department of Agriculture's compliance with the requirements for ocean shipments made under Title I of P.L. 480. Generally, the Department was complying with the cargo preference requirement, and U.S.-flag vessels were carrying at least 50 percent of the tonnage shipped under Title I. However, ocean freight differential payments, which totaled about $42 million in fiscal year 1976, could be reduced if greater consideration were given to a country's total commodity requirements when allocating shipments among U.S.-flag and foreign-flag vessels. Further savings appeared to be possible if, in addition to considering a particular country's requirements, the Department also considered an entire geographic region's requirements. It was estimated that the Department could have saved over $1 million in fiscal year 1976 by combining different commodities and countries in the same geographic area and using the lower ocean freight differentials.

Recommendations and Agency Response: We recommended that the Secretary of Agriculture direct the Office of the General Sales Manager to modify current procedures to consider a country's total commodity requirements in the shipment allocation process. The revised procedure should emphasize shipping commodities with the lowest ocean freight differential on U.S.-flag vessels, whenever feasible, to meet the cargo preference requirement. Countries should be grouped by geographic areas to meet cargo preference requirements. If feasible, the geographic commodity requirements should be made an integral part of the shipment allocation procedure.

In discussions with us, Department officials stressed that they could not determine what the ocean freight differential for a particular commodity would be until offers were received from shipping agents. They stated that it was difficult, therefore, to judge what commodities should be shipped on U.S.-flag vessels to meet the 50-percent cargo preference requirement at lowest cost. According to the officials, the procedure of allocating

cargo on a purchase authorization basis equally among U.S.-flag and foreign-flag vessels resulted in an easily administered policy. Nevertheless, these officials generally believed that the procedures used on our total country examples were feasible. However, they were more apprehensive concerning proposed procedures for allocating shipments on a geographic basis.

29. THE WORLD FOOD PROGRAM--HOW THE U.S. CAN HELP IMPROVE IT. Report to the Senate Committee on Governmental Affairs by the Comptroller General (ID-77-16, May 16, 1977).

P.L. 480 Issue: The World Food Program, through which the United States channels much of its food assistance, did not have an adequate long-range planning system, had not properly defined priorities, and needed improvement in audit procedures.

Abstract: In accordance with the authorizing legislation, there are three channels for Title II food aid: (1) American voluntary agencies (Catholic Relief Services, CARE, etc.), (2) the World Food Program, and (3) government-to-government bilateral programs. Although it is U.S. policy to consider the preference of the host government, the United States prefers to channel Title II commodities through American voluntary agencies first, the World Food Program as a close second, and government-to-government programs last. Since it was created in 1963, the World Food Program had provided almost $1.8 billion in food aid to developing countries with the United States, its biggest contributor, donating $640 million to the program.

The report responded to a congressional request for GAO's views on the World Food Program. In general, the program focused on the poorest nations and on development projects, but it lacked a long-range programming system and a clear system of priorities. This sometimes allowed countries better able to administer large volumes of food aid to receive preferential treatment and resulted in resources going to projects easier to administer instead of those with greater development potential. Proposals for large-scale projects and expansions, which must be approved by the program's governing body, were often submitted too late for review by member governments. The program relied on recipient governments for data to review project progress and did not have the right to audit projects at the country level.

Recommendations and Agency Response: We recommended that the Departments of State and Agriculture and AID (1) work for a clear set of program priorities, (2) propose to the governing body that projects must be submitted for member government's review, and (3) make efforts to obtain audit rights for the program.

State, Agriculture, and AID officials reviewed the report and stated they generally agreed with, and would work toward the intent of, the recommendations.

30. LESSONS TO BE LEARNED FROM THE MANAGEMENT OF COMMODITIES REMAINING FROM TERMINATED INDOCHINA ECONOMIC ASSISTANCE PROGRAMS. Report to the Congress by the Comptroller General (ID-76-48, October 20, 1976).

P.L. 480 Issue: In disposing of P.L. 480 commodities in transit to Indochina when economic assistance programs were terminated, Agriculture incurred costs and losses of millions of dollars that probably could have been reduced substantially if more time had been available to make sales and Washington had provided more information and better guidance to field representatives.

Abstract: Title to commodities sold pursuant to Title I of P.L. 480 passes to the purchasing party upon delivery to the carrier in conformation with the transportation terms. Agreements entered into by the United States for financing and exporting under P.L. 480 do not provide for the contingent assumption of title by the United States of commodities in transit, as do contracts under the AID program. Therefore, when the U.S.-supported regimes in Cambodia and South Vietnam collapsed, the Department of the Treasury had to invoke the Foreign Assets Control Regulations to regain control over in-transit commodities shipped under P.L. 480. The cited regulations implement the Trading with the Enemy Act by prohibiting, among other transactions, transfers outside the borders of the United States of any property belonging to specified countries when that property is subject to the jurisdiction of the United States.

This report describes how the USDA and AID disposed of commodities remaining from terminated Indochina economic assistance programs. With respect to P.L. 480 commodities, emphasis was placed on selling commodities quickly and the lack of information and guidance from Washington resulted in large losses on the sale of in-transit commodities. For example, the USDA, at the same time it was selling 39,000 tons of in-transit rice in Singapore and Manila at a loss in excess of $11 million, financed the purchase of 40,000 tons of rice for Bangladesh ($20 million excluding transportation and insurance). Considering the concessionality factor involved in Title I loans and the highly questionable ability of Bangladesh to repay its external debts, it would have been to U.S. government's advantage to reprogram the rice to Bangladesh even if it were donated under Title II. It appeared that overall sales proceeds could have been increased if more time had been available to find prospective buyers; if the prospective buyers had more time to find financing; and Agriculture had given field representatives current commodity market data, along with a minimum sales price based upon such other data as location of shipment in relation to location of demand for the commodity and cost of storage.

Recommendations and Agency Response: We recommended that the Secretary of Agriculture (1) include a provision in future P.L. 480 agreements which would allow USDA to assume title to commodities at any time before they arrive in the recipient country, (2) make a concerted effort, in the event of future program terminations, to reprogram commodities to other food assistance programs rather than obtaining similar new commodities, and (3) develop directives delineating the data (purchase prices, current market prices, suggested floor prices, etc.) and steps that should be provided to field representatives for selling in-transit goods and allow the field representatives adequate time to perform these steps.

USDA disagreed with these recommendations. It maintained that sufficient legal bases existed for assumption of title, adequate consideration was given to reprogramming, and its field representatives received adequate guidance.

31. IMPACT OF U.S. DEVELOPMENT AND FOOD AID IN SELECTED DEVELOPING COUNTRIES. Report to the Chairman, Special Subcommittee on Investigations, Committee on International Relations, House of Representatives, by the Comptroller General (ID-76-53, April 22, 1976).

P.L. 480 Issue: Title II food donation programs were reaching many poor people in the countries reviewed, but it was difficult to determine that P.L. 480 Title I assistance was helping the poor other than indirectly.

Abstract: The congressional mandate of the 1973 Foreign Assistance Act focuses on critical problems affecting the lives of the majority of people in the developing countries. It also directs that assistance priority be given to projects involving the poorest people. AID's report to the Congress on implementation of the congressional mandate talked in terms of aiding the "poor majority." AID noted that few officials in either the developed or the developing countries had spent much time defining the poor majority.

In response to a congressional request, we studied the impact of U.S. development and P.L. 480 programs in the Philippines, India, South Korea, and Chile. The specific interest was to determine if development and food aid projects were designed to get to the most needy individuals and regions in the four countries. With respect to P.L. 480, the Title II food donation program was providing nutritive assistance and was reaching many poor people in the three countries with ongoing programs. It was difficult to determine, however, that the Title I concessional sales programs were helping the poor, except in indirect ways. In the three Title I countries, the program was subsidizing the government budget and U.S. officials were relying on local government reporting to monitor the use of local currency proceeds. Thus, there was no clear indication of what self-help benefits were being derived from these programs. In general, we were not able to establish to what extent U.S. programs were benefiting the most needy people. The reasons for this were that foreign aid officials had relatively little information on the most needy. For the most part, programs were directed to reach larger target groups, such as the rural poor.

Recommendations and Agency Response: The report made no recommendations. But we concluded that to clarify who the most needy people were in AID-supported developing countries, the Special Subcommittee on Investigations might wish to identify the most needy groups and how AID programs are designed to reach them. This could be accomplished by having AID missions develop a profile on the most needy.

At the request of the Subcommittee, formal agency comments were not obtained.

32. EXAMINATION OF FUNDS APPROPRIATED FOR ECONOMIC AND FOOD AID TO INDOCHINA. Report to the Chairman, Special Subcommittee on Investigations, Committee on International Relations, House of Representatives, by the Comptroller General (ID-76-54, April 16, 1976).

P.L. 480 Issue: Regarding the status of food aid funds when the aid programs in Indochina were terminated, Title I commodities were resold at a $13.1 million loss; unused Indochina Title I sales balances were made available for other Title I programs; and Title II commodities were reallocated to other humanitarian assistance programs.

Abstract: When the U.S. aid programs in Indochina terminated, there were Title I sales programs in Vietnam and Cambodia, and Title II food donation programs in all three Indochina countries. U.S. agencies, including AID and USDA, had to terminate foreign aid program elements, stop making foreign aid deliveries, and dispose of funds and commodities earmarked for Indochina programs.

In response to a congressional request, we reviewed the status of fiscal year 1975 and prior funds appropriated and committed for economic and food aid to Laos, Cambodia, and Vietnam. Regarding food aid funds, USDA disposed of $27.4 million worth of Title I sales commodities. Commodities valued at $24.7 million were resold at a $13.1 million loss, which was absorbed by the Commodity Credit Corporation. The remaining $2.7 million of commodities was donated to other countries. USDA also made available unused Indochina Title I sales balances for other Title I programs abroad. All Title II commodities in the pipeline originally programmed or diverted for use in Vietnam and Cambodia were reallocated to other humanitarian assistance programs.

Recommendations and Agency Response: We made no recommendations relating to P.L. 480. As requested by the Subcommittee Chairman's office, written agency comments on matters raised in the report were not obtained. However, these matters were discussed with agency officials, and they generally agreed with the facts presented.

33. U.S. ASSISTANCE TO PAKISTAN SHOULD BE REASSESSED. Report to the Congress by the Comptroller General (ID-76-36, February 6, 1976).

P.L. 480 Issue: P.L. 480 commodities contributed to discouraging increased domestic food production; a $4.6 million Title I sale provided sorghum which consumers would not buy or eat.

Abstract: The United States had provided Pakistan with substantial amounts of economic assistance; for example, an estimated $174 million was provided in fiscal year 1976. Substantial amounts had also been provided through P.L. 480. Between 1971 and 1975, Pakistan was provided about $356 million in Title I funds and about $56 million in Title II funds.

This report discusses overall efforts of the United States and Pakistan to remedy problems impeding Pakistan's economic development. P.L. 480 matters discussed in the report include observations that the availability of P.L. 480 commodities, together with price and marketing controls and other Pakistan policies, combined to discourage increased food production. Embassy and AID mission officials agreed that in the past relatively inexpensive P.L. 480 imports had helped the Pakistan government to maintain domestic food prices below those of neighboring countries and well below world market prices. Relatively low domestic prices for these commodities discouraged productivity increases and prolonged the need for P.L. 480 assistance. P.L. 480 imports, in effect, subsidized the ration shop system for wheat and edible oils and the low government procurement prices that the system required. The United States also provided $4.6 million worth of sorghum under a Title I long-term credit sale which consumers would not buy or eat. Apparently consumers were reluctant to purchase the sorghum-wheat blend because pure wheat was available and the reddish color of the blend was unattractive. Because of the lack of consumer demand and the requirement that the sorghum be used for human consumption, most of it remained in warehouses from arrival in late March and early April 1974 until at least November 1974. Also, the sorghum was in storage at a time when barley, a similar commodity, was exported, thus violating the loan agreement. To negate this violation, the Pakistan government finally agreed to convert the loan to a cash purchase, using scarce foreign exchange resources to pay for a commodity consumers did not want.

Recommendations and Agency Response: We recommended that before providing concessional assistance (such as P.L. 480), the Secretary of State and the AID Administrator ensure that related self-help measures were being carried out by the Pakistan government and that providing such assistance would not contribute to continuing policies which discourage increased food production. Also, we recommended that the AID Administrator direct the Mission Director to first ensure, when providing P.L. 480 commodities to a country, that the commodities were compatible with the dietary habits of the people so that there would be reasonable expectation that the commodities would be used for the intended purposes.

In a joint response to the report draft, the Department of State and AID agreed with the first recommendation. Regarding the sorghum purchase, AID mission officials did not agree that it was unsuccessful. Officials indicated that the transaction might turn out to be advantageous to the government of Pakistan because sorghum was in extremely short supply.

34. ANALYSIS AND VIEWS ON LEGISLATIVE REQUIREMENTS FOR USE OF PRIVATE ENTERPRISE IN CARRYING OUT PUBLIC LAW 480, TITLE II PROGRAMS. Letter report to the Honorable Clarence D. Long, House of Representatives, by the Comptroller General (ID-76-40, January 21, 1976).

P.L. 480 Issue: GAO found nothing illegal about USDA's decision not to grant the U.N. World Food Program permission to use a private firm as its freight forwarder.

Abstract: In a position paper on "Traffic Control and Its Affect on Program Objective," Daniel J. Young, Inc., acting as an agent for the U.N. World Food Program, maintained that USDA had contravened the intent of the Congress by deciding to provide foreign freight-forwarding services through its Ocean Transportation Division to the World Food Program, an intergovernmental relief agency, rather than allowing private freight forwarders to provide such services.

At Congressman Long's request, we reviewed this matter and found nothing illegal about USDA's decision nor evidence to suggest that the decision contravened the intent of the Congress. The legislative history of P.L. 480, Title II, contains no provision mandating the use of private enterprise or private trade channels to the maximum extent practicable in carrying out the program. However, such a provision is part of the legislation of Title I of this act and of the Foreign Assistance Act. The omission of the provision from Title II may have been an oversight. Essentially, then, whether USDA or a private freight forwarder should provide foreign freight-forwarding and other services is left to administrative discretion, based on various policy considerations, rather than requiring legal resolution.

The report did not provide formal recommendations, but it concluded that the introduction and favorable congressional consideration of an amendment to P.L. 480, Title II, would clarify the uncertainty. Such an amendment could be added at the end of Section 202, providing that "The President shall take appropriate steps to assure that private trade channels are used to the maximum extent practicable." This amendment would express a congressional policy that both Title I and Title II were subject to the same provision on use of private trade channels.

35. DISINCENTIVES TO AGRICULTURAL PRODUCTION IN DEVELOPING COUNTRIES. Report to the Congress by the Comptroller General (ID-76-2, November 26, 1975).

P.L. 480 Issue: According to some authorities, P.L. 480 assistance provided by the United States and food assistance provided by other countries had hindered developing countries in expanding their domestic food production.

Abstract: This report is one of a series on ways to improve the food situation in developing countries. It discusses the need for governments receiving foreign assistance to provide incentives for their farmers to increase food production and thus provide an environment conducive to more effective use of such assistance. The United States and other developed countries are major food suppliers and have the potential to further increase production. However, production costs and the logistics involved in providing the needed imports severely limit the extent to which the developed countries can provide the needed food. If the critical food situation is to be alleviated in developing countries, they must act to increase domestic food production.

P.L. 480 matters discussed in the report include observations by leading world authorities that food assistance by the United States and other countries has hindered developing countries in expanding their food production and thus has contributed to the critical world food situation. U.S. officials in both Indonesia and India thought that the massive food aid provided through P.L. 480 during the 1960's restricted agricultural growth in those countries by allowing the governments to (1) postpone essential agricultural reforms, (2) fail to give agricultural investment sufficient priority, and (3) maintain a pricing system which gave farmers an inadequate incentive to increase production. Similarly, Pakistan received massive amounts of food aid while maintaining disincentives to increasing production through its pricing and other policies. This assistance helped the Pakistan government to maintain the subsidized food system for the urban consumer and to hold producer prices well below those of other countries and the world market. Title I requires that recipient governments commit themselves to specific self-help measures to increase agricultural production. However, the existence of extensive governmental policy and institutional disincentives to the expansion of food production raises doubts whether this requirement has been effective in bringing about agricultural reform.

Recommendations and Agency Response: The report contained the following recommendations. In determining the level of agricultural development assistance and concessional food aid, the Secretaries of State and Agriculture and the AID Administrator should give maximum consideration to the efforts of developing countries to improve their agricultural production, make needed agricultural reforms, and provide production incentives to their farmers. In addition, they should more closely relate concessional food aid to efforts by recipient countries to increase their own agricultural production. AID should also work to modify developing countries' policies and institutions that are disincentives to expanded farm output and assist such countries in taking effective action to provide adequate incentives. AID should provide more assistance in identifying and bringing to the attention of developing countries those policies and institutions that might not be generally recognized or understood as disincentives and alternative policies and programs that could improve the performance of the agricultural sector. Finally, the Secretaries of State and the Treasury should take the lead in working for concerted action among major donors, including the international organizations and financial institutions; for removal by aid recipients of agricultural production disincentives; and for the adoption by these countries of a positive agricultural development strategy that stresses adequate farm production incentives.

The Department of the Treasury agreed with the general thrust of the report, its conclusions, and its recommendations. The Department of Agriculture also agreed with the report's findings. The Department of State and AID (State/AID) were concerned that the report overstated the importance of incentives and suggested that a balanced policy that met the needs of both the farm producer and the urban consumer was required. State/AID added further that agricultural development should be pursued in the context of a coherent and comprehensive strategy for agricultural and overall economic development for the country. State/AID also pointed out that the concessional food aid did not necessarily have to serve as a production disincentive and frequently had many positive effects.

36. PROBLEMS IN MANAGING U.S. FOOD AID TO CHAD. Report to the Honorable William V. Roth Jr., United States Senate, by the Comptroller General (ID-75-67, June 5, 1975).

P.L. 480 Issue: U.S. officials in Chad were not able to fully ensure that U.S.-provided food aid was managed effectively.

Abstract: The United States has donated over 22,000 metric tons of food grains worth an estimated $4.67 million (including freight) to Chad to alleviate the ravages of a drought which began in 1968. Other donors also contributed thousands of tons.

In response to Senator Roth's request, we reviewed selected problems involved in the management of U.S. emergency food aid to Chad. The report contains information on (1) the alleged incompetence; apathy; and participation in, or toleration of, profiteering on the part of Chadian officials, (2) the circumstances surrounding an airlift, including the effect of a trucking monopoly, the necessity for the airlift, and the disposition of the airlifted food, (3) and AID's method of determining the level of food aid which could be effectively used by Chad and steps it took to see that the food reached those in need. The review concluded that U.S. officials in Chad were not able to fully ensure that the food provided was managed effectively due to a combination of factors, including (1) the Chad government's sensitivities to what it deemed outside interference, desire to make all decisions and control all operations for food aid in Chad, and lack of a relief plan, (2) poor communications and transportation facilities, (3) Chad's vastness and primitive infrastructure, (4) problems of security, which reportedly existed on a large scale, and (5) the small U.S. presence. Some steps, however, were taken to assist and oversee the distribution of food, including diverting food to more immediate uses, making field trips to observe actual food storage and distribution operations, and attempting to establish a Red Cross food kitchen in Mongo. Regarding the airlift, it appeared that at least in the time frame in which the airlift occurred, the bulk of the airlifted food was not intended or needed for emergency distribution; therefore, the need for the airlift was questionable at best.

Recommendations and Agency Response: The report did not contain recommendations.

37. THE OVERSEAS FOOD DONATION PROGRAM--ITS CONSTRAINTS AND PROBLEMS. Report to the Congress by the Comptroller General (ID-75-48, April 21, 1975).

P.L. 480 Issue: Exhaustion of surplus U.S. agricultural commodities, expanding commercial export demands, and poor grain harvests had caused uncertainty over the agricultural commodities available for P.L. 480 programs and had caused difficulties in planning and carrying out such programs.

Abstract: Because of its dollar magnitude and the continuing congressional interest, we reviewed the U.S. overseas food donation program to determine the manner in which agricultural commodities were made available for the program and the effectiveness of procurement practices that were used to acquire the commodities. During the 20 years since the program was enacted, 36.3 million metric tons of U.S. agricultural commodities, valued at $6.6 billion, had been donated. Donations represented approximately 23 percent of the total Commodity Credit Corporation cost of agricultural commodities shipped under all P.L. 480 programs.

We found that exhaustion of surplus agricultural commodities, expanding commercial export demands, and poor grain harvests in recent years had adversely affected the overseas food donation program. Uncertainty over the availability of U.S. grain supplies to support the program was the most crucial problem. Past commodity reductions, terminations of and cutbacks in overseas feeding programs, and delayed decisions on commodity and funding levels had caused disruptions and remained as threats of further curtailment or even termination of the program. We also noted opportunities for reducing procurement costs. For example, costs could be reduced by (1) planning and scheduling monthly commodity procurements over a longer time--at least quarterly rather than monthly--to allow consideration of opportunities to reduce costs and (2) relying more on existing supplier quality control systems rather than duplicate inspection of commodities by the Department of Agriculture.

Also, USDA liquidated damage charges for late commodity shipments were much greater than actual monetary damages and could increase prices bid for commodities. The existing liquidated damage rate, intended to compensate the government only for reasonably expected actual damages, was higher than necessary for shipments only a few days late. Nominal rates appeared to be more appropriate for the first few days shipments were late when possibility of damage was small; rates could then gradually escalate as the delay and possibility of actual damages increased.

Recommendations and Agency Response: We recommended that further consideration be given to freeing the food donation program from the uncertainty over agricultural commodities availability. Providing greater assurance that needed commodities would be available would enhance the stature and effectiveness of the donation program and would enable AID, USDA, and program sponsors to undertake planning based on a more stable flow of commodities and to capitalize on the opportunities to reduce their food procurement costs. We made a series of recommendations to reduce procurement costs. For example, USDA should revise its policy on liquidated damage charges for late shipment to consider the relationship between actual damages incurred and the amount of liquidated damages assessed for late shipment.

Comments were obtained from AID, the Departments of State and Agriculture, and the Office of Management and Budget. There were some disparities in the agencies' responses. For example, AID agreed that the report contained constructive suggestions on the operations of the food donation program; however, USDA did not agree that it should reevaluate its inspection policy or its policy on liquidated damages charges.

38. INCREASING WORLD FOOD SUPPLIES--CRISIS AND CHALLENGE. Report to the Congress by the Comptroller General (ID-75-4, September 6, 1974).

P.L. 480 Issue: Through its commercial exports, food aid programs, such as P.L. 480, country-to-country bilateral assistance, and participation in multilateral organizations, the United States had done much to help in the fight against world hunger. Despite these efforts and those of other donors, the food situation in developing countries remained critical.

Abstract: Since the initial program emphasis of P.L. 480 was on disposing of excess U.S. agricultural commodities, the legislation originally included a requirement that the commodities be

surplus to be eligible for sale or donation. By 1966, however, agricultural surpluses had diminished to less than 1 year's supply. At the same time, crop failures and rapid population increases in the world had created a situation whereby the United States felt obligated to continue food aid. In 1966, legislation removed the requirement that commodities be surplus and substituted the requirement that no commodity be made available for P.L. 480 use if the disposition would reduce the domestic supply below the level needed to meet domestic requirements, anticipated commercial exports, and to maintain stocks.

The objective of our review was to provide an overview of the world food situation and some of the major factors impacting on the situation and to identify the chief U.S. and multilateral organizations and resources contributing to alleviating the food shortages in the developing countries. In addition to the comments noted earlier, the report contained several other observations on the P.L. 480 program, including the fact that U.S. agricultural commodities provided as concessional sales represented 41 percent of total agricultural exports in 1956 but declined steadily to 12 percent in 1972 and dropped sharply to 5 percent in 1973. Cutbacks in food contributions made it apparent that food assistance policies required more coordination and continuity to avoid abrupt reductions in food available to developing countries or sharp increases in external payments for food which might be in tight supply or not available.

Recommendations and Agency Response: The report did not provide recommendations but concluded that although the United States had made substantial contributions in the area of food and agriculture, it yet faced the challenges of (1) generating international cooperation to meet immediate food aid needs and expanding agricultural production and (2) motivating developing countries to improve their capability for providing food adequate for their population growth.

39. U.S. ASSISTANCE FOR THE ECONOMIC DEVELOPMENT OF THE REPUBLIC OF KOREA. Report to the Congress by the Comptroller General (B-164264, July 12, 1973).

P.L. 480 Issue: The availability of a large P.L. 480 concessional sales program served as a disincentive for the Korean government to solve problems within its agricultural sector. Late deposits of local currency generated from Title I sales and a number of other problems also existed with administration of the program.

Abstract: Through fiscal year 1972, Korea received over $1.5 billion worth of agricultural commodities through the P.L. 480 program. This included over $1 billion in Title I concessional sales and $493 million in Title II donations. With the general reductions of AID-funded programs in Korea during the 1960's, Title I became the largest economic assistance program and thus the principal economic tool through which to carry out U.S. foreign policy objectives.

Our review found that availability of a large concessional sales program for agricultural products served as a disincentive for the Korean government to solve problems within its agricultural sector early. Inadequate government priorities for this sector also resulted in widening the rural and urban income gap and food grain production and consumption gap. The AID Mission attributed these problems to the low levels of investment for agriculture and partially to the government practice of importing rice on concessional terms to keep rice prices down. The mission said that this policy, inspired by the desire to stabilize the cost of living, reduced incentives to increase productivity and encouraged consumption.

Regarding administration of the Title I program, we found that (1) financial losses had been incurred because of late deposits of local currencies generated from Title I sales, (2) AID had not independently verified Korea's use of local currency generated under sales agreements, and (3) Korea had not fully complied with self-help provisions of sales agreements. We also reported that the AID development program had been, in essence, an extension of the P.L. 480 program. For example, three AID development loans, totaling $66 million, were made during 1971 and 1972 to finance part of Korea's rice import requirement. The terms of these loans were similar to those of P.L. 480 rice sale agreements--dollar repayment over 40 years with an interest rate of 2 percent during the first 10-year grace period and 3 percent over the remaining 30 years. In our opinion, financing of agricultural commodities was more properly a function of the P.L. 480 program than of development loans. The use of development loans to finance commodity imports raised questions regarding the validity of requirements for development loans to Korea.

Recommendations and Agency Response: We made no recommendations concerning P.L. 480. But we suggested that the Congress inquire further into the reasons for the increased P.L. 480 program in Korea and the use of the sales proceeds.

The Department of State and AID stated that, in general, the report was balanced and fair. However, both AID and State disagreed with the conclusion that the larger P.L. 480 concessional sales program had served as a disincentive for Korea to solve problems within its agricultural sector. These agencies pointed out that Korea budgeted for, and planned ways to meet, the ambitious rural development objectives of its Third Five Year Plan. The prior Plan stressed the rural sector also, but it applied development resources primarily to the industrial area.

CHAPTER 3

REPORTS CONCERNING

FOOD ISSUES NOT DIRECTLY RELATED TO P.L. 480

Several other GAO reports issued during the past 12 years contain observations on food issues in developing countries but do not include specific references to P.L. 480. Information from these reports is summarized below.

40. FOOD CONSERVATION SHOULD RECEIVE GREATER ATTENTION IN AID AGRICULTURAL ASSISTANCE POLICIES AND PROGRAMS. Report to the AID Administrator by the Director, International Division (ID-82-29, June 3, 1982).

Summary: Inefficient agricultural systems cost developing countries billions of dollars annually in lost food. By adopting policies which foster consideration of postharvest storage, handling, processing, and marketing in conjunction with production projects and by providing guidance to the overseas missions for developing specific projects, AID could more successfully realize the potential for increasing food availability through food conservation, as well as production.

41. AID AND UNIVERSITIES HAVE YET TO FORGE AN EFFECTIVE PARTNERSHIP TO COMBAT WORLD FOOD PROBLEMS. Report to the Congress by the Comptroller General (ID-82-3, October 16, 1981).

Summary: In 1975, the Congress, under Title XII of the Foreign Assistance Act, directed AID to improve and strengthen the involvement of U.S. land-grant and other eligible universities in solving food problems in developing countries. We found that progress in achieving this goal was slow. U.S. universities and AID had yet to forge an effective partnership necessary to effectively reduce world hunger. Policy and management actions were needed to overcome attitudinal and institutional barriers which limited the potential benefits of such a partnership. We made recommendations to AID to improve the quality of technical assistance provided to developing countries.

42. POOR PLANNING AND MANAGEMENT HAMPER EFFECTIVENESS OF AID'S PROGRAM TO INCREASE FERTILIZER USE IN BANGLADESH. Report to the Chairman, Committee on Foreign Relations, United States Senate, by the Comptroller General (ID-81-26, March 31, 1981).

Summary: To help Bangladesh become self-sufficient in food grain by 1985, AID made available $150 million over 3 years to help the country develop a more efficient fertilizer supply and distribution system. AID planned to commit an additional $85 million in fiscal years 1981 and 1982. Our review showed that some progress had been made in improving fertilizer distribution and use, but the project had not achieved its goal of an annual 15-percent increase in fertilizer sales. Fertilizer imports had not been adequately planned and coordinated with domestic fertilizer production and capacity. In addition, the project's new marketing system had made limited progress in improving farmer access and reducing distribution costs. Construction of storage facilities was also significantly behind schedule, and those warehouses which had been built were fewer and smaller than planned. A number of actions were recommended for AID to take to improve project planning and management.

43. STATUS REPORT ON U.S. PARTICIPATION IN THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT. Staff study by the Director, International Division (ID-81-33, March 27, 1981).

Summary: The International Fund for Agricultural Development (IFAD) was established in 1977 as a specialized agency of the United Nations to mobilize an additional $1 billion to attack the problem of world hunger. Contributions toward the $1 billion fund were to be equitably shared by countries of the Organization for Economic Cooperation and Development and by countries of the Organization of Petroleum Exporting Countries. The United States contributed $200 million. Our study discussed IFAD operations and raised several questions for consideration during deliberations on U.S. contributions to IFAD replenishment. For example, we questioned whether enough time should be allowed to elapse to see program results before a major replenishment, since IFAD had yet to demonstrate an impact from its initial $1 billion commitment.

44. RESTRICTIONS ON USING MORE FERTILIZER FOR FOOD CROPS IN DEVELOPING COUNTRIES. Report to the Congress by the Comptroller General (ID-77-6, July 5, 1977).

Summary: Developing countries could produce more food by using more fertilizer. Steps have been taken to produce more fertilizer, but its use is often hindered by the individual country policies and institutional constraints. The United States should work with other donors of fertilizer assistance to (1) induce recipient governments to revise policies which prevent increasing fertilizer use on food crops and (2) incorporate, where appropriate, a requirement in new agreements for development assistance that developing nations take affirmative action to remove such constraints.

45. HUNGRY NATIONS NEED TO REDUCE FOOD LOSSES CAUSED BY STORAGE, SPILLAGE, AND SPOILAGE. Report to the Congress by the Comptroller General (ID-76-65, November 1, 1976).

Summary: Increasing food availability through effective complementary measures for reducing the loss of food after harvest has not been adequately emphasized as a means of coping with current and future demands for food. Developing countries have inadequate food storage facilities and poor storage practices. Losses resulting from spillage, contamination, and deterioration in these countries waste food which is urgently needed to abate hunger and malnutrition. A tremendous opportunity exists for increasing the critically needed food supply by reducing such losses. With the large increases in production required to feed spiraling populations, food losses will multiply unless developing countries and donors of economic assistance concentrate on establishing and maintaining adequate facilities and handling practices.

46. U.S. PARTICIPATION IN INTERNATIONAL FOOD ORGANIZATIONS: PROBLEMS AND ISSUES. Staff study by the Director, International Division (ID-76-66, August 6, 1976).

Summary: This study deals with the Food and Agriculture Organization, the World Food Program, and the U.N. World Food Council, which are deeply involved in and important to the overall success of the attack on global starvation and malnutrition. With respect to the Food and Agriculture Organization, we reported that the United States, one of the organization's initial members and its major financial contributor, was underrepresented on the organization's staff. United States nationals held only 11 percent of the organization's professional staff positions in 1975 although the United States contributed 25 percent of the organization's budget. Regarding the World Food Program, the buildup of emergency capabilities and operations could detract from its main mission--economic development. The World Food Council, which held meetings in June 1975 and June 1976, seemed to be evolving as a forum for discussion rather than an action-oriented body.

47. PROVIDING ECONOMIC INCENTIVES TO FARMERS INCREASES FOOD PRODUCTION IN DEVELOPING COUNTRIES. Report to the Congress by the Comptroller General (ID-76-34, May 13, 1976).

Summary: This report discusses the importance of a coherent and comprehensive agricultural development strategy emphasizing adequate economic incentives to farmers as a basis for promoting agricultural growth in developing nations. It describes how a developing nation has achieved success by adopting a strategy which suited its needs and which was based on a system of incentives. Our work showed that a comprehensive agricultural development strategy must at least consider local and national plans and programs, assured markets to absorb farmers' excess production, rural land reforms, institutions that will promote production increases, and availability of inputs necessary for increased production.

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