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UNITED STATES
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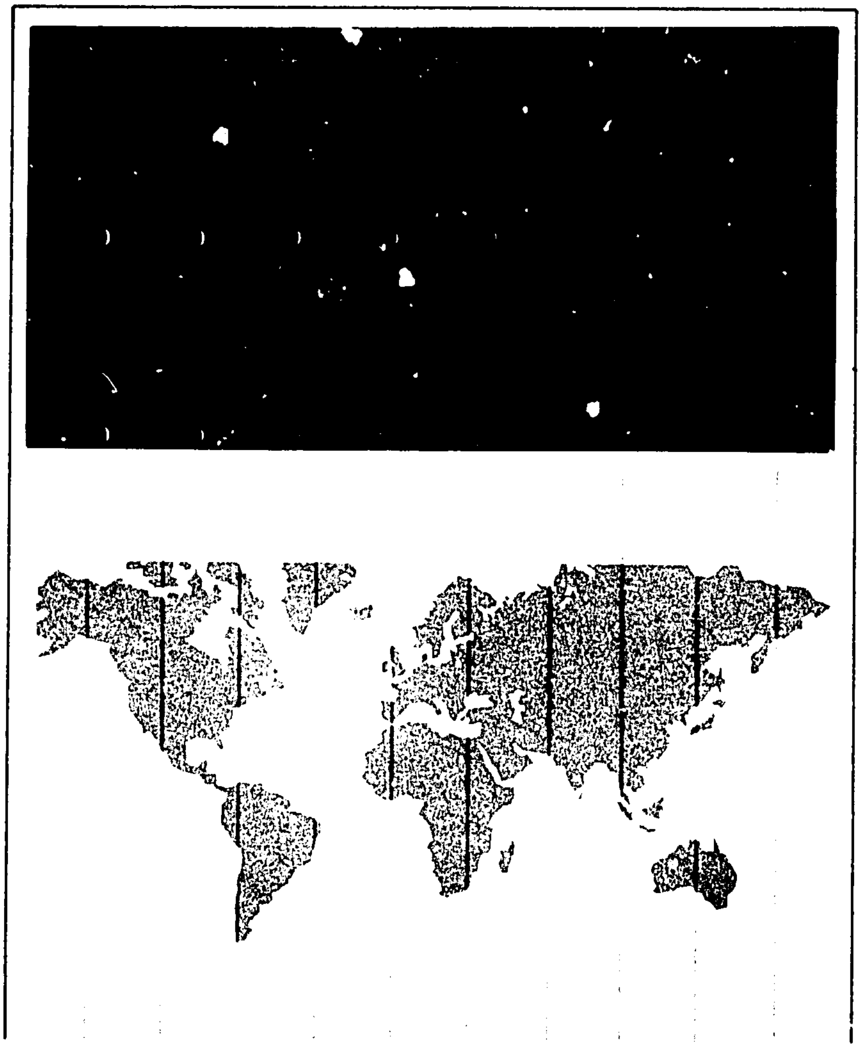

Regional Inspector General for Audit
NAIROBI

PL 480 TITLE II PROGRAM IN ETHIOPIA

Audit Report No. 3-663-81-11

June 19, 1981

PL 480 TITLE II PROGRAM

IN ETHIOPIA

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EXECUTIVE SUMMARY

Introduction

For the past thirty two-years the United States has played an important international role as the major supplier of food aid. The principal vehicle for United States food assistance is the Agricultural Trade and Assistance Act of 1954, as amended, commonly known as PL 480 and often referred to as the Food for Peace Program.

PL 480 was intended as a temporary measure to help other nations with their foreign exchange shortages and to allow for the disposal of U.S. agricultural surpluses. Over the years the Congress has periodically extended and amended the Act, and to-day several distinct programs are conducted under PL 480. This report deals with the Title II donation program in Ethiopia from March 13, 1979 to March 31, 1981 which was valued at $25.8 million.

Purpose of Review

The purpose of our review was to determine whether: (1) the Provisional Military Government of Socialist Ethiopia (PMGSE), Catholic Relief Services (CRS), and the United Nations Childrens Fund (UNICEF) management controls over PL 480 commodities were effective; (2) all United States laws and Agency regulations were being complied with; (3) local currency generated from the monetization of Title II commodities was properly accounted for and used for the purposes intended; (4) the Title II program is meeting its stated goals in Ethiopia; and (5) the intent of Congress was being followed.

Findings and Conclusions

We concluded that the PL 480 Title II program in Ethiopia was not meeting its stated goals, as evidenced by the cancellation of one activity and the poor implementation of others. The various cooperating sponsor's management controls over Title II commodities needed expansion and tightening. Finally, there was some question whether all United States laws were complied with. These matters are summarized below and detailed in the following sections of this report.

- We considered the monetization of wheat under TA 9633 to purchase oxen, seed, and farm implements as development assistance and in violation of the Hickenlooper Amendment (PL 87-195). The Hickenlooper Amendment prohibits development assistance to a country which has nationalized property, without compensation, owned by any United States citizen (page 3).

- Title II food remains undistributed in provincial warehouses for extended periods of time because the PMGSE will not provide transport or fuel to move the commodities to where they are needed (page 4).

- Despite the PMGSE's agreement in writing, they have not permitted U.S. government representatives access to all geographic areas where Title II commodities are distributed or stored (page 5).

- UNICEF did not properly document the locations where Title II food was sent and in what quantities (page 6).

- The Relief and Rehabilitation Commission's (RRC) record keeping of PL 480 Title II foods needs improvement at all levels (page 7).

- The monetization program outlined in TA 9633 is in dire need of adequate direction and management. After approximately two years the Relief Commission had spent only $1.06 million of the $1.45 million received. Further, the Agricultural Marketing Corporation, the firm who purchased the commodities, still owes the Relief Commission about $400,000 (page 8).

- The outreach grant to Catholic Relief Services failed to meet its objectives due to inadequate logistic support by RRC (page 10).

The USG reason for remaining in Ethiopia is attributed to political considerations. The unique relationship that exists between the United States and the PMGSE adversely impacts on any assistance program which AID undertakes in Ethiopia. PL 480 is no exception. The USSR is well entrenched in Ethiopia and the Ethiopian government is almost wholly dependent on the USSR. Consequently the United States, in our view, has little influence with the PMGSE and not much can be done when the PMGSE does not honor its agreements.

To improve the program, foreign policy issues notwithstanding, we recommend the appropriate Agency bureaus and offices and the American Embassy in Addis Ababa take action to assure that the:

- Hickenlooper Amendment is not being violated by the monetization of local currency generated from the sale of Title II food.

- RRC promptly utilizes Title II provided food.

- PMGSE be required to permit USG officials to make inspections or waive the inspection requirement for Ethiopia.

- RRC provides the U.S. Embassy in Addis Ababa with a current accounting of PL 480 Title II food in Ethiopia before making additional program commitments.

- RRC accounts for all funds generated from the sale of Title II foods and promptly uses these funds for the purposes intended.

The American Embassy/Addis Ababa was presented reports of audit findings and in general found them to be accurate and acceptable. In turn they provided comments which they feel amplified, clarified and strengthened the findings. These comments were taken into consideration in the preparation of the report.

BACKGROUND

For the past thirty two-years the United States has played an important international role as the major supplier of food aid. The principal vehicle for U.S. food assistance is the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as PL 480 and often referred to as the Food for Peace Program.

The overall objectives of PL 480 are to: expand international trade; develop and expand export markets for U.S. agricultural commodities; combat hunger and malnutrition and encourage economic development in the developing countries; and promote in other ways American foreign policy.

PL 480 was initially intended as a temporary measure to help other nations with their foreign exchange shortages and allow the disposal of U.S. agricultural surpluses. Over the years the Congress has periodically extended and amended the Act, and to-day several distinct programs are conducted under PL 480. In line with the objectives noted above, this report deals with the Title II donation program.

Basically, the Title II section of the Act authorizes the donation of U.S. food commodities to voluntary relief agencies, international organizations, and friendly governments for free distribution. The legislation includes the objectives of (1) reaching the poorest people in the poorer countries, especially children, and (2) contributing to the overall development process in the poorer countries. It provides that food may be made available for the following general purposes:

- to meet famine or other urgent or extraordinary relief requirements;
- to combat malnutrition, especially in children;
- to promote economic and community development in friendly developing areas; and
- for needy persons and non profit school lunch and preschool feeding programs.

The Title II program in Ethiopia consists of a Government to Government Emergency program, a Catholic Relief Services (CRS) sponsored child feeding activity, and a United Nations Children's Fund (UNICEF) feeding program.

The Title II program under review consists of 46,080 m/t of food having a value of about U.S. $13.7 million transferred to the government of Ethiopia under Transfer Authorization (TA) 9633; 4,300 m/t's of instant corn soya milk (ICSM) consigned to UNICEF under TA 9634 having a value of $1.8 million; 13,500 m/t of ICSM, having a value of about U.S.$7.3

million, consigned to the government of Ethiopia under TA 0635; and 8,000 m/ts of SFSG, NFDM and oil having an approximate value of U.S.$3 million delivered to CRS for use in the child feeding program. TA 9633 had a monetization provision allowing for up to 12,750 MT of wheat to be sold and the local currency proceeds used to purchase approximately 6,000 pair of oxen, 5,000 plows, and 1,025 MT of seed.

This review is an assessment of the effectiveness and management of the Title II food donation program in Ethiopia for the period March 13, 1979 thru March 31, 1981 conducted under the Agricultural Trade Development and Assistance Act of 1954, as amended.

Our primary objective was to assess the extent that the program is achieving its legislative objective of meeting famine or other urgent or extraordinary relief requirements and to combat malnutrition, especially in children; and for the pre-school feeding program.

Other major objectives were to assess the management and administration of the program at the country level. These included the organizational structure of the cooperating sponsors established for administering the program; the roles and responsibilities of the major parties involved; and the effectiveness and efficiency of program management processes, including program monitoring and reporting and accountability.

Audit work was performed at the USAID/Kenya in Nairobi at the office of the Regional Food for Peace Officer. Field work was conducted in the provinces of Shoa, Welo, Bale and Sidamo in Ethiopia.

The country audit work focused primarily on the storage, transport and distribution of Title II food to the intended recipients, and included extensive review and inspections of inland storage conditions and especially the effectiveness of the distribution system in meeting the country's food needs, and those of the individual recipients. In addition, we reviewed selected program records; interviewed cognizant U.S. Embassy, and voluntary agency officials; and discussed the program with local provincial and national-level host government officials, and with resident representatives of UNICEF.

Our review did not assess the port storage facilities at Assab or Title II activities in the city of Asmara because the host government refused us authorization to visit these two sites.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Possible Violation of the Hickenlooper Amendment

The providing of the means to purchase agricultural commodities may be considered development initiatives and thus in violation of the Hickenlooper Amendment. The Amendment prescribes that development assistance must be suspended when a government of any country seizes or nationalizes American owned property without compensation.

A monetization provision contained in Transfer Authorization 9633 allowed for 12,750 m/t/s of wheat to be sold. The local currency generated, about Eth. Birr 3.9 million (U.S. equivalent $1.85 million), would be used to purchase oxen, plows, and miscellaneous seeds for distribution in the settlement sites located in Bale and Sidamo provinces. The plan was for the settlements to use these assets to become food self-sufficient. It is our opinion that this form of help represents development assistance.

While the majority of settlements remain dependent on outside help for food, a few settlements over the past two years have been able to sell some of the produce grown and establish bank accounts. These accounts are under the control of the Relief and Rehabilitation Commission. In our view this is further evidence of the developmental nature of the program.

The PMGSE has nationalized certain American owned businesses without compensating the owners and by law (Hickenlooper Amendment) development assistance must be suspended.

The Hickenlooper Amendment is implemented as Section 620(e)(1)(A) of Foreign Assistance Act of 1961, as amended, and reads in part:

> "The President shall suspend assistance to the government of any country to which assistance is provided under this or any other Act when the government of such country or any government agency or subdivision within such country on or after January 1, 1962-(A) has nationalized or expropriated or seized ownership or control of property owned by any United States citizen or by any corporation, partnership, or association not less than 50 per centum beneficially owned by United States citizens, or..."

The food shipped under TA 9633 was for an emergency program...assisting displaced persons in Bale and Sidamo provinces. Section 206(3)(a) of the PL 480 Act authorizes the sale of Title II commodities. The use of proceeds from sales in emergencies is normally limited to the coverage of

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Note: official rate of exchange - US$1 = Ethiopian Birr 2.07

local transportation costs or project activities directly related to emergency relief or rehabilitation. Local currencies may be authorized for development purposes that will help alleviate the causes of the food shortages for which the commodities are authorized.

Agency Handbook 9, Chapter 11, Section 11Bd has this to say:

> ...Since Section 206 is a developmental program, the proposal for the use of local proceeds will receive the same kind of scrutiny that an AID dollar-funded project paper would.

In response to this finding the Mission remained convinced that working to bring settlements up to minimal levels of self-sufficiency does not constitute development.

While we understand the rationale for this monetization program we cannot overlook the legislative prohibitions. Thus, we are addressing the following recommendation to the General Counsel.

Recommendation No. 1

The office of the General Counsel (GC) should determine whether the purposes for which the local currency generated from the sale of PL 480 Title II food is used constitutes development and therefore is in violation of the Hickenlooper Amendment. If so, the GC should advise the Assistant Administrator that Section 206 programs should not be advanced in countries where the Hickenlooper Amendment has been invoked.

The PMGSE Was Not Fully Supporting Relief And Rehabilitation Activities

The PMGSE was not adequately supporting Relief and Rehabilitation activities. This was evidenced during our visits to Welo, Bale and Sidamo provinces where we found large quantities of Title II foods in warehouses for extended periods of time. This food was not moved to where it was needed because the PMGSE did not provide transportation.

RRC provincial officials stated that they lacked trucks, fuel, and the funds to secure the needed transportation. This explanation was echoed in the three provinces visited. RRC officials requested that we provide them with trucks or funds to purchase fuel or hire transport contractors. They went on to say that "Addis Ababa" would not fund these items.

The PMGSE provides only a small amount of budgetary support to the RRC such as personnel salaries, office space and administrative vehicles. The RRC, as a semi-autonomous arm of the government, is solely responsible for acquiring commodities and other assets for use in the relief and rehabilitation effort.

Title II food had not been issued for up to five months. To illustrate, in Welo province only 345 m/t's of instant corn soya milk (ICSM) out of a total of 1771 m/t's had been distributed since October 1980. In Sidamo province no food had been issued in over two months because of the lack of transport.

Still another illustration, the RRC requested Catholic Relief Services to operate a supplementary child feeding program in Welo province. CRS agreed and received RRC's firm assurance that they would provide priority transportation for U.S. provided Title II food from the port of Assab, storage facilities for the food, and augmentation personnel to operate the program. After operating for six months and expending about $150,000 in AID grant funds, CRS ceased operations because the RRC did not honor its commitment.

We question if an emergency situation did exist. If so, then this food should have been delivered to where it was needed in a timely manner. If the food was not needed, then our contribution should have been further reduced.

<u>Recommendation No. 2</u>

The American Embassy/Addis Ababa should advise the RRC that PL 480 Title II food must be promptly utilized for the purpose intended or future food requests may not be honored.

<u>Auditors Were Not Permitted to Make Inspections in Asmara and Assab</u>

The PMGSE refused to allow the auditors permission to travel to Asmara and Assab in connection with PL 480 activities. This is despite the fact that the Government had agreed to permit inspections in various transfer agreements.

In Asmara there is approximately U.S.$200,000 in Title II oil which we have not been able to physically inspect since its arrival approximately two years ago. Relief activities using Title II foods were reported as on-going in Eastern Welo province but we were not allowed to leave the city of Dese. And there may be Title II commodities in Assab.

PMGSE did allow the auditors to travel to the towns of Dese and Compelchia (in Welo province) but not any further east. And we were given authorization to visit Bale and Sidamo provinces without restriction. After an alternate travel schedule had been implemented the PMGSE gave approval to visit Assab. Upon our return to Addis Ababa, we made known to a senior RRC official our dissatisfaction with not being allowed to make inspections as agreed-to in writing between the United States and PMGSE. This official stated that it was merely a breakdown in communications and he regretted the incident. The PMGSE's manner in handling this request to make inspections is consistent with their past performance. This is not the first occasion that we have been unable to make inspection visits.

Inspection is a vital and required step in the conduct of the PL 480 program. While we understand the unique relationship that exist between the United States and PMGSE, we cannot ignore the inspection requirement contained in the regulations. Thus, a decision will have to be made regarding the need to implement the inspection requirement and the related impact on the program.

Recommendation No. 3

The Assistant Administrator/Africa should determine, if it is in the best interest of the United States, to attempt to require the PMGSE to permit USG officials to make inspections throughout Ethiopia as provided for in the agreements and Agency regulations. If not, the program should be terminated or the inspection requirement be waived.

UNICEF Needs to Improve Its Record Keeping Procedures and Reporting Practices for PL 480 Title II Commodities

Our work, including site visits, showed that UNICEF did not maintain adequate records to document the locations where Title II food was sent and in what quantities.

Under TA 9634, UNICEF received 4,300 m/ts of ICSM for distribution throughout Ethiopia to people who were particularly in need of supplemental nutrition. We asked UNICEF officials if they had records detailing the locations where the food was sent, in what quantities, and the present inventory. They responded that they kept few records of this nature and the food was sent to various locations after consultation with the RRC. They went on to say that they believed all ICSM received under TA 9634 had been consumed.

In the Welo provincial warehouses in Dese and Compelchia we found about 1,800 m/t's of ICSM. RRC officials confirmed that this food had been consigned to UNICEF under TA 9634. UNICEF's distribution records showed that only about 400 m/t's of food had been sent to these two locations. This indicates to us the need for UNICEF to improve its management controls such as record keeping and reporting procedures.

Furthermore, the transfer authorization stated that UNICEF would provide the Mission with reports concerning the shipment as requested. The Mission did not request any reports and UNICEF did not provide any. Further, the Mission made no inspection trips to monitor whether program objectives were on target. Recently the Mission has assigned an officer to look after the residual AID program and to monitor the on-going PL 480 program. The monitorship problem has now diminished and a recommendation is not necessary.

We believe that if UNICEF is not able to keep accurate records pertaining to Title II commodities than was evidenced during this review, they should not be designated a cooperating sponsor or consigned future shipments. The Mission said they believed the transfer authorizations should be written more specifically as to what reports are required.

Recommendation No. 4

American Embassy/Addis Ababa in conjunction with the Regional Food for Peace Officer in Nairobi should request UNICEF to improve its record keeping and reporting of U.S. provided foods.

Commodity Accountability Needs To Be Improved

Not all provincial RRC warehouses visited maintained adequate records of Title II food received, issued or balances on hand. Provincial warehouse personnel were only able to provide us with estimates of commodity movements. Further, no one in the provincial RRC organization knew for sure the quantities of food stored in their district warehouses because of the dearth of records.

In both Bale and Sidamo provinces, the RRC was having trouble attracting and keeping competent warehouse personnel. There was a constant turnover in personnel. We learned in these provinces that the bi-weekly commodity status reports hadn't been sent to RRC headquarters in months. Under these conditions, it is almost impossible to calculate, with any degree of accuracy, the quantities of food in-country. Conditions were somewhat better in Welo province.

Our assessment is that the RRC should take an inventory of all Title II foods in-country and make the results known to Mission personnel concerned. The quantity and kinds of foods in-country should be analyzed before additional program commitments are made. Further, the RRC's record keeping and reporting procedures need to be improved.

Recommendation No. 5

The American Embassy/Addis Ababa should, to the extent possible, require the PMGSE to take an inventory of all PL 480 Title II food in country and improve its record keeping and operating procedures as provided for in the transfer authorizations. The Mission should analyze the results of this inventory before making additional food commitments.

Storage Conditions and Problems

Storage conditions at the country level are important because of the potentially high risk of physical loss or deterioration of the food due to insects, dampness, theft and other factors. Because of similar storage problems in the past, the Bellmon amendment, contained in Section 401(b) of PL 480, clearly reflects the intent of the Congress that U.S. food aid should be adequately protected:

> "No agricultural commodity may be financed or otherwise made available under the authority of this Act except upon a determination by the Secretary of Agriculture that (1) adequate storage facilities are available in the recipient country at the time of exportation of the commodity to prevent the spoilage or waste of the commodity---***".

Although warehouse facilities were satisfactory, storage procedures were poor. Commodities are stored on the ground without pallets. They are stacked in such a way that it would be virtually impossible to take an inventory. Further, in the four warehouses inspected we noted a considerable amount of ICSM on the ground caused by broken bags. We brought this to the attention of provincial and headquarters RRC personnel who said that they would take corrective measures. Pending definitive action we are making a recommendation.

Recommendation No. 6

The American Embassy/Addis Ababa should reinspect the RRC's provincial warehouses in Welo, Bale, and Sidamo to learn if storage conditions have improved.

The Monetization of Title II Food - A Program Out of Control

A monetization provision contained in TA 9633 provided for 12,750 m/t's of wheat to be sold. The proceeds were then to be used to purchase oxen, plows, and seed. Of the total generations of about Ethiopia Birr 3.84 million (U.S.$1.85 million), there remains about Ethiopia Birr 1.64 million

(U.S.$792,000) to be utilized. This amount is comprised of Ethiopia Birr 810,500 (U.S.$392,000) in RRC's custody and Ethiopia Birr 829,000 (U.S.$400,000) due RRC from the purchaser.

RRC's financial records showed that 12,749.5 m/t's of wheat had been sold to the Agricultural Marketing Corporation (AMC) at the agreed-to price of $145.50 per metric ton. The purchaser had transferred to the RRC about $1.45 million of the approximately $1.85 million leaving a balance due of about $400,000 RRC officials concerned told us that the matter was under discussion with the AMC but they were unable to say when it would be resolved. They went on to say that transactions between the RRC and AMC were the main cause of the problem. It is interesting to note that this problem has been "under discussion" for approximately 2 years.

A further analysis of RRC's financial records showed that of the approximately $1.45 million AMC remitted, the RRC had only disbursed about $1.06 million. The balance remains on deposit. Thus, we question the emergency nature of this program as these funds have been available for use for about 2 years.

Not all of the problems with this program were at RRC headquarters in Addis Ababa. To illustrate, we attempted to trace local currency transfers to Bale and Sidamo provinces. These two provinces were designated in the transfer authorization to receive all of the funds to assist displaced persons.

In Bale province we verified that the Ethiopia Birr equivalent of about U.S.$1 million had been received from RRC headquarters in Addis Ababa. But there were only sketchy records available to support the expenditures. In Sidamo province the situation was worse. RRC headquarters had transferred about $100,000 in local currency but the Sidamo provincial financial officer told us the amount he received was about $500,000. He further stated that there were no records available as all the funds had been disbursed to the resettlement camps. We later reconfirmed that only $100,000 had been transferred to Sidamo.

We discussed this situation with the RRC's Chief Financial Officer. He admitted that record keeping in the provinces was a serious problem and leaves much to be desired. He attributed the problem to the lack of competent personnel.

The transfer authorization is clear as to what records and reports are required:

> <u>Paragraph 6G of TA 9633</u>
>
> The PMGSE agrees to keep the Director of USAID in Addis Ababa fully informed concerning the status of commodity distribution commodity monetization, cash proceeds, receipt and expenditure and purchase and distribution of items authorized herein; and to provide complete details in this regard as requested.

Paragraph H of TA 9633

The PMGSE agrees to submit periodic reports to USAID/Addis Ababa as mutually determined which will include the following details as minimum:

- Sales/sales proceeds.

- Accumulation and disbursement of sales proceeds.

- Items purchased and distributed.

In summary there remains about U.S.$792,000 in local currency to be expended. This amount consists of (1) U.S.$392,000 in RRC's custody and (2) U.S.$400,000 due the RRC from AMC. We believe that this matter should be concluded promptly or a bill of collection for $792,000 should be issued to the PMGSE.

The Mission stated that they would pursue this matter toward a resolution. Pending definitive action we are making two recommendations to correct the problems.

Recommendation No. 7

The American Embassy/Addis Ababa should advise the RRC that unless the remaining $792,000 is promptly expended as provided for in the transfer authorization a bill of collection will be presented.

Recommendation No. 8

The American Embassy/Addis Ababa should acquaint the RRC with the reporting and accounting requirements contained in TA 9633 and follow up to determine compliance.

Catholic Relief Services - Outreach Grant No. AID/SOD/PDC-G-0166

AID granted CRS $322,044 on June 29, 1979 to enable them to implement a supplementary feeding project in the Lasta District of Welo Province, Ethiopia. The RRC agreed to provide storage facilities, priority transportation for US provided food from the port to the project site, and personnel to support the project. After six months of operations, and the expenditure of about U.S.$150,000 in grant funds, CRS ceased operations because the RRC's did not honor its commitment. CRS could offer no explanation as to why RRC did not support the program. RRC officials told us that they lacked the necessary resources.

CRS officials said that there was a dire need in Lasta District but logistical obstacles were overwhelming. They were unable to give us an explanation as to why the RRC failed to honor its commitment.

The residual grant funds total about $172,000. In response to our query the Office of Contract Management stated that all they needed to deobligate these funds would be a voucher from CRS/New York marked "final billing." We are recommending this be done.

Recommendation No. 9

The Office of Food for Peace in conjunction with the Office of Contract Management should take the necessary steps to deobligate the unexpended funds of grant AID/SOD/PDC-G-0166.

PL 480 TITLE II PROGRAM IN ETHIOPIA

List of Recommendations

Page No.

Recommendation No. 1 — 4

The Office of the General Counsel (GC) should determine whether the purposes for which the local currency generated from the sale of PL 480 Title II food is used constitutes development and therefore is in violation of the Hickenlooper Amendment. If so, the GC should advise the Assistant Administrator that Section 206 programs should not be advanced in countries where the Hickenlooper Amendment has been invoked.

Recommendation No. 2 — 5

The American Embassy/Addis Ababa should advise the RRC that PL 480 Title II food must be promptly utilized for the purpose intended or future food requests may not be honored.

Recommendation No. 3 — 6

The Assistant Administrator/Africa should determine, if it is in the best interest of the United States, to attempt to require the PMGSE to permit USG officials to make inspections throughout Ethiopia as provided for in the agreements and Agency regulations. If not, the program should be terminated or the inspection requirement be waived.

Recommendation No. 4 — 7

American Embassy/Addis Ababa in conjunction with the Regional Food for Peace Officer in Nairobi should request UNICEF to improve its record keeping and reporting of U.S. provided foods.

List of Recommendations (contd)

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