# REPORT TO THE CONGRESS

# Opportunity For Improving Administration Of Economic Assistance Program For Turkey B-146995

Agency For International Development
Department of State

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

FEB. 28, 1968

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-146995

d To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has evaluated certain aspects of the United States Government's foreign aid to Turkey, currently averaging about $134 million a year. Our findings and recommendations are summarized in this letter and described in more detail in the accompanying report

We found that new equipment, such as trucks, tractors, and motor graders, had been purchased by the Turkish Government for highway and irrigation projects with about $1.8 million in United States foreign aid funds in lieu of using similar equipment from United States excess property inventories at a cost of about $370,000

Officials of the Agency for International Development have advised us that the decision whether to use United States-owned excess property in lieu of new procurements--as desired by the Congress--rested with the Turkish Government and that its decision was justified in this instance because of the age of the excess equipment.

We believe, however, that the Agency for International Development, because of the magnitude and continuing nature of the United States commitment to Turkey, is in a position to obtain the cooperation of the Turkish Government in substituting excess property for new procurement, where appropriate. Moreover, we believe that Turkey's rejection of the excess property on the basis of age was not justified because of the degree to which the property is supposed to be rehabilitated--at least 75 percent of its original useful life--and the fact that only equipment for which spare parts are available is earmarked for transfer.

We are recommending that the Administrator, Agency for International Development, to ensure, to a greater extent, the effective use of excess property in lieu of new procurement, augment existing procedures relating to the acquisition of excess property by requiring that Mission officials document their efforts to determine the availability of excess property and, where appropriate, attest either that no suitable excess property was located or that excess property found to be available was not required for reasons acceptable to responsible officials

We also found, in our review of Turkey's commodity imports, that

--Turkey's domestic production facilities had the potential for satisfying a larger portion of the country's steel products requirements.

--United States funds had been used to finance imports of certain commodities inconsistent with the Agency's policy of not financing commodities for which funds can be obtained from private sources

--The Agency for International Development had been unsuccessful in encouraging Turkey to use its own foreign exchange to finance imports from the United States valued at under $5,000

Officials of the Agency for International Development agreed, in part, with our suggestions for improving its programming for commodities and equipment and are developing criteria to be used as guidance in determining whether it is more beneficial to import commodities than to produce them in-country We are recommending that the Administrator, Agency for International Development, establish more precise lists of eligible and ineligible commodities and give recognition to the use to which the commodities will be put as a factor essential to proper commodity classification.

In addition, Agency procedures for monitoring the receipt and use of United States-owned commodities and equipment furnished to Turkey were, in our opinion, not as effective as they should have been because

--For a significant amount of imports, information identifying the commodities was not obtained

--End-use checks were not being made to determine whether commodities were being properly used.

--The Agency was not aggressively following up on requests for refunds from Turkey for commodities which had not cleared customs warehouses within a reasonable period of time

Officials of the Agency for International Development informed us that they were taking action to improve the Agency's arrival accounting system and to increase its auditing efforts relating to the use of commodities. We were also advised that the Agency was attempting to obtain payment for outstanding claims against Turkey for commodities which had not cleared customs warehouses within a reasonable period of time

We believe that these actions will, if properly implemented, provide more effective management over the receipt and use of commodities furnished to Turkey as well as to other countries receiving such assistance.

This report is being sent to the Congress because of its significance in relation to the continuing congressional interest in the administration of the foreign assistance program and because a previous report to the Congress on the matter dealing with use of excess property in lieu of new procurement (B-146995, April 12, 1965), has not, in the instances discussed herein, resulted in corrective action by the Agency.

Copies of this report are being sent to the Director, Bureau of the Budget, the Secretary of State, and the Administrator, Agency for International Development.

Elmer B. Staats

Comptroller General
of the United States

# C o n t e n t s

# REPORT ON

# OPPORTUNITY FOR IMPROVING ADMINISTRATION

# OF

# ECONOMIC ASSISTANCE PROGRAM

# FOR TURKEY

# AGENCY FOR INTERNATIONAL DEVELOPMENT

# DEPARTMENT OF STATE

## INTRODUCTION

The General Accounting Office has examined into the administration by the Agency for International Development (AID) of selected aspects of the economic assistance program for Turkey. Our review was directed primarily to AID's programming for and surveillance over commodities and equipment furnished to Turkey AID's financing of commodities and equipment for Turkey represents the primary thrust of the economic assistance program for Turkey, one of the major AID recipients

This review was made as a part of our continuing review of activities of the foreign aid program, pursuant to the Budget and Accounting Act, 1921 (31 U S.C 53), and the Accounting and Auditing Act of 1950 (31 U S C 67) Our review was made at the Washington office of AID (AID/W) and at AID's overseas Mission in Turkey (referred to in this report as the Mission) The scope of our review is described on page 52

The principal officials responsible for the administration of activities discussed in this report are shown in appendix I

On July 25, 1967, we submitted our findings and proposals to AID for comment. AID's comments, which are set forth in letter dated September 27, 1967, are presented as appendix II and, where appropriate, are discussed in the body of the report

## BACKGROUND

The basic authority to finance general commodity imports and equipment under program and project loans is found in part I of the Foreign Assistance Act of 1961 (22 U S C 2151) The statute provides for the financing under loans for the purpose of promoting economic development of less developed friendly countries and areas.

The primary objective of all AID programs in Turkey is to help the country achieve viability in its balance of payments by the early 1970's so that economic growth can be sustained without further reliance on foreign assistance on concessional terms

During fiscal years 1963 through 1967 AID-financed program and project assistance provided to Turkey totaled about $671 million and averaged $134 million a year Program assistance involves the transfer of nonproject resources, most commonly in the form of commodities under either loan or grant, under circumstances where the totality of the resources made available, rather than their particular use, constitute the primary AID concern Project assistance consists of the following two categories.

1 Capital assistance involving the transfer of resources, either by loan or grant, to establish or expand physical facilities and financial institutions

2 Technical assistance involving the transfer of knowledge, skills, and techniques financed under loans or grants, to develop human skills and attitudes and to create and support institutions necessary for social, economic, and political growth and development

AID project loans for use in the public sector of Turkey, involving the furnishing of equipment and vehicles, have the greatest potential for utilizing excess property. AID project dollar loans during fiscal years 1963 through 1967 for use in the public sector of Turkey totaled $208 million We reviewed AID's practices relating to the use of excess property in lieu of procurement of new equipment under two project loans totaling $24 million

Excess properties are acquired by AID pursuant to section 608 of the Foreign Assistance Act of 1961, as amended (22 U S C 2358), which authorizes AID, within certain limitations, to acquire property from United States Government agencies, which has been determined to be excess to needs, without charge for the value of the property. To implement its program under section 608, AID has established a number of marshaling sites in the United States and overseas and uses a $5 million revolving fund for the purpose of rehabilitating and maintaining its inventory of excess property for use in country assistance programs

As this property is transferred for use in a country assistance program, the revolving fund is reimbursed for accessorial costs of rehabilitation, storage, and inland transportation from the assistance funds made available to the country at an average service charge of 15 percent of the original acquisition cost of the equipment transferred. The average service charges are listed in AID's excess property catalogs In addition, the recipient pays the actual costs of port handling and ocean transportation.

The Congress, in amending the Foreign Assistance Act in 1965, added new language which directly called upon AID to utilize, wherever practicable, excess personal property in lieu of procurement of new items That language, in section 102 of the act, is as follows

> "*** It is the sense of the Congress that in furnishing assistance *** excess personal property shall be utilized wherever practicable in lieu of the procurement of new items for United States-assisted projects and programs It is the further sense of the Congress that assistance under this part shall be complemented by the furnishing under any other Act of surplus agricultural commodities and by disposal of excess property under this and other Acts "

Also, pursuant to section 607 of the act, transfers of excess property directly to friendly foreign countries are authorized upon a determination that the transfer is consistent with, and in furtherance of, the AID program. Under this authority, the property is transferred on an "as is, where is" basis without charge for the property. The costs of transporting the property, however, are financed entirely by the recipient country. Under this section of the act, AID does not acquire the property but acts as an agent to accomplish the transfer from the United States agency that declared such property as excess

The General Accounting Office has previously made an examination into the utilization of United States Government excess personal property in foreign assistance programs for selected countries which included Turkey This examination showed that, during the period between mid-1962 and the beginning of 1964, new equipment had been purchased with United States assistance funds at the time similar equipment was available from United States excess property stocks. The results of this examination, together with our recommendations, were reported to the Congress in our report entitled "Ineffective Utilization of Excess Personal Property in the Foreign Assistance Program" (B-146995, April 12, 1965)

On April 13, 1964, the Administrator, AID, in a memorandum to his key officials, emphasized the need for ensuring that, at the earliest planning stage but in any case prior to the initiation of procurement of any new equipment, full consideration be given to the satisfaction of such equipment requirements from excess property sources The Administrator requested that each AID Mission have one person assigned responsibility for following excess property affairs This officer should ensure the screening of excess property catalogs and bulletins by persons involved in property acquisition

On June 9, 1965, the Administrator, AID, reiterated the aforementioned policy as to the use of excess property and issued instructions that action be taken to ensure that

Mission directors take a personal interest in utilization of excess property and that each AID Mission have one person assigned responsibility for following excess property affairs to ensure that excess property catalogs are screened by persons involved in property acquisitions.

In fiscal year 1964, loans replaced grants for general commodity imports and since that time five program assistance loans, totaling $320 million, have been made. The interest and principal of all five loans are repayable in United States dollars. The loans mature in 40 years and are amortized over the last 30 years, the first 10 years constituting a grace period. Interest is payable over the full 40 years at various rates. The following schedule shows the dollar amount of the five loans and the applicable interest rates.

| Loan number | Date of loan agreement | | Amount of loan | Interest rate in percent: 10-year grace period | Interest rate in percent: Remaining years |
|---|---|---|---|---|---|
| 277-H-043 | Sept. | 1963 | $ 35,000,000 | 0.75 | 0.75 |
| 277-H-048 | Apr. | 1964 | 70,000,000 | .75 | 2.00 |
| 277-H-058 | Jan. | 1965 | 80,000,000 | 1.00 | 2.50 |
| 277-H-066 | Mar. | 1966 | 70,000,000 | 1.00 | 2.50 |
| 277-H-074 | Mar. | 1967 | 65,000,000 | 1.00 | 2.50 |
| Total | | | $320,000,000 | | |

For the years 1960 through 1966, commodity imports from the United States ranged from a high of $218 million in 1963 to a low of $126 million in 1960. These imports comprised between 24 percent and 32 percent of Turkey's annual imports from all countries. Of the annual imports from the United States during this period, about 40 percent to 80 percent were financed under AID loans or grants, through agricultural commodities furnished under Public Law 480, the Food for Peace program, and Export-Import Bank loans.

The following schedule summarizes Turkey's import trade during the period 1960 through 1966.

Turkey's Import Trade 1960 through 1966

| Country | 1960 | | 1961 | | 1962 | | 1963 | | 1964 | | 1965 | | 1966 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Value | Per-cent | Value | Per-cent | Value | Per-cent | Value | Per-cent | Value | Per-cent | Value | Per-cent | Value | Per-cent |
| | (millions of dollars) | | | | | | | | | | | | | |
| United States | | | | | | | | | | | | | | |
| U S -financed | $ 52 | 11 | $105 | 21 | $155 | 25 | $150 | 22 | $130 | 24 | $127 | 22 | $117 | 16 |
| Commercial | 74 | 16 | 36 | 7 | 39 | 6 | 68 | 10 | 35 | 6 | 36 | 6 | 61 | 8 |
| | 126 | 27 | 141 | 28 | 194 | 31 | 218 | 32 | 165 | 30 | 163 | 28 | 178 | 24 |
| West Germany | 98 | 21 | 85 | 17 | 106 | 17 | 104 | 15 | 80 | 15 | 84 | 15 | 113 | 16 |
| United Kingdom | 53 | 11 | 67 | 13 | 70 | 11 | 77 | 11 | 56 | 10 | 55 | 10 | 79 | 11 |
| Italy | 30 | 6 | 43 | 8 | 33 | 5 | 35 | 5 | 32 | 6 | 37 | 6 | 54 | 8 |
| France | 16 | 4 | 18 | 4 | 29 | 5 | 34 | 5 | 21 | 4 | 21 | 4 | 43 | 6 |
| Others | 145 | 31 | 155 | 30 | 190 | 31 | 223 | 32 | 188 | 35 | 217 | 37 | 258 | 35 |
| Total | $468 | 100 | $509 | 100 | $622 | 100 | $691 | 100 | $542 | 100 | $577 | 100 | $725 | 100 |

Long-term loans for general commodity imports have been used to provide Turkey with foreign exchange needed for importation of goods including industrial machinery, motor vehicle parts, chemicals, lubricants, yarns and man-made textile fibers These commodities help ensure satisfactory levels of industrial production and adoption of improved agricultural practices The primary vehicle for administration and control of imports is the semiannual import program, as established by the Government of Turkey (GOT), listing all commodities which may be imported into Turkey with funds made available through either AID loans or other sources.

We inquired of Mission officials as to the extent to which AID attempted to correlate the types of commodities which had been programmed for import by GOT with the objectives and goals contemplated by the AID commodity import program. We were advised that the semiannual import programs established by GOT were reviewed by the technical and economic sections within the Mission and that, when appropriate, suggestions for refinements and changes were made where it was felt that such changes would benefit the Turkish economic goals. We were advised, however, that the composition of commodities to be imported was basically the decision of GOT

Each published import program includes a liberalized list and a quota list The liberalized import list includes those items which are considered most essential to the Turkish economy and for which no quotas have been established For these items, internal demand is relied upon to determine the amount of imports The import quota list consists mostly of raw materials or finished products which are produced domestically but not in sufficient quantities to meet essential requirements

As new domestic companies are established, items which are produced by these companies are usually shifted from the liberalized list to the quota list, and, as domestic supply of these items becomes sufficient to fill requirements, the quotas for imports are usually reduced. GOT, when publishing its semiannual import program, indicates those commodities which will be financed wholly with AID funds and those commodities which will be financed partially with AID funds and partially with free foreign exchange

To facilitate its administration of the commodity import loan program, AID has assigned classification codes to commodities To control disbursements of AID funds, GOT allocates the loan funds by commodity codes These allocations, when reviewed and agreed to by AID, are made part of the loan agreements

Review of the proposed allocations provides the Mission with an opportunity to evaluate the composition of commodities to be imported with loan funds and to suggest modification if deemed necessary to provide more effective utilization of the foreign exchange made available by the loans Included also in the loan agreements are listings, by code classifications, of those commodities which have been determined to be ineligible for AID financing

Biweekly status reports showing the status of the amounts allocated are submitted to the Mission by GOT Periodic meetings are held between Mission officials and representatives of GOT, to resolve problems and questions which may arise relating to the eligibility or desirability for importing commodities with AID loan funds

## FINDINGS AND RECOMMENDATIONS

### PROGRAMMING COMMODITIES AND EQUIPMENT

We found that GOT had procured new equipment in lieu of using excess property listed in catalogs as available in AID's excess property inventories Our examination into two selected loans for highway and irrigation systems equipment showed that new equipment costing about $1 8 million had been purchased by two agencies of GOT with United States assistance funds, at the time that similar equipment was listed in catalogs as available in AID's excess property inventories at a cost of about $370,000

We found also that (1) Turkey's domestic production facilities had the potential for satisfying a larger portion of the country's steel products requirements, (2) AID funds had been used to finance importation of commodities for exploring, refining, and marketing petroleum and its products, which was inconsistent with AID's policy of not financing commodities for which funds could be obtained from private sources, and (3) AID had not been successful in encouraging GOT to use its own foreign exchange to finance imports from the United States valued at less than $5,000--such imports previously had been financed by AID but, to ease its administrative problems, AID was financing only imports valued at $5,000 and more

These matters which relate to AID's programming of commodities and equipment under its assistance program for Turkey are discussed below

### Procurement of new equipment in lieu of using excess property

Our examination covered loans for two projects which, we believe, had potential for utilizing excess property All the property was for use in the public sector of Turkey The public sector, as differentiated from the private sector, means that the projects or programs for which the United States assistance was being furnished were being carried out by GOT rather than by private interests in Turkey

We selected for review a $5 9 million loan to Devlet Su Isleri Genel Mudurlugu to finance procurement of equipment required for operating and maintaining irrigation systems in Turkey and an $18 1 million project loan to General Directorate of Highways (Highway Department) for the purchase of highway maintenance equipment As part of our review, we selected certain items of new equipment which had been purchased under both loans and screened this equipment against AID-prepared catalogs showing the equipment that was available in the section 608 excess property inventory at the time that the new equipment purchases were being effected

Mission officials have advised us that the fact that excess equipment is listed in the catalogs at any given time gives no assurance that such equipment will be available at the time of need For the loans described below, the excess property was listed as being available in AID's excess property inventories at the time the new equipment was purchased There is therefore a strong presumption that such equipment could have been reserved for use in the assistance program in Turkey in lieu of procuring new equipment AID made no effort to reserve excess property in connection with the irrigation systems project loan but did reserve some excess equipment for possible use under the highway equipment loan

Irrigation systems project loan

Our review of the selected equipment purchased during the period November 1965 through March 1966 under the assistance loan for the operation and maintenance of irrigation systems in Turkey showed that purchasing new equipment costing $1 1 million might have been avoided by acquiring similar equipment from AID's excess property inventory at a cost of $254,990

The following schedule shows the cost of obtaining the equipment from AID's excess property inventory (see p 4) compared with the cost of equipment purchased Comparative overseas transportation and port handling costs are not included

| Equipment | Quantity | Cost of equipment purchased | Cost of obtaining equipment from excess property inventory | Difference |
|---|---|---|---|---|
| Pickup truck | 36 | $ 64,512 | $ 19,268 | $ 45,244 |
| Semitrailer (60-ton) | 3 | 25,050 | 5,784 | 19,266 |
| Crawler tractor | 25 | 252,275 | 59,250 | 193,025 |
| Wheel-type tractor | 6 | 140,664 | 18,720 | 121,944 |
| Crawler-mounted excavator | 9 | 453,123 | 88,383 | 364,740 |
| Motor grader | 31 | 195,641 | 58,366 | 137,275 |
| Flatbed truck | 2 | 6,210 | 2,391 | 3,819 |
| Dump truck | 4 | 13,468 | 2,828 | 10,640 |
| | 116 | $1,150,943 | $254,990 | $895,953 |

The Mission project technician assigned to this project advised us that the items which we identified as being available in the excess property inventory could have been used in lieu of the new equipment purchased Officials of the GOT agency that purchased the equipment also advised us that the excess equipment which we identified would have been acceptable substitutes for the actual equipment purchased AID officials advised us that excess property catalogs had been reviewed but that no record had been made showing that this had been done Apparently, GOT officials, with AID's concurrence, decided that new equipment would be procured and that equipment available under AID's advance acquisition program would not be acquired

Under the terms of the loan agreement which contemplates the use of excess property, the total funds made available to GOT would be decreased to the extent that the total cost of furnishing equipment for the irrigation systems project was reduced by acquiring equipment from AID's excess property inventory Therefore, maximum use of excess property to satisfy equipment needs for this project might have reduced the loan by about $896,000

Highway equipment loan

Our screening of excess property catalogs showed that 34 items of equipment, which had been purchased during the period April through July 1965 at a cost of $657,672 with funds made available under the highway maintenance equipment project loan, had been available in AID's excess property inventories at a cost of $113,613 Although the terms of the loan agreement did not contain a provision similar to that which was incorporated in the irrigation system loan agreement regarding reduction in the total loan funds for savings through use of excess property, it appears that there was a basis for reduction if such property was used, as evidenced by the following comment made by AID/W to the Mission when reviewing a request for an increase in the loan amount to reflect savings in the original estimates

> "*** Intent of loan was to finance specific items and quantities and not repeat not provide line of credit Justification for additional quantities on basis of savings effected therefor not repeat not consonant with letter and intent of loan *** "

We noted that 22 items of excess equipment, which could have been obtained from the excess property inventory at a cost of $68,373, had been reserved by AID/W for possible substitution for purchases of new equipment costing $392,496 under the highway equipment loan We identified 12 additional items of excess equipment having a total acquisition cost of $45,240

The following schedule shows the cost of obtaining this equipment from AID's excess property inventory compared with the cost of equipment purchased Comparative overseas transportation and part handling costs are not included

| Equipment | Quantity | Cost of equipment purchased | Cost of obtaining equipment from excess property inventory | Difference |
|---|---|---|---|---|
| Dump truck | 2 | $ 4,624 | $ 1,380 | $ 3,244 |
| Motor grader | 5 | 60,580 | 9,019 | 51,561 |
| Crawler tractor | 25 | 552,450 | 99,658 | 452,792 |
| Loader | 1 | 12,121 | 1,601 | 10,520 |
| Paving machine | 1 | 27,897 | 1,955 | 25,942 |
| | 34 | $657,672 | $113,613 | $544,059 |

The procuring GOT agency rejected the use of excess property on the basis of its past experience with such equipment acquired on an "as is, where is" basis under section 607 of the act Due to the age of the equipment, the agency believed that (1) maintenance problems and delays would be incurred because of the poor condition of the equipment, (2) there would be difficulties in obtaining the necessary spare parts, and (3) acquiring used equipment was not compatible with the agency's objectives of replacing its old and depreciated equipment

We noted, however, that the conclusion drawn by this agency had not been based on physical inspection of the equipment Only one item of equipment, a paving machine, was actually inspected In the opinion of the agency, this item was in fair condition although its feed conveyors were in bad condition This particular item, after being rejected by the inspecting agency, was acquired by a local municipality in Turkey

Rejecting excess equipment on the basis of age, in our opinion, does not adequately recognize the extensive rehabilitation programmed for such equipment under AID's section 608 program or the agency's clearly defined policy statements encouraging the use of excess property described on page 5

We have been advised by the AID official responsible for the excess property program in Europe that equipment acquired under the section 608 excess property program is rehabilitated to yield at least 75 percent of its original useful life, some of the equipment is acquired new or only slightly used, obsolete equipment is not acquired, and only equipment for which spare parts are available is acquired

We also visited firms in Turkey representing United States construction equipment manufacturers, who advised us that the age of the equipment was no problem because spare-parts support for most of the equipment would be available as long as the equipment was in operation and that, in fact, some of these firms were currently providing spare-parts support for equipment in Turkey which was from 15 to 20 years old

The Highway Department, as of June 1, 1966, had acquired 346 items of excess property transferred to GOT pursuant to section 607 of the Foreign Assistance Act of 1961, as amended A review by the Mission's internal auditors of excess property acquired by GOT, including the highway equipment, showed that, with the exception of a few minor cases, maximum work value was being obtained from the equipment It should be noted that most of this equipment was acquired on an "as is, where is" basis and had not been rehabilitated by AID

Turkey is one of the larger recipients of AID excess property, having obtained about $43 6 million worth (value at time of original acquisition) of such property as of June 30, 1966 Of this amount, $34 4 million worth was transferred to GOT pursuant to section 607 and $9 2 million worth was acquired from AID's section 608 excess property inventory This excess property was for broad distribution to various GOT agencies for general use throughout Turkey and was not necessarily related to AID-supported programs or projects, and, on the basis of available records, only about $43,000 worth of this property was used in lieu of new equipment procurements

In commenting on this matter, Mission officials advised us that:

> "The excess property acquired by Turkey, whether for projects and programs directly funded by the U S Government or for activities not so funded, is being used, as ascertained by a recent USAID [Mission] audit, to support Turkey's economic development program Therefore, this excess equipment is one of the inputs which enables Turkey to achieve and maintain its high growth rate and progress toward reaching the stage where foreign assistance is no longer required "

Although we agree that use of excess property can accelerate the development of the economics of friendly nations, we believe that the Mission should make a concerted effort to ensure that excess property is used to reduce the level of United States expenditures authorized for planned assistance projects and programs and to obtain maximum benefits from excess property in attaining the objectives set forth in all authorized programs The authorizing legislation for the section 608 excess property program requires that excess property be used wherever practical in lieu of the procurement of new items for country assistance programs

Agency comments

In commenting on our draft report, AID stated that the Mission was on the distribution list to receive all excess property catalogs and that, under existing procedures, appropriate Mission and GOT officials were required to screen such catalogs

AID stated also that current loan provisions adequately provide for a reduction to the loan amount if there were a saving resulting from the acquisition of excess property

AID reiterated its reasons, described and evaluated above, for the rejection of the excess property under the two loans Although not specifically stated in its comments, AID, while recognizing the responsibility of Mission officials to monitor the use of excess property, did not apparently believe that it was necessary to have these officials attest to its unsuitability when such was the case.

Evaluation of Agency comments

We believe that the results of our review show that full advantage was not taken of the opportunity for reducing the cost of economic assistance projects by making maximum use of equipment listed in catalogs as available in AID's excess property inventories These results, in our opinion, show also that there is a need for AID to strengthen and to more effectively implement existing AID procedures for using excess property in lieu of purchasing new equipment

Our review of the irrigation systems loan showed that AID officials had concurred with the desires of GOT officials to obtain new equipment There were no records showing the results of any review of excess property catalogs by Mission, AID/W, or GOT officials or by GOT consultants

AID, in our opinion, placed too much reliance on the Highway Department's reasons for rejecting the excess property under the highway equipment loan The Highway Department's views were not based on its experience with excess property that had been rehabilitated by AID under its section 608 program but rather on equipment acquired by the Highway Department under AID's section 607 program on an "as is, where is" basis Equipment acquired under the section 608 program is supposed to be rehabilitated to yield at least 75 percent of its original useful life, and only equipment for which spare parts are available is acquired

We believe that, in the final analysis, it is the responsibility of AID officials to conserve United States resources through the effective use of excess property in lieu of new procurement under planned assistance projects and programs

The decision as to whether to use excess property available in AID's excess property inventories rests with the using GOT agency We believe, however, that Mission officials, because of the magnitude and continuing nature of AID's assistance program, are in a position to obtain GOT's cooperation in meeting AID's objective to increase the substitution of excess property for new procurement.

In our opinion, Mission officials should be required to document the results of their efforts in screening excess property catalogs and in evaluating GOT's reasons for rejection of excess property In our opinion, this procedure would encourage Mission officials to make greater effort to implement AID's policies Also, it would establish a record to enable AID to ascertain the compliance of its officials with stated policies.

Therefore, in line with our position in our prior report described on page 5, we continue to urge AID to require that, before AID funds are used for the procurement of new equipment, appropriate Mission officials be charged with the responsibility for attesting that no suitable excess property was located or that excess property found to be available was not acquired for reasons acceptable to responsible officials

Recommendation

Accordingly, we recommend that the Administrator, AID, augment existing procedures relating to the acquisition of excess property by requiring that Mission officials document their efforts to determine the availability of excess property and, where appropriate, attest either that no suitable excess property was located or that excess property found to be available was not acquired for reasons acceptable to responsible officials

Potential for utilizing Turkey's productive capabilities to meet import requirements not fully realized

One of the basic purposes of AID's economic assistance program for Turkey has been to provide the foreign exchange to obtain those commodities and services which are needed to sustain and increase the Turkish economy and which cannot be obtained with Turkey's own limited free foreign exchange To accomplish this purpose and to obtain maximum use of Turkey's foreign exchange, it is AID's policy that the goods and services available in Turkey be utilized to the maximum extent possible Greater utilization of the resources already available in-country not only would conserve Turkey's own foreign exchange but could result in more effective use of AID funds

Our review showed that the Mission had, to some extent, monitored the importation of steel and steel products for the purpose of ensuring maximum utilization of Turkey's domestic steel-producing facilities About one half of Turkey's steel-producing capability was built with AID assistance Within Turkey today there are two steel mills, the Eregli Iron and Steel Works and Karabuk, a State enterprise The Eregli mill was financed, in part, by an initial AID development loan of $129 6 million, and additional loans have been made The mill has been having financial difficulties since it started production in April 1965

A review of the mill's production data showed that, during the 12-month period ended July 1966, it produced about 188,000 metric tons of finished steel products, or about 70 percent of its total production capacity (about 268,000 metric tons annually) for finished products We were advised by both Mission and Eregli officials that numerous problems connected with the operations of the plant, such as shortages of qualified technicians to efficiently operate the plant and the high cost of raw materials, had contributed to the low production experienced by the mill

The acting president of Eregli, in reply to our inquiries, advised us that iron and steel items, including the tinplate discussed below, valued at about $955,000 had been authorized for importation during the last 6 months of 1966 although they could have been manufactured at the Eregli mill in sufficient quantities to meet the domestic demands. He advised us also that, although GOT had been reducing the amount of foreign exchange allocated for the importation of steel products, for reasons unknown to him, the importation of the above items which could have been produced at Eregli had been approved by GOT

The following findings relating to the importation of steel products illustrate, in our opinion, the need for the Mission to establish criteria to be used in determining whether it is more beneficial to import commodities than to produce them in-country

Use of AID funds to import truck cabs which could have been produced in Turkey

Our examination showed that, under a project loan to GOT for the purchase of highway equipment, AID had financed the importation of truck cabs costing about $302,000 when the capability existed in Turkey to fabricate the cabs using steel produced by Eregli

Under the terms of this loan, AID agreed to finance the purchase of highway equipment, including pickup trucks, dump trucks, and truck cabs The contract for all three items was awarded to one manufacturer by the procuring GOT agency on the basis that they would be manufactured in the United States but assembled at the manufacturer's plant in Turkey. The only items not furnished by the United States manufacturer were certain components, such as tires, batteries, radiators, and crossmembers, which, by Turkish law, were specifically prohibited from being imported since they could be manufactured in Turkey The cost of the excluded components that were to be procured from Turkish sources, as well as the cost to assemble the trucks, was to be paid in Turkish lira and therefore was not included in the amount of the loan

The manufacturer had also submitted an alternative bid which provided that truck cabs would be produced at its plant in Turkey rather than produced in the United States and merely assembled in Turkey Our analysis of both bids showed that, under the alternative bid, the dollar costs would have been about $302,000 less for the same quantity of trucks Since the cabs would have been manufactured in Turkey, the Turkish lira cost would have been increased Acceptance of the bid to produce truck cabs at the manufacturer's Turkey plant would have resulted in an increase of 10,219,382 Turkish lira ($1,125,485 United States equivalent) This cost would have been paid by Turkey since the loan would not cover in-country costs

We were advised by the general manager of the truck manufacturing firm that all the trucks which his firm manufactured in Turkey used a cab made with sheet steel produced by Eregli He also stated that the cost for all items--such as tires, batteries, radiators, and crossmembers--which must be procured from sources indigenous to Turkey because of Turkish import laws, was about three times as much as the cost of comparable items which could be imported We were advised also that this higher cost was attributed not to lack of competition but to low-volume production and the high cost of raw materials

An official of the GOT procuring agency stated that the principal reason that the bid for truck cabs manufactured in Turkey was rejected was because it would have cost more than three times as much to have the cabs manufactured in Turkey rather than imported from the United States He stated that the agency's budget was limited and that it would have been difficult to obtain the additional funds to meet the increased Turkish lira costs which would have been incurred by GOT had the truck cabs been manufactured in Turkey.

The Mission agreed with the procuring GOT agency's position, stating that the loan provisions requiring that the goods and services of the borrowing country be utilized to the maximum extent possible must be interpreted reasonably and that the cost of cabs made in Turkey was unreasonably high compared with the costs of cabs made in the United States Mission officials advised us, however, that criteria for measuring the reasonableness of cost differentials when applying the provisions of the loan agreement regarding the use of in-country resources had not been established.

Potential for utilizing steel produced by Eregli to meet tinplate import requirements

During our examination into the importation of steel products, we noted that the GOT import program for the last 6 months of 1966 had included an allocation of Turkey's foreign exchange of $325,000 for the importation of tinplate Tinplate may be processed by a method commonly referred to as "hot dipping" (hot-dipped tinplate) or by enameling or laquering (laquered tinplate) Hot-dipped tinplate accounted for $250,000 of the 6 months' total allocation for imported tinplate and laquered tinplate for $75,000

Since Eregli manufactures electrolytic tinplate which can be lacquered and used in lieu of the imported lacquered tinplate, we examined into the use being made of the imported hot-dipped and lacquered tinplate Mission officials advised us that the imported tinplate was being used in the canning industry primarily because the canners of foodstuffs felt that the tinplate produced in Turkey was of inferior quality and permitted spoilage of the foodstuffs

We made further inquiries into the use of the imported tinplate by two canning firms and a tinplate-laquering firm Officials of the Turkish firm producing lacquered tinplate advised us that all the tinplate which the firm used in its lacquering process was electrolytic tinplate manufactured by Eregli This lacquering firm used modern equipment and was planning to expand its facilities We were informed that the lacquered tinplate which was being produced was used mainly for products other than foodstuffs because the quality of the lacquered tinplate was not suitable for the canning of foodstuffs An official of this firm stated, however, that there was no problem with the electrolytic tinplate produced by Eregli and that the reason for not being able to produce a lacquered tinplate in Turkey suitable for foodstuffs was that a good quality lacquer could not be obtained

Our visits to the canneries showed that the canners were of the opinion that the quality of the lacquered tinplate produced in Turkey was not suitable for canning certain foodstuffs. One firm informed us that it currently used imported lacquered tinplate but that it would have no objection to using locally produced lacquered tinplate if a suitable product were available. It appears that the lacquer used in manufacturing the imported lacquered tinplate should be obtained separately and applied locally to Eregli tinplate. The other canning firm we visited used hot-dipped tinplate exclusively, and we were advised that, if hot-dipped tinplate were not available, it would use other types of containers rather than use lacquered tinplate.

Apparently the lacquered tinplate produced in Turkey was unacceptable to the canning industry because of the low quality of the lacquer used If a suitable lacquered tinplate product could have been produced in Turkey, it would not have been necessary to import lacquered tinplate. It might then also have been possible to use the locally manufactured lacquered tinplate as a substitute for some portion of the hot-dipped tinplate currently being imported

We believe that consideration should have been given to exploring the possibility of either producing a lacquer in Turkey which would be acceptable to the canners, or, if such lacquer could not have been produced locally, obtaining suitable lacquer from other sources Greater use of tinplate produced in Turkey at reasonably competitive prices would contribute toward the economic growth of the Turkish economy

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In discussing the possibilities of greater utilization of Turkey's in-country capabilities which are currently available or which could be made available through expansion, Mission officials advised us that they did not have the capability of determining whether a commodity could be produced in Turkey or the existing capacity for such production We were advised also that the Mission relied on GOT to determine the commodities which the Mission felt were needed to meet the goals established in its long-range economic development plan and that AID financing was restricted to those commodities deemed to be eligible under the terms of the loan agreement

In regard to expansion of existing facilities, we were advised that the Mission did encourage expansion of existing production facilities and construction of new facilities where these commodities had a potential for economic production

In our draft report submitted to AID for comment, we suggested that the Mission establish firm criteria to be used in determining whether it was more beneficial to import commodities than to produce them in-country. We suggested further that such criteria be applied to enforce the provisions of loan agreements that relate to the utilization of goods and services available in Turkey

Agency comments

In commenting on our draft report, the AID stated that, in accordance with our suggestions, it was developing criteria to be used as guidance in deciding whether AID should encourage a given industry or manufacturing enterprise Such criteria would be applicable both to AID's review of project loans and to its review of GOT purchasing decisions. The enforcement of provisions in AID loan agreements relating to the use of Turkish products would be based on judgments as to reasonable cost made in the light of such criteria.

Evaluation of Agency comments

We believe that AID's development of criteria to be used in determining whether it is more beneficial to import commodities than to produce them in-country and the application of such criteria to enforce the provisions of loan agreements that relate to the utilization of goods and services available in Turkey will serve a useful purpose The use of such criteria may be expected to assist in the development of more definitive policies and to enable AID to more convincingly demonstrate to GOT the basis for its decisions

Use of AID funds in lieu of
funds available from private sources

AID loan funds were used for the importation of equipment costing about $3 5 million by Turkey Petroleum A O (TPAO), a public sector enterprise engaged in exploring, refining, and marketing petroleum and its products Financing the importation of such equipment appears to be inconsistent with AID's policy of prohibiting the financing of commodities for which financing can be obtained from private sources AID loan funds were used to finance the importation of this equipment because of a mutual misunderstanding by the Mission and GOT concerning the eligibility of such equipment for AID financing and because of the lack of adequate procedures for detecting ineligible equipment before it was purchased with loan funds

Loan agreements list those commodities which are (1) eligible for AID financing, (2) not eligible for AID financing, and (3) subject to special considerations Commodities in the latter category are eligible for AID financing only when determined to be so by AID/W and so stated in the assistance agreement or implementing documentation

To facilitate the administration of the import programs, commodities are classified by codes which are based primarily on the materials of which the commodities are made Commodities, however, may also be coded on the basis of the value of the commodities, their structural or functional form, or the use to which they are to be put Petroleum and natural gas field production equipment and parts were classified as code 741, and commodities coded as 741 were subject to special considerations before being eligible for AID financing

Loan 277-H-048

Under the 1964 commodity import program loan (loan 277-H-048), commodities coded as 741 were ineligible for AID financing We noted that AID/W had reclassified as code 741 certain commodities, valued at about $669,000, which had been purchased with 1964 import program loan funds We were able to determine, on the basis of our review of invoices and bills of lading, that $663,000 worth of these commodities had been purchased by TPAO Our review showed that additional commodities, valued at about $831,000, which, we believe, also should have been coded as 741, had been imported by TPAO with 1964 import program loan funds Under the 1965 commodity import program (loan 277-H-058) AID/W, at the request of the Mission, allowed the importation of about $2 million worth of commodities coded as 741 (See pp. 28 to 30 )

The Mission was requested, on October 28, 1964, to furnish AID/W with information as to possible procurement by TPAO of AID-financed oil-drilling rigs On November 5, 1964, the Mission advised AID/W that TPAO had no AID-financed oil-drilling rigs on hand but that it had, however, procured, with AID funds, replacement parts for existing rigs that had previously been procured with GOT free foreign exchange

The Mission advised AID/W also that TPAO had opened letters of credit using loan 277-H-048 funds to purchase oil-drilling equipment and that bids for this equipment had been advertised in the Small Business Circular dated June 5, 1964 The Mission was aware that the equipment was to be imported because specifications for the equipment had first been submitted to the Mission by TPAO and had then been forwarded to AID/W for publication in the Small Business Circular

Our review showed that, during the period September 1964 through October 1965, AID/W had reclassified as code 741 on its financial reports certain commodities purchased by TPAO at a cost of more than $663,000 under loan 277-H-048 We could find no evidence that a request had been made for a refund from GOT for those ineligible commodities Under the provisions of the loan agreement, GOT is obligated to make refunds for ineligible commodities imported with loan funds We did note, however, that in February 1965 AID/W had alerted the Mission to the fact that commodities which were not properly coded as 741 and which were ineligible were being imported by TPAO and had instructed the Mission to advise GOT of this fact in all future procurement AID/W also restated to the Mission AID's policy of prohibiting the financing of commodities for which there appear to be sufficient funds available from private sources

Our review of suppliers invoices and bills of lading showed that TPAO, under loan 277-H-048, had purchased commodities valued at more than $1 5 million, of which only the above-discussed commodities, totaling $663,000, had been reclassified as code 741 by AID/W The description of some commodities not reclassified as code 741 would indicate a direct relationship to oil-drilling equipment, and these commodities should conceivably have been reclassified as code 741 We believe that, in view of the fact that the sole activity of TPAO is to explore, refine, and market petroleum and its products, it is questionable whether United States funds should be used to finance imports for TPAO

We discussed this matter with Mission officials who agreed that many of the commodities purchased by TPAO might ultimately be used for petroleum field production However, they advised us that the classification of the commodities under the code applicable to the specific commodity was proper They advised us also that, under AID's procedures, the Mission did not have the prime responsibility for screening commodity codes for the purpose of determining whether ineligible items had been included or erroneously coded This responsibility, we were advised, rested with the Controller of AID/W

We believe that classification of a commodity on the basis of the physical characteristic of the commodity without consideration of the purpose for which the commodity will be used makes it virtually impossible to monitor the import program to ensure that only eligible items are purchased with loan funds Moreover, classification of commodities in this manner could lead to commodity codes' being assigned on an arbitrary basis

For example, we noted that five heavy-duty oil field trucks, with an estimated total value of $350,000, had been classified as code 820 (motor vehicles, engines, and parts) and that an oil-drilling rig with torque converter had been classified as code 700 (industrial machinery and equipment), whereas parts for a diesel-engine torque converter had been classified as code 741 (petroleum and natural gas field production equipment)

We believe also that responsibility for monitoring the commodities imported with AID loan funds should be clearly fixed at the Mission level The detection of ineligible commodities at the Mission level before the commodities are advertised and/or before they are purchased would eliminate the need to request and obtain refunds from the host country

Loan 277-H-058

Under the 1965 commodity import program loan (loan 277-H-058), AID, because of mutual misunderstandings with GOT, deviated from its general policy of prohibiting the use of loan funds for equipment for oil drilling and exploration and authorized TPAO to import $2 million worth of such equipment

The sequence of pertinent events leading up to this authorization, as derived from information available at the Mission, was as follows

1 The Mission, in February 1965, proposed to AID/W that commodities classified as code 741 be eligible under the 1965 commodity import program loan (277-H-058) entered into in January 1965 and that, of a total proposed first allotment of $40 million, $1 million be allocated for commodities coded 741 The Mission indicated that such commodities would be spare, maintenance, and replacement parts and equipment only The Mission believed that, although both public and private firms operated in the oil exploration area, it was not advantageous, from an overall program standpoint, to apply AID's policy of not financing equipment for oil drilling and exploration

2 In March 1965, AID/W advised the Mission that commodities which might possibly be oil-drilling equipment were appearing in specifications submitted for publication in the Small Business Circular and that,

if this were the case, these commodities should not be financed with loan funds but should be obtained from private sources

3 The Mission, in April 1965, requested AID/W to state whether spare, maintenance, and replacement parts were eligible for loan financing However, we could find no records showing that AID/W had ever replied to this request for clarification

4 GOT was advised by the Mission, in May 1965, that use of $1 million of loan funds was authorized for commodities coded 741

5 In June 1965, AID/W advised the Mission that it would agree to financing of code 741 items in reasonable amounts for the remainder of the 1965 calendar year, stating that

"The long-standing and continuing policy of AID and its predecessor agencies is not to finance equipment for oil drilling and exploration This position has been consistently maintained inasmuch as private financing is readily available and because U S financing might better be utilized for necessary projects less appealing to private enterprise Additional factors which have led to our policy are the high risk in, and costly nature of, exploration/development activities and the fear that private interest might be jeopardized by U S entry into such financing

"In the case of Turkey, however, the Agency is prepared to relax the prohibition against such financing for a limited period, since some financing has occurred because of mutual misunderstandings by our governments concerning the eligibility of oil drilling exploration and related equipment In order not to penalize Turkey in light of these misunderstandings, AID/W will permit financing, subject to AID/W review and approval, of reasonable amounts of oil drilling/exploration equipment for the remainder of the 1965 calendar year After December 31, 1965, the Agency will revert to its prevailing policy of denying financing of oil exploration/development equipment "

Final approval for importing oil-drilling equipment with loan funds allowed TPAO to import, under the loan, up to $2 million worth of such equipment and required that all orders for the equipment be placed no later than December 31, 1965 The time limit for placing orders was not extended, and TPAO imported equipment valued at $1,928,886 under this authorization

The approved use of loan funds for an enterprise engaged in exploring, refining, and marketing petroleum and its products to purchase such equipment is a significant deviation from AID's policy of restricting the use of loan funds to only those items for which financing would not be available from private sources We noted that there were United States and other foreign country petroleum firms currently active in Turkey From the above information, it appears that the authorization for the use of loan funds in this manner was based on AID's desire to not penalize GOT for mutual misunderstandings concerning the eligibility of oil-drilling equipment

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As discussed above, we could find no evidence that consideration had been given to requesting refunds from GOT for the ineligible commodities purchased by TPAO with AID funds provided under the loan discussed on pages 25 to 28. We believe that, if the provisions of the loan agreement are to be effective in eliminating the importation of commodities determined to be ineligible, strict adherence to the provision requiring refunds is necessary

We believe also that of equal importance is the need for AID to establish a procedure providing for detecting and/or canceling ineligible commodities before they are purchased with loan funds, thereby eliminating the need for requesting refunds for ineligible items so purchased

Moreover, a major factor influencing AID/W's decision to relax its policy of prohibiting the importation of petroleum and natural gas field production equipment under loan 277-H-058 was that financing of such equipment had occurred because of a misunderstanding concerning the eligibility of such equipment In our opinion, this misunderstanding could be attributed, in part, to the assignment of commodity codes without consideration of the purpose for which the commodities would be used

In our opinion, the early detection of plans to use loan funds for the importation of commodities that are ineligible would, in addition to minimizing the need for requesting refunds, alert AID to the need for correcting classification codes to prevent misunderstandings

In our draft report, we proposed that AID fix responsibility for monitoring the eligibility of commodities imported as is necessary to ensure proper administration of the assistance programs, preferably with primary responsibility resting with the Mission, and that AID take definitive action in all cases where the importation of ineligible commodities is detected We proposed also that AID consider revising its commodity classification procedures to recognize the use to which the commodities will be put as a factor essential to their proper classification

Agency comments

In commenting on our draft report, AID stated that, with reference to the 1964 loan 277-H-048, an audit would be made to ascertain whether AID had paid for ineligible commodities and to determine the amount involved so that a refund claim may be made

AID stated that both the Commodity Import Office in the Mission and the Office of Small Business in AID/W were required to review the tender submitted for Small Business Circular publication to determine whether commodities were eligible for AID financing under a program loan We were also advised that AID had instituted a program to improve its coding practices Under this program, AID is refining commodity codes, which should make it possible to establish more precise lists of eligible and ineligible items

Recommendation

We recommend that the Administrator, AID, establish more precise lists of eligible and ineligible commodities and give recognition to the use to which the commodities will be put as a factor essential to proper commodity classification

AID's effort to encourage GOT to greater use of its foreign exchange for imports from the United States not wholly successful

AID revised its policy so that, beginning in July 1966, imports valued at less than $5,000 would no longer be eligible for AID financing Prior to that time, AID financed imports with a minimum value of $1,000 We were advised by Mission officials that the objectives which were expected to be achieved under the revised policy were.

1 To lessen the administrative workload created by the large number of imports valued at less than $5,000

2 To prevent circumvention by importers, by their making multiple imports valued at less than $5,000, of AID's requirement that all imports valued at $5,000 or more be advertised in the Small Business Circular

3 To encourage GOT to use its own foreign exchange to finance imports valued at less than $5,000, which had previously been financed with AID funds

While it is apparent that the increase in the minimum value of imports eligible for AID financing should accomplish the first two objectives enumerated above, our review showed that the third objective was not being achieved GOT has established procedures requiring importers who have received allocations in amounts of less than $5,000 for importing commodities which have been designated by GOT for financing with AID funds, to consolidate their allocations to reach the $5,000 minimum Under these procedures, allocations to importers who do not comply with this requirement are canceled

We believe that AID's revised policy and the resultant GOT's regulations concerning consolidation of import allocations of under $5,000, would have the greatest impact on small importers in the private sector and would have the least impact on large importers in the private sector and on importers in the public sector In discussing this matter with Turkish importers, we were advised that these actions could result in (1) forcing certain importers to import more of a commodity than they actually require in order to meet the $5,000 minimum value requirement, (2) delaying importation of needed commodities because of the time required to consolidate allocations, and (3) preventing importation of needed commodities in those cases where consolidations cannot be accomplished

Mission officials stated that it appeared that GOT's regulations inhibited the use of its own foreign exchange for financing imports valued at less than $5,000, which had been previously financed with AID funds, because the regulations required the importers to consolidate allocations

In our opinion, if AID is to accomplish its objectives, it must receive the cooperation of the recipient country It is apparent that the action taken by GOT in requiring consolidation of imports valued at less than $5,000, rather than using its own foreign exchange, has negated, at least in part, one of the objectives of the action taken by AID

Agency comments

AID, in commenting on our draft report, stated that it was continuing to encourage GOT to finance imports valued at less than $5,000 AID acknowledged that some of the administrative procedures established by GOT to ensure that AID funds were efficiently utilized might tend to discriminate against United States commercial exports

AID reported that, although it was unrelated to the matter of small purchase items, progress was being made in using the foreign aid program as a means of increasing exports from the United States and thereby improve its balance-of-payments position AID plans to eliminate from AID financing certain commodities which tend to substitute for United States commercial exports For example, under program loan 277-H-074, hides and skins and pulp, paper, and paper products (except newsprint) have been made ineligible for AID financing AID will watch closely the effect of this action upon United States commercial exports

Evaluation of Agency comments

Although we did not review AID's efforts to expand the market in Turkey for imports from the United States under its current loan for financing the procurement of commodities, we believe that action along lines described above should have a beneficial effect on United States commercial exports to Turkey

SURVEILLANCE OVER RECEIPT AND USE OF COMMODITIES AND EQUIPMENT

The procedures established by the Mission to meet its responsibility for monitoring the receipt and use of AID-financed commodities and equipment in Turkey were, in our opinion, not as effective as they should have been because (1) the Mission was not receiving, for a significant amount of imports, the information needed to identify those commodities which had been received in Turkey, (2) end-use checks were not being made to determine whether commodities were being properly used, and (3) the Mission had not aggressively followed up on requests for refunds from GOT for commodities which had not cleared custom warehouses within a reasonable period of time

To meet its responsibilities for monitoring the receipt and use of AID-financed commodities and equipment in Turkey, the Mission established an arrival accounting system which was designed to systematically identify those commodities which have not cleared customs and have not entered trade channels within a reasonable period of time

The Mission also instituted a system for making end-use observations or checks which, when supplemented by reference to such supporting documentation and records as may be appropriate, could serve as an examination of the receipt of AID-financed goods at customs warehouses and of utilization at the importers' places of business In order to ensure the cooperation of the host country in expediting the entry of AID-financed commodities into trade channels, AID regulations require that the Mission make a formal claim against GOT for refund for all commodities which have not cleared customs within a reasonable period of time.

These matters are discussed in more detail below

Weakness in arrival accounting system

The Mission has established an arrival accounting system in order to help expedite the movement of AID-financed commodities from customs warehouses into Turkey's trade channels Our review showed that the Mission's system had been seriously weakened through the failure of some suppliers to furnish the Mission with the advance copies of bills of lading for commodities financed under program loans that were required under AID regulations

In July 1965, the Mission established a new arrival accounting system to (1) identify commodities received in Turkey and (2) provide the information necessary for systematically determining whether the commodities had cleared customs The arrival accounting system was established for use by GOT, however, at the time of our review, the Mission was accepting responsibility for the effective implementation of the system

The system for ascertaining whether commodities had cleared customs, which was in effect prior to the establishment of the new system, apparently was not too effective, as evidenced by the findings of the Department of State's Inspector General of Foreign Assistance. The Inspector General had reported that his inspection for the 2-month period May and June 1965 disclosed that some $700,000 worth of AID-financed commodities had been in customs warehouses for 6 months or more Our follow-up on this matter showed that, through Mission efforts, most of these commodities had eventually cleared customs

Our review of the arrival accounting system has shown that it should be an effective means of quickly determining those commodities which have not cleared the customs warehouses within the required period The effectiveness of the system, however, is predicated on the receipt of the bills of lading so that specific identification of shipments can be made Our review showed that, for the period May 1965 through January 1966, the Mission failed to receive from suppliers advance bills of lading applicable to about $3 5 million worth of AID-financed commodities Failure to receive the advance bills of lading created numerous problems in identifying and locating those commodities which had been received so that proper determinations could be made as to whether they had cleared customs and had entered into trade channels

Since the Mission did not receive all the bills of lading, it requested that AID/W provide the information which the Mission would normally obtain from the bills of lading to determine whether the commodities had been received The Mission's request was refused by AID/W because of workload pressures The Mission then sought to secure this information from the Central Bank of Turkey The Mission Controller advised us that this alternative approach, although workable, was time consuming, uneconomical, and not completely reliable as a certain number of transactions would never be identified

In July 1966, we informed the Controller, AID/W, of the current situation in Turkey and suggested that consideration be given to incorporating the required data in the monthly financial reports to the Mission on the status of the loan funds disbursed The Controller advised us that AID/W had been concerned with the problem not only as it related to the problem in Turkey but in the broader aspects for all program assistance The Controller stated that the problem was currently under review and that, after further evaluation of various proposals, we would be advised of any revised procedures

<u>End-use checks not being made</u>

The end-use observation or check is a field technique used for determining whether commodities financed by AID are received into the cooperating country and utilized properly End-use checks, supplemented by reference to such supporting documentation and records as may be appropriate, involve an on-the-spot examination into the receipt of AID-financed goods at the customs warehouses and utilization at the importers' places of business The general objectives of the end-use checks are:

1 To ascertain whether there has been prompt and proper utilization of the commodities

2 To ascertain whether there is any unjustified stockpiling

3 To disclose or prevent unauthorized diversions

4 To disclose and discourage black-marketing, profiteering, or similar activity inconsistent with the objectives of the program and detrimental from the standpoint of public relations

5 To disclose importers' claims for refunds or credits resulting from shortages, damages, or quality deficiencies

6 To serve as a Mission tool for evaluating the effectiveness of Mission and cooperating government planning practices

Our review showed that, during fiscal year 1966, the Mission had made only one end-use check and that this check had been made in connection with a complaint received from an importer on the quality of an item received. Although we were informed that end-use checks had been scheduled for fiscal year 1967, none had been performed by the time we completed our work at the Mission in September 1966

We were advised by Mission officials that the decision to discontinue end-use checks had been based on the belief that it was more advantageous to utilize the Mission's limited staff to implement the newly established arrival accounting system and to follow-up on commodities which were found to have been in warehouses for unreasonable periods of time

While we recognize the need to have an effective arrival accounting system, we believe that end-use checks are needed as an aid to determining whether commodities received by importers had been put to proper use and whether the AID-financed commodity import program was achieving the desired results

Refunds not being made by GOT

AID designates commodities which have not entered a participating country's trade channels within 90 days after arrival in the country as distress commodities because they have not been utilized within a reasonable period of time The Mission's arrival accounting system identifies those

AID-financed commodities which have not cleared customs within 90 days In these cases, the Mission is required to apprise GOT officials of those commodities that have not cleared customs and to establish a 30-day period in which the commodities are to be cleared The Mission is required also to make a formal claim against GOT for refund for all commodities which have not cleared within the 30-day grace period

Our review showed that billings to GOT for approximately $280,000 had been outstanding as of April 1966 for refunds for commodities which had not cleared customs within 120 days and that at September 30, 1966, the balance was $128,000

The Mission had not taken any action to collect the refunds other than to submit amended bills showing adjustments for commodities which had subsequently cleared customs We recognize that AID's primary objective is to ensure the timely release of commodities into trade channels rather than collect refunds In our opinion, however, the Mission's failure to aggressively follow up on claims for refunds has limited the effectiveness of such action for ensuring the timely release of the commodities

Agency comments

In commenting on our draft report, the Agency advised us that it had taken, or was taking, the following corrective actions

1 Arrival accounting

"Recent and proposed modifications concerning arrival accounting will enable the Mission to devote more attention to end-use checks AID/W plans to expand the expenditure input data coded into the computer run for program assistance intransit listings to include the bill of lading number for each transaction This information will assist the Mission in the implementation of the arrival accounting procedure Until such time as the above information is coded, AID/W has for the past several months provided the USAID [Mission] with a listing showing opening bank letter of credit numbers The Mission Controller has indicated that these changes should meet the Mission's needs

"In addition to the changes in A I D procedure, the GOT since July 1967, has assigned two employees to take over the cargo expediting phase of the arrival accounting system at the port of Istanbul Eventually, the GOT hopes to assign employees to all major Turkish ports "

2 End-use checks

"*** during fiscal year 1967, the Mission audit staff made comprehensive audits of four commodity assistance loans, including utilization observations of 1,723 shipments valued at $33 million ***

"With the assignment of GOT personnel to the arrival accounting system, the Mission expects to utilize its own staff for more end-use and other audit work

"In order to strengthen Agency-wide operations, new manual order instructions are under preparation and will be issued soon to cover auditing of commodities under the major categories of program, capital and technical assistance These instructions will improve procedures and strengthen guidance for the Missions in administering their audit operations "

3 Refunds due from GOT

"*** The GOT has an agreement with the Mission that any refund claims due at the end of one quarter are to be liquidated no later than the end of the next quarter

While an outstanding balance remains, the Mission has made repeated efforts to secure payment *** The Mission has been pursuing this problem, and discusses outstanding bills with the GOT at regular intervals during each month While the GOT has still been slow in making payments in some instances, the Mission believes that this forum is still a useful means of seeking payment for these outstanding bills "

We believe that the actions now being taken by AID will, if properly implemented, strengthen its surveillance over receipt and use of commodities furnished to Turkey as well as to other countries

OTHER AREAS OF ADMINISTRATION

During our review, we noted certain matters which concerned the Mission's efforts to ensure the implementation of certain commitments made by GOT under loan and grant agreements with AID In our opinion, the Mission released funds without adequate assessment of performance of a prior loan condition We found that GOT had failed to make agreed-to deposits of Turkish lira subject to United States control or for use by AID in meeting the local currency costs of its programs in Turkey

We noted also that poor coordination and slow administrative action on the part of AID had contributed to delays which occurred in the implementation of an economic assistance project intended to increase Turkey's foreign exchange earnings

## Loan funds released without adequate assessment of performance by GOT of a prior loan condition

An increase in the 1965 program assistance loan to GOT was subject to several conditions, including determination by the Mission that no further action was required by GOT with regard to the construction and maintenance of access roads to support a Central Treaty Organization (CENTO) microwave system. The loan was increased by $4.2 million in September 1965 and by $5.8 million in November 1965, or from $70 million to $80 million, without, we believe, an adequate assessment by the Mission of GOT's performance in reconstructing and maintaining the access roads.

Reports issued by the contractor responsible for maintaining the microwave system stated that access to the system had been restricted because of the poor condition of the roads during the winter of 1965-66 and that therefore proper maintenance of the microwave system had been jeopardized. The other conditions, which were apparently resolved, related to assistance from other donors, debt relief, the role of private-sector and GOT local currency support for the Eregli steel mill.

A modern microwave telecommunication system was established to strengthen the defensive capability of the countries within the CENTO region, namely, Turkey, Iran, and Pakistan. Vital to the successful operation of the communication system is an adequately maintained and serviced series of relay stations to provide for the proper operation of the section of the microwave system located in Turkey.

Twenty roads for access to the relay stations, which were originally constructed by GOT under joint United States and Turkish financing, were completed in October 1963. However, the reconstruction, maintenance, and snow-removal provisions for these roads had proved so unsatisfactory that, to obtain corrective action, AID, in 1964, delayed approval of an $18 million project for the purchase of highway equipment. It was later decided to release the funds for this loan. Subsequently, however, the release of the 1965 program assistance loan funds was conditioned on the adequacy of GOT actions to correct the access road deficiencies

In order to assist GOT with the access roads, AID entered into a project agreement with GOT in April 1965 AID contributed 7 million Turkish lira (TL) ($777,777 United States equivalent), which had been derived from sales of surplus agricultural commodities. This amount was about 53 percent of the total estimated cost of the project of TL13.2 million ($1,466,666 United States equivalent). The agreement stated the work was to be completed by November 1, 1965, and that GOT was to submit quarterly reports showing the financial and physical status of the project

In August 1965, AID authorized the Mission to increase the program assistance loan from $70 million to $74.2 million, provided that no further action was required by GOT on the access roads The Mission increased the loan in September 1965 and advised AID/W that satisfactory progress had been made on the access roads.

Our review showed that, on September 2, 1965, a CENTO engineer[1] had held a meeting with GOT officials to inquire about the progress of access-road reconstruction and about plans for snow removal As a result of this meeting, GOT was requested to (1) advise AID of the status of disbursements from the TL7 million loan, (2) advise AID of the individual completion dates of all access roads, and (3) furnish AID with definite information on availability of funds for snow removal for the winter of 1965-66 GOT furnished AID with a report giving the completion dates of the access roads and stating that all work would be completed about the end of October 1965 This report was the basis for the Mission's determination that satisfactory progress had been made on the access roads even though the other information requested had not been furnished by GOT

The 1965 program assistance loan was again increased in November 1965 by $5 8 million This increase was made on

[1]The CENTO engineer died in October 1965

the same condition as the previous increase--only if the Mission determined that no further action was required by GOT in constructing and maintaining the access roads We were advised by a Mission official that the loan had been increased on the basis of verbal assurances received from CENTO officials that the condition had been met

Since documentary evidence showing the status of the access roads was not available, at our request, AID and CENTO officials obtained from GOT information which showed that reconstruction of all the access roads had not been completed until the latter part of August 1966, or 10 months after the estimated completion date of October 1965 and 9 months after the program assistance loan had been increased by $5 8 million in November 1965

An AID contractor's report for the 9-month period ended March 29, 1966, showed that the need for improvement of the access roads along with inadequate maintenance, particularly provisions for snow removal, had caused problems in performing maintenance at many of the microwave sites This report, prepared by the contractor having responsibility for advisory and engineering assistance in the management of the CENTO microwave system in Turkey and sent to AID, stated that "The winter of 1965-1966 was a comparatively mild one, but the access roads for many sites still could not be kept open "

The report also showed that, during a 7-week midwinter period, eight of the 20 sites could not be reached on from 13 to 48 of the 49 days The following statement in the report described what the contractor believed to be a typical condition of the access roads

> "The third road is the access road itself, 14 kilometers (8 7 miles) long It is necessary to go through a narrow village street to reach the entrance, if snow drifts occurred there, a bulldozer could probably not be used The road itself is not a good one, it is made of dirt, and it stays muddy for long periods of time The villagers drive carts on the road, keeping the mud churned up and leaving four to six inch

furrows It has some slopes too steep for a snow-trac, and probably too steep for a four-wheel drive jeep with chains The use of ski-dos is often the only way the site can be reached The road is unmarked in any way, although the shoulders are even softer than the road and often have deep trenches at the side In the case of this particular road, rerouting is probably necessary "

Mission officials have advised us that information available subsequent to our review, indicates that the Highway Department now receives about TL1 5 million annually ($167,000 United States equivalent) for the maintenance of the access roads and has obtained a significant amount of equipment for use in keeping the access roads open during the winter months

On the basis of the facts discussed above, we believe that an adequate assessment was not made of GOT's performance in meeting the conditions precedent to the release of loan funds In our opinion, one of the more effective means available to AID for ensuring that actions by an AID recipient country that are deemed important to the interests of the United States Government will be taken is to make such actions a condition to further AID assistance

Agency comments

In commenting on our draft report, AID stated that the Highway Department was currently receiving TL1 5 million annually for maintenance of the access roads. AID stated also that, subsequent to our review, the Highway Department had acquired seven snow tractors and 12 rotary plows for use in keeping the roads open during the winter Also a recent report on the access road conditions, prepared by a United States-financed contractor who was a prime non-GOT user of the access roads, indicated that most of the roads were in adequate condition

AID's lack of success in getting GOT to make required deposits in special counterpart and United States-uses accounts

AID has been unsuccessful in getting GOT to make the deposits in the special counterpart account and in the United States-uses account that were required under the provisions of a bilateral agreement between the United States and GOT As a result, the outstanding balance due from GOT for deposit in both accounts as of the end of July 1966 totaled approximately TL111 6 million ($12 4 million United States equivalent) We believe that there is a need for the Mission to take more aggressive action to ensure that all required deposits in the special counterpart account and the United States-uses account are made.

Under the bilateral agreement of July 4, 1948 (as amended on January 31, 1950), GOT agreed to establish a counterpart account in which would be deposited the TL equivalent of the dollar costs of commodities made available by the United States to GOT on a grant basis GOT established a procedure whereby importers of these commodities, both in the public and in the private sector, were required to deposit with GOT, for deposit in the counterpart account, the TL equivalent of the acquisition cost of these commodities Of these funds, 90 percent were to be used in the support of Turkish economic development and 10 percent for United States uses.

Our review showed that GOT had not made adequate deposits in the special counterpart account subsequent to late 1963. Counterpart deposits are due when AID bills GOT for the dollar expenditures made under the grants The following table shows the outstanding balances due from GOT to the special counterpart account

| Billing date | Cumulative shortfall (millions of Turkish lira) |
|---|---|
| November 1963 | 45.3 |
| December 1964 | 93 2 |
| November 1965 | 102 8 |
| July 1966 | 110 4 |

At the end of July 1966, GOT, in addition to being delinquent in making payment of the TL110.4 million to the counterpart account as shown above, was delinquent in making payment of TL1 2 million to the United States-uses account.

Mission officials advised us that GOT had failed to make the required deposits because (1) no action had been taken by GOT to require GOT agencies to deposit the TL equivalent of the cost of imported commodities and (2) the funds, when received from importers, were not always retained in escrow for deposit to the counterpart account Due to these facts, when billings were submitted to GOT after the grant commodity program terminated in 1963, there were not sufficient funds available to cover payment

The shortfall in counterpart fund deposits has continued to exist even though Mission officials have had numerous discussions with GOT officials concerning this matter

We were advised by the Mission Controller that, in the very near future, AID would be required to buy TL to meet its local currency needs for United States uses Therefore, not only are counterpart funds needed for furthering economic development programs in Turkey but they will be needed to meet United States currency requirements Any purchases of TL for United States uses will, of course, further contribute to United States balance-of-payments problems

We believe that, if deposits are not made by the GOT in accordance with its commitment described below, the Mission should give consideration to making such deposits a condition to disbursement of additional funds under program assistance or project loans

Agency comments

In commenting on our draft report, AID stated that GOT had agreed to the deposit of the total amount outstanding As of December 31, 1967, the balance of local currency deposits due was

| | Turkish lira | U S dollars equivalent |
|---|---|---|
| Counterpart | 16,833,816 81 | $1,870,424.09 |
| United States uses | 64,911 97 | 7,212 44 |
| Total | 16,898,728 78 | $1,877,636 53 |

An AID official informed us that the balance due of TL16 9 million should be deposited within the next 2 months Part of the delay in liquidating the balance was due to the need for parliamentary action approving some of the activities which would be financed by these funds

Delays in implementation of project designed to increase foreign exchange earnings

Our review showed that, despite the urgent need to increase foreign exchange earnings, which is one of the principal objectives of the economic assistance programs for Turkey, delays had occurred in the implementation of a project intended to increase Turkey's foreign exchange earnings through increased exports of lumber products. We believe that greater efforts need to be made by AID to resolve matters which impede the implementation of important assistance projects

In order to increase Turkey's foreign exchange earnings through increased exports of lumber products, AID, in August 1965, agreed to a project loan amounting to $2,750,000, contingent on accomplishment by GOT of certain conditions The project was for the design and construction of an integrated hardwood sawmill and flooring plant, the modernization of an existing hardwood sawmill, the acquisition and importation of necessary machinery, equipment, materials, and services AID's reason for entering into this project was based on its belief that forestry was a resource available in Turkey where the foreign exchange earnings potential was high but not yet exploited

In accordance with the loan agreement, GOT was required to meet four conditions by November 30, 1965 One condition was that GOT certify as to the amount of local currency it could and would make available to meet its portion of the costs of the project GOT, however, did not certify the availability of funds until May 11, 1966, a delay of over 5 months after the original terminal date stated in the loan agreement

The other three conditions were also met, including the award of a contract by GOT on March 31, 1966, which provided for an engineering consultant firm to perform the engineering design of the sawmills and to advise on the procurement of needed equipment The consultants, however, did not arrive in Turkey until August 14, 1966

During our review, about 1 year after the loan was agreed upon, we could find no evidence that the Mission had ever considered the delays described above as being a problem nor could we find any evidence that the Mission had taken any definitive action to speed up implementation of this project.

We believe that, in view of the importance attached to increasing Turkey's foreign exchange earnings, especially in an area where the potential for increased earnings was high but was not being exploited, the Mission should have taken timely action to ensure that all conditions required of GOT were met and that all administrative problems were resolved promptly

Agency comments

In commenting on our draft report, AID agreed that the initial stage of the project which was a potentially important contributor to Turkey's foreign exchange earnings had been proceeding slowly

AID attributed the delay primarily to the difficulties arising from the fact that estimated costs exceeded, by about $2 8 million, the approved available loan We were advised that neither AID/W nor the Mission had been indifferent to the problems or the pace of implementation but had attempted to overcome them in order to proceed with this small but important project

AID reported that its consultants had completed their review in September 1966 and that their findings had led to a proposal for which the foreign exchange costs were considerably above the approved loan AID stated that, as a consequence, the Mission had undertaken a comprehensive review of the loan project in order to determine whether it remained economically feasible AID commented that it anticipated that the Mission would shortly submit to AID/W a revised plan for the project, which would be feasible and within the approved loan.

Evaluation of Agency comments

A small but important project to increase Turkey's foreign exchange earnings through increased exports of lumber products has been delayed for over 2 years primarily due to AID's inability to resolve the financing of this project with GOT and to ascertain whether, considering the estimated costs, the project is economically feasible In our opinion, AID's current efforts, discussed above, should, if effectively monitored, resolve these problems.

## SCOPE OF REVIEW

Our review related primarily to AID's programming for and surveillance over commodities and equipment furnished to Turkey We were concerned principally with the program loans made for general import commodities and in particular with the third such loan made in January 1965 since this was the most current loan nearing completion at the time we were in Turkey, however, our examination extended into the loan made in April 1964 and into the loan agreed to in March 1966.

We examined into the Mission's policies and procedures relative to the utilization of excess personal property We selected some AID-financed new property purchases made under two project loans These two loans totaled $24 million and were basically for equipment used for highway maintenance and for the operation and maintenance of irrigation systems

We reviewed program documents, reports, correspondence, and other pertinent records, including reports rendered by the Mission's Internal Audit Branch and the Department of State's Inspector General of Foreign Assistance We discussed appropriate matters with responsible Mission officials and with representatives of certain agencies of GOT Our examination was performed at AID/W and at AID's overseas Mission in Turkey In preparing this report, we considered the comments submitted to us by the Mission Director in April 1967 and by AID/W in September 1967

# APPENDIXES

## PRINCIPAL OFFICIALS RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

| | Appointed or commissioned | |
|---|---|---|
| DEPARTMENT OF STATE. | | |
| Secretary of State. | | |
| Dean Rusk | Jan | 1961 |
| Under Secretary of State | | |
| George W Ball | Feb | 1961 |
| Nicholas deB Katzenbach | Sept | 1966 |
| Ambassador to Turkey | | |
| Raymond A Hare | Feb | 1961 |
| Parker T Hart | July | 1965 |
| AGENCY FOR INTERNATIONAL DEVELOPMENT | | |
| Administrator | | |
| David E Bell | Dec | 1962 |
| William S Gaud | Aug | 1966 |
| Director, Mission to Turkey | | |
| Stuart H VanDyke | Aug | 1959 |
| James P Grant | Sept | 1964 |
| James S Killen | June | 1967 |

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

SEP 27, 1967

Mr Oye V Stovall
Director
International Division
U S General Accounting Office
Washington, D C 20548

Dear Mr Stovall

We appreciate the opportunity afforded this Agency to review the General Accounting Office (GAO) draft report entitled "Review of Selected Activities of the Economic Assistance Program for the Republic of Turkey Administered by Agency for International Development " Our detailed comments on the report are included as an attachment to this letter

In your transmittal letter, you specifically requested current information on three items These subjects are discussed in the attached comments, but in summary the current status of each item is as follows

(1) Arrival Accounting System Action is underway to provide both the bill of lading and the letter of credit numbers to the Mission The Mission has indicated that this data should enable it to improve the effectiveness of arrival accounting

(2) End-Use Audits The Mission is increasing its audit efforts During FY 1967 the audit staff made comprehensive audits of four commodity assistance loans The Government of Turkey (GOT) has begun to assign its own employees to arrival accounting, and this action will free Mission staff for more end-use audit work in the future

(3) Deposits of Local Currency The GOT has agreed to provide the required funds for the special counterpart and U S uses accounts Nearly half the amount due, $6 1 million, has already been deposited, and the remainder is expected to be deposited by the end of 1967

Sincerely yours,

For William O Hall

Attachment a/s

GAO note The page numbers cited by the Assistant Administrator for Administration in these comments refer to pages in the draft report submitted for review, the page numbers shown in brackets refer to the corresponding pages of this report.

ATTACHMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT
COMMENTS ON THE
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT ENTITLED
"REVIEW OF SELECTED ACTIVITIES OF THE ECONOMIC ASSISTANCE PROGRAM FOR THE REPUBLIC OF TURKEY ADMINISTERED BY AGENCY FOR INTERNATIONAL DEVELOPMENT"

Set forth below are comments and suggestions which are keyed to the draft report by topic headings and page numbers GAO views and recommendations are summarized and followed by A I D comments Requests for deletions for security reasons and corrections of the text are entered under the appropriate section of the report

[See GAO note on p. 67.]

[See GAO note on p.67.]

II Programming Commodities and Equipment (pages 4-37) [pages 9-35]

A Procurement of New Equipment in Lieu of Using Excess Property (pages 6-16). [pages 9-18]

GAO View Examination of two selected project loans (highway equipment and irrigation systems) showed savings of $1 4 million could have been attained if excess property had been acquired rather than new equipment purchased The failure to use excess property was the result of lack of information concerning availability of excess property and rejection of items because of age The GAO does not accept the validity of the age rationale in cases where equipment has been rehabilitated The GAO recommends that A I D assure availability of all catalogues, assign personal responsibility to appropriate officials to screen excess property, and to attest to its unsuitability when such is the case, and assure that all loans contain a standard provision requiring reduction of the loan by amount of savings resulting from acquisition of excess property

A I D Response 1 Both the highway equipment and State Hydraulic Works (DSI) loans were authorized to assist the GOT in replacing old, fully depreciated items in order to develop an effective and modern equipment pool Under DL 277-H-044, Amman and Whitney, U S Consultant firm to the Department of Highways, developed a list of equipment required to rebuild an effective equipment pool This list was submitted to the Office of Material Resources/ Government Property Resources Division, MR/GPR, (now Office of Procurement/ Government Property Resources Division, PROC/GPR) for screening in order to determine what items would be available from the excess property program MR/GPR submitted a limited list of excess property available to the Highway Departments for review and inspection in Tokyo and Schenectady, New York

In January, February, and July 1965, the Highway Department submitted several letters stating reasons why the available excess property could not be used for the equipment pool The Highway Department had concluded with the concurrence of Amman and Whitney and A I D that substitution of the available excess property equipment which is 10-15 years old in lieu of new equipment merely expands the pool of old equipment and, therefore, would not meet the over-all objectives of the loan project Under DL 277-H-056 the DSI and USAID officials screened all excess property catalogues and determined that none of the available excess property was suitable for the project

2 USAID/Turkey is on the distribution list to receive all excess property catalogues The catalogues are reviewed by the USAID's two Excess Property Officers and are passed on to the GOT Ministries for review Both the USAID Excess Property Officers and the GOT Ministry representatives make frequent visits to both the European Excess Property Headquarters in Frankfurt and European U S Military installations to inspect and select excess property

3 We believe the current standard loan provisions adequately provide for a reduction to the loan amount if there is a "savings" resulting from the acquisition of excess property In the case of a project loan which is designed to finance a specific list of equipment and not a dollar amount of equipment, the total amount required to complete the project will be reduced by the difference between accessorial costs and the estimated cost of the item if purchased new However, if such "savings" are offset, in whole or in part, by increased prices for other items to be purchased new, or by other cost increases, the loan reduction would be correspondingly smaller

4 In July 1965, the Bureau for Near East and South Asia (NESA) adopted a procedure requiring all NESA USAID Excess Property Officers and/or U S consulting engineers to screen the excess property catalogues to determine the availability of excess property for specific projects If excess property is available but is rejected for any reason, a certification is submitted to the USAID by the GOT and/or the U S consulting engineering firm indicating the reasons for the rejection

[See GAO note on p. 67.]

B Utilization of Turkey's Productive Capabilities (pages 17-23) [pages 19-24]

GAO View Greater utilization of Turkey's existing productive capacity to meet import requirements would conserve Turkey's foreign exchanges and result in more effective use of A I D funds The failure to utilize Turkey's domestic steel industry to its full potential is a case in point To achieve fuller utilization A I D should [See GAO note on p. 67]

establish firm criteria to determine benefits of importation versus local production, and enforce loan agreement provisions which relate to utilization of Turkish goods and services

A I D Response The GAO comments in this section touch on some of the most difficult economic and political issues facing Turkey and the administration of the A I D program Turkey follows on the whole an effective and sometimes too effective program of eliminating imports when domestic capacity exists However, it is now evident that much of Turkey's industrial output is not competitive in world markets at existing prices Thus a proposal to use domestic capacity at any cost could seriously retard the Turkish development effort, necessitating increased, not decreased assistance

We believe that if Turkey is to achieve economic viability and realize its goal of becoming a full member of the European Economic Community, Turkey must place greater reliance on the market mechanism and competitive pressures to insure efficient production and more effective resource allocation This is a far better criterion for determining the need for imports versus domestic production than the administrative and quantitative controls now in use

Contrary to the view implied in parts of the report, we do not believe that local Turkish production should be substituted for imported products at any cost As pointed out on page 19 of the report, in the case of truck cabs, local production would have cost four times as much as imported cabs ($1,125,485 in Turkish lira against $302,000 in dollars)

It is A I D 's policy to make both the GOT and private business aware of the dangers to the future development of the Turkish economy implicit in building up high-cost production facilities which can, even after years of growth, exist only in a highly protected market We, therefore, attempt to bring about a change in GOT economic policy, which has tended to favor a growth of industrial plants without regard to the cost of their output We also stress plant economics and competitive factors in our appraisal of projects and in our approvals or disapprovals of intended purchases in the Turkish domestic market under our loans

[See GAO note on p 67.]

A I D is, as suggested in recommendation 3, developing criteria to be used as guidance in deciding whether or not A I D should encourage a given industry or manufacturing enterprise Such criteria would be applicable both directly to our review of project loans and to our review of purchasing decisions made by the GOT, in the case of the truck cabs cited in the report The enforcement of provisions in our loan agreements relating to the use of Turkish products (recommendation 4) will continue to be based on judgments as to "reasonable cost" made in the light of such criteria

With respect to the import of tinplate, which the report discusses in considerable detail, we note that the production of tinplate by the Eregli Steel Works in the first 7 months of 1967 has been running at an annual rate of over 45,000 metric tons, during the 3 months from May to July, it has averaged over 4,800 metric tons per month, equivalent to an annual rate of about 58,000 metric tons Since the company's annual production of tinplate was projected at 50,000 metric tons, the initial problems in establishing Eregli as an acceptable source of tinplate appear to have been overcome

C Use of A I D Funds in Lieu of Private Sources (pages 24-32)[pages 25-32]

[See GAO note on p. 67.]

GAO View A I D funds have been used to finance importation of commodities for exploring, refining, and marketing of petroleum and its products which is inconsistent with A I D policy of not financing commodities for which funding can be obtained from private sources To overcome this problem, A I D should 1) establish procedures for early detection of ineligible commodities, 2) fix responsibility for monitoring the eligibility of commodities, 3) take definitive action when ineligible items have been imported, and 4) improve the commodity classification procedures

A I D Response We agree with the GAO that A I D 's agreement with the GOT relating to the eligibility of items for financing under the Commodity Loans should be enforced Procurement of petroleum equipment was specifically barred under loan DL 277-H-048, however, and the allegation that such equipment (in an amount of approximately $669,000) was financed under the loan as a result of miscoding is being investigated If such equipment was financed, refund action will be instituted

With respect to recommendations 1 and 2, both the Commodity Import Office in USAID/Turkey and the Office of Small Business in AID/W review the tender submitted for Small Business Circular publication to determine if commodities are eligible for A I D financing under a program loan This review will be more effective than in the past, once the five digit Schedule B codes are introduced

In reference to recommendation 3, A I D takes definitive action when ineligible items have been imported With reference to the loan DL 277-H-048 case cited in the report, if an audit confirms that A I D paid for ineligible commodities, AID/W will make a refund claim A/CONT has been requested to verify the allegation and determine the amount involved

In reference to recommendation 4, A I D has instituted a program to improve its coding practices Under this program, A I D is developing procedures needed to convert from the three and four digit codes currently used to the more detailed Department of Commerce Schedule B codes for authorization of commodities This refinement in commodity codes will make it possible to establish more precise lists of eligible and ineligible items

D Efforts to Encourage GOT Imports from U S (pages 33-37) [pages 33-35]

GAO View. The Mission has not been successful in encouraging the GOT to use its own foreign exchange to finance imports of under $5,000 which were previously being financed by A I D.

[See GAO note on p. 67.]

A I D Response A I D is continuing to encourage GOT to finance imports under $5,000 Our efforts are not limited to small purchase items, however, and in June 1967, an inter-agency review team completed a study on export additionality One of the major recommendations of the team has been accepted and others are under consideration We shall take action to eliminate certain commodities from A I D financing which tend to substitute for U S commercial exports With the release of the second tranche of the fourth program loan (277-H-074), hides and skins and pulp, paper and paper products (except newsprint) have been made ineligible for A I D financing We will watch closely the effect of this action upon U S commercial exports It should also be noted that in each of the years 1964 and 1965 Turkey purchased with its own foreign exchange approximately $35 million in U S exports Our preliminary estimate for 1966 shows an increase in that year to $42 million

Clearly a policy which precluded the use of Turkish foreign exchange for imports from the U S would be contrary to U S interests The GOT does not have such a policy However, some of the administrative procedures established to insure that A I D funds are efficiently utilized may tend to discriminate against U S commercial exports Discussion with the GOT to end this discrimination is continuing

III Surveillance Over Receipt and Use of Commodities and Equipment (pages 38-45) [pages 36-42]

A Arrival Accounting System (pages 39-40) [pages 36-38]

GAO View The new arrival accounting system has shown that it can be effective but will not be so unless the Mission receives the necessary data (i e , bills of lading) to implement the system The GAO makes no specific recommendation pending a report from A I D concerning action to be taken The GAO did suggest that the GOT should assume more responsibility for the new system in order to free Mission staff for end-use auditing

A I D Response Recent and proposed modifications concerning arrival accounting will enable the Mission to devote more attention to end-use checks AID/W plans to expand the expenditure input data coded into the computer run for program assistance intransit listings to include the bill of lading number for each transaction This information will assist the USAID in the implementation of the arrival accounting procedure Until such time as the above information is coded, AID/W has for the past several months provided the USAID with a listing showing opening bank letter of credit numbers The Mission Controller has indicated that these changes should meet the Mission's needs

In addition to the changes in A I D procedure, the GOT since July 1967, has assigned two employees to take over the cargo expediting phase of the arrival accounting system at the port of Istanbul Eventually, the GOT hopes to assign employees to all major Turkish ports

B End-Use Checks (pages 41-43) [pages 38-39]

GAO View The Mission has not carried out end-use checks on a regular basis in FY 1966 GAO recommends the Mission make a continuing evaluation of its audit efforts with the objective of providing end-use checks on a regular basis

A I D Response A I D agrees with GAO that commodity utilization audit is an important element in achieving A I D program objectives Since the GAO report, the Mission has taken corrective action with respect to the performance of commodity utilization audits The Mission has reported that during fiscal year 1967, the Mission audit staff made comprehensive audits of four commodity assistance loans, including utilization observations of 1,723 shipments valued at $33 million This coverage, plus prior end-use checks of commodities valued at $12 million, represents about 18 percent of the total value of the four loans and is considered adequate

With the assignment of GOT personnel to the arrival accounting system, the Mission expects to utilize its own staff for more end-use and other audit work

In order to strengthen Agency-wide operations, new manual order instructions are under preparation and will be issued soon to cover auditing of commodities under the major categories of program, capital and technical assistance These instructions will improve procedures and strengthen guidance for the Missions in administering their audit operations

C Refunds (pages 43-44) [pages 39-40]

GAO View GAO's review indicated that as of September 1966, there were billings for $113,000 still outstanding for commodities which had not entered trade channels within 120 days The GAO states the Mission has not been aggressive in pursuing these claims and recommends more aggressive action be taken to settle outstanding claims

A I D Response An additional bill was issued for collection so that the balance on September 30, 1966, was $128 thousand for commodities still within customs for at least 120 days While an outstanding balance remains, the Mission has made repeated efforts to secure payment The GOT has an agreement with the Mission that any refund claims due at the end of one quarter are to be liquidated no later than the end of the next quarter The Mission has been pursuing this problem, and discusses outstanding bills with the GOT at regular intervals during each month While the GOT has still been slow in making payments in some instances, the Mission believes that this forum is still a useful means of seeking payment for these outstanding bills

IV. Efforts to Relate A.I.D Assistance to Turkey's Efforts (pages 46-57) [pages 42-51]

[See GAO note on p.67 ]

B Release of Funds Without Adequate Assessment of GOT Performance (pages 48-52) [pages 43-46]

GAO View An increase in 1965 program assistance was conditioned on the Mission's determination that no further action was required by GOT concerning access roads for a Central Treaty Organization (CENTO) microwave project Subsequently, the loan was increased without an adequate assessment in the GAO's view, of GOT performance in completing the access roads GAO recommends procedures be established to require documentary evidence of compliance with all conditions precedent to release of loan funds and that such evidence be properly evaluated

A I D. Response Although the program loan (277-H-058) was released in several portions, it was originally authorized by the A I D Administrator on December 31, 1964, for $80 million A portion of the loan, $10 million, was withheld pending the resolution of certain questions assistance from other donors, debt relief, role of private sector, GOT local currency support for the Eregli Steel Mill, and satisfactory performance by the GOT in constructing and maintaining the access roads for the CENTO telecommunication project Among these considerations progress on the CENTO project was an important consideration, but not the overriding one The Mission did take steps to secure GOT cooperation on the access roads and did receive what it considered adequate assurance of progress Since certain of the considerations were met and there were assurances that the CENTO matter would be resolved, A I D approved release of $4 2 million of the reserved portion in September 1965, and the remaining $5 8 million in November 1965

Subsequent to the GAO review, the GOT Department of Highways now receives TL 1 5 million ($167,000) annually from the Post Telegraph and Telephone Administration for maintenance of access roads In addition, seven snow tractors and 12 rotary plows have been acquired for use in keeping the roads open during the winter Also since the review, a summary of access road conditions has been prepared by Western Electric Company, a U S -financed contractor for CENTO, who is a prime non-GOT user of the access roads The report indicates most of the roads were in adequate condition

C Deposit of Local Currency to Special Counterpart and U S Uses Account (pages 53-55) [pages 47-49]

GAO View As of July 1966, the GOT was delinquent in making payments totaling TL 110 4 million to the Special Counterpart account and TL 1 2 million to U S Uses account The GAO makes no recommendation at this time, but requests a status report on GOT action

A I D Response The GOT has agreed to the deposit of the total amount outstanding As programs are mutually agreed upon, the GOT will deposit the required funds The Mission expects all funds to be programmed by the end of 1967 The GOT has already deposited TL 55 2 million As of July 25, 1967, the balance due was

| | Turkish Lira | U S Dollars Equivalent |
|---|---|---|
| Counterpart | 56,516,262 95 | $6,279,584 77 |
| U S Uses | 29,628 21 | 3,292 02 |
| Total | 56,545,891 16 | $6,282,876 79 |

D Delays in Implementation of Project (pages 56-57) [pages 49-50]

GAO View Poor coordination and slow administrative action on the part of AID/W and the Mission have delayed implementation of a sawmill project designed to increase GOT foreign exchange earnings An example is the delay in obtaining security clearances for the contract firm and personnel GAO recommends that the Mission take action to insure that all projects relating to self-help measures are effectively monitored to keep delays to a minimum

A I D Response We feel the GAO criticism is partially justified The initial stage of the project, which is a potentially important contributor to Turkey's foreign exchange earnings, has been proceeding slowly

A major reason for delay in implementation has been [See GAO note on p. 67.] the difficulties arising from estimated costs which exceed the approved available loan funds ($2 75 million). Neither AID/W nor the Mission has been indifferent to the problems or the pace of implementation. We have recognized the problems involved, and have attempted to overcome them in order to proceed with a small but important project.

[See GAO note on p 67.]

MacDonald Associates completed field work in September 1966 Their findings have led to a proposal with foreign exchange costs considerably above the approved loan As a consequence, the Mission has undertaken a comprehensive review of the loan project in order to determine if the project remains economically feasible After rather intensive re-evaluation, the Mission has reached some conclusions, and we anticipate submission shortly of a revised plan for the project which will be feasible and within the approved loan

GAO note Deleted comments relate to classified or other matters discussed in draft report but omitted from this report. Additional information furnished to us by the Agency with these comments has been considered in the preparation of this report.