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THE GOVERNMENT OF THE PEOPLES REPUBLIC
OF THE CONGO HAD NOT COMPLIED WITH THE
TERMS AND CONDITIONS OF ITS
PL 480 TITLE I PROGRAM

AUDIT REPORT NO. 3-679-84-6
JANUARY 31, 1984

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EXECUTIVE SUMMARY

Introduction

For the past thirty-four years the U.S. has played an important international role as the major supplier of food aid on a world-wide basis. 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, encourage economic development in the developing countries, and promote in other ways U.S. foreign policy.

Title I of Public Law 480 provides for the concessional sale of agricultural commodities to friendly countries. Although the Commodity Credit Corporation finances the sale and export of commodities under Title I, actual sales are made by private U.S. suppliers to foreign importers, government agencies, or private trade entities. The Corporation finances sales by paying suppliers directly through the U.S. banking system for that portion of their sale not covered by the required down payment. The Commodity Credit Corporation then collects the amount due over the credit period, including the interest, from the importing country.

Purpose and Scope

The primary purpose of our review was to assess the extent that the Food for Peace program was contributing to AID's overall development program in the Congo and to determine if the terms of the August, 1982 sales agreement and Memorandum of Understanding of July, 1983, were being followed. Other purposes were to review (a) the program planning process, (b) the GPRC's reporting and accountability, and (c) the effectiveness and efficiency of program monitoring. We reviewed the official USAID/Zaire files in Kinshasa, Zaire and held conferences with reponsible USAID/Zaire officials and U.S. Embassy officials in the Congo.

Findings, Conclusions and Recommendations

Our review disclosed that the Government of the People's Republic of the Congo (GPRC) had not complied with the terms of the PL 480 Title I sales agreement and subsequent Memorandum of Understanding. Specifically we noted that:

-- the amount of sales proceeds had neither been determined nor deposited in the special account. As a result, projects had not been identified, approved, funded, or implemented.

-- the currency use payment had not been deposited.

-- ten percent of the counterpart funds earmarked for in-country administrative expenses which relate to Congolese-American cooperation programs had not been received.

-- the GPRC had not completely implemented agreed upon measures to prevent resale or diversion of commodities to other countries.

-- the GPRC had not complied with the usual marketing requirement stipulated in the sales agreement.

-- reporting requirements contained in the Memorandum of Understanding had not been met.

We believe that the American Embassy/Brazzaville must make it clear to the GPRC that unless they comply with all of the terms and conditions of the FY 1982 program, additional Title I programs will not be approved.

At the conclusion of our audit, our findings were discussed with appropriate USAID/Zaire and American Embassy/Brazzaville officials. A draft report was also provided to USAID/Zaire and the American Embassy/Brazzaville. Their comments were considered in preparation of this report.

BACKGROUND

For the past thirty-four years the United States has played an important international role as the major supplier of food aid on a worldwide basis. 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, encourage economic development in the developing countries, and promote in other ways United States 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 today several distinct programs are conducted under PL 480. In line with the objectives noted above, this report deals with the Title I sales program.

Title I of Public Law 480 provides for the concessional sale of agricultural commodities to friendly countries. Agreements under Title I may be signed either for dollar credit with up to 20 years to repay, or convertible local currency credit with up to 40 years to repay. The grace period for dollar credit agreements range from zero to two years, and those for convertible local currency agreements may be as long as ten years. Specific down payments in dollars may be required under both types of agreements. Interest rates under both types of financing are set by law at minimums of two percent during the grace period and three percent thereafter. For the majority of Title I sales agreements, the minimum rates have been used.

Although the Commodity Credit Corporation finances the sale and export of commodities under Title I, actual sales are made by private U.S. suppliers to foreign importers, government agencies, or private trade entities. The Corporation finances sales by paying suppliers directly through the U.S. banking system for that portion of the sale not covered by the required down payment. The Commodity Credit Corporation then collects the amount due over the credit period, including interest, from the importing country.

This was the first PL 480 Title I program in the People's Republic of the Congo.1/ Because there is no AID presence in the Congo, USAID/Zaire, under the policy direction of the U.S. Embassy/Brazzaville, is reponsible for program implementation. The sales agreement was signed in August, 1982. The agreement called for the sale of approximately 6,700 metric tons of rice having a total value of about $2 million. The sales agreement was signed by the Ministry of Cooperation for the Congo and the Embassy of the United States. A subsequent Memorandum of Understanding between the Congo's Ministry of Plan and the Embassy of the United States was signed in July, 1983. This document provided further amplification and clarification of the original sales agreement. It also designated the Ministry of Plan as the party within the Government of the People's Republic of the Congo (GPRC) responsible for the program. OFNACOM, a GPRC parastatal, is responsible for sale of the PL 480 Title I rice. There was no FY 1983 PL 480 Title I program in the Congo. A FY 1984 program, though requested, has not yet been approved.

PURPOSE AND SCOPE

The primary purpose of our review was to assess the extent that the Food for Peace program was contributing to AID's overall development program in the Congo and to determine if the terms of the August, 1982 sales agreement and Memorandum of Understanding of July, 1983, were being followed. Other purposes were to review (a) the program planning process, (b) the GPRC's reporting and accountability, and (c) the effectiveness and efficiency of program monitoring.

We reviewed the official USAID/Zaire files in Kinshasa, Zaire and held conferences with reponsible USAID/Zaire officials and U.S. Embassy officials in the Congo. In addition, we met with the U.S. Ambassador to the Congo. Our attempts to contact and meet with the GPRC officials concerned with the PL 480, Title I program were unsuccessful.

Our audit was made in accordance with the Controller General's Standards for Audit of Governmental Programs and included such tests of the program, records and internal controls as we considered necessary in the circumstances.

1/ All future references in the report to the Peoples Republic of the Congo will be indicated by the Congo.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

GPRC Needed To Comply With The Terms Of The Sales Agreement And Subsequent Memorandum Of Understanding

Our review showed that the GPRC had not complied with the terms of the PL 480 Title I sales agreement and subsequent Memorandum of Understanding. Specifically we found that:

-- the amount of sales proceeds had neither been determined nor deposited in the special account. As a result, projects had not been identified, approved, funded, or implemented.

-- the currency use payment1/ had not been deposited.

-- ten percent of the counterpart funds earmarked for in-country administrative expenses which relate to Congolese-American cooperation programs had not been received.

-- the GPRC had not completely implemented agreed upon measures to prevent resale or diversion of commodities to other countries.

-- the GPRC had not complied with the usual marketing requirement stipulated in the sales agreement.

-- reporting requirements contained in the Memorandum of Understanding had not been met.

Details relating to the above findings are discussed in the subsequent sections of this report. However, a specific recommendation for each finding is not made in view of one overall recommendation which we make in this section.

1/ Section 103(b) of the Agricultural Trade Development and Assistance Act known as the Purcell amendment provides, inter alia to accept foreign currencies in payment of credit sales for purposes other than payment of U.S. obligations. These payments, known as "currency use payments", are required only in non-excess currency countries, and are designed to assist the U.S. balance of payment.

USAID/Zaire and the American Embassy in the Congo were aware of the above problems, but they had been unsuccessful in their attempts to resolve them. Officials from these two organizations held numerous meetings with GPRC officials responsible for the program in attempts to get project activities started. Also, official files were replete with documents evidencing the USAID's efforts made to get the GPRC to comply with the terms of the August, 1982 sales agreement and subsequent Memorandum of Understanding dated July, 1983. Despite these efforts, we noted little evidence of any positive measures which the GPRC had taken to comply with the agreements.

In our meetings with USAID/Zaire and U.S. Embassy officials in the Congo, we were given the following as reasons for the delay in program implementation:

(a) the program came about in a hurry;

(b) there was no Food for Peace Officer in the Congo;

(c) very few people involved in the program at the beginning had any knowledge or understanding of the program; and

(d) because of numerous and frequent replacement of key Congolese officials involved, there was confusion in the GPRC as to who should be responsible for the program.

Senior Embassy officials told us that there were just too many complicated factors involved for one to say that the Congolese were refusing to comply with the terms of the sales agreement and subsequent Memorandum of Understanding. USAID/Zaire officials concerned echoed these sentiments. Accordingly, the U.S. Embassy in the Congo remains optimistic that positive measures will be taken by the GPRC which would allow them to move forward with a FY 1984 program. We are not as optimistic. While most of the problems cited as causes for the delay in implementation have been corrected, the program still had not moved forward.

Conclusion and Recommendation

Although the original PL 480 Title I program sales agreement was signed almost one and one half years ago, few positive measures have been taken by the GPRC to comply with the terms of the program agreements. Accordingly, we do not believe that additional Title I programs should be approved until the GPRC complies with the terms and conditions of the FY 1982 program.

Recommendation No. 1

American Embassy/Brazzaville should (a) advise the GPRC that unless they comply with the terms and conditions of the FY 1982 program, additional Title I programs will not be approved and (b) take no action regarding a FY 84 Title I program until all the terms and conditions contained in the FY 82 program have been addressed.

Sales Proceeds Had Neither Been Determined Nor Deposited In The Special Account

The amount of sales proceeds obtained from the sale of PL 480 Title I rice sold to the GPRC under the FY 1982 program had neither been determined nor deposited in the special account as required in the Memorandum of Understanding dated July 29, 1983. As a result, specific projects required under the agreement had not been identified, approved, funded, or implemented.

Although the original sales agreement was silent regarding disposition of the sales proceeds, the Memorandum of Understanding required the GPRC to deposit the proceeds in a special account at the Banque Internationale de Developpement du Congo. Fifty percent of the value of the Title I rice sold to the GPRC under the FY 82 program was to be deposited upon signature of the Memorandum of Understanding. The remaining fifty percent was to be deposited within 90 days following the first payment. The deposits were to be no less than the dollar value of the commodities delivered in the U.S., plus any taxes directly tied to the import of PL 480 Title I commodities.

We found that none of the sales proceeds had been deposited in the special account even though all of the rice had been received in country as of December, 1982. Further, we were unable to verify the total amount of rice sold to date. USAID/Zaire officials provided us with an unofficial document which indicated that 58 percent of the rice had been sold in Brazzaville. The other 42 percent represented rice sales remaining to be accounted for. These commodities were shipped to the rural areas to be sold. Subsequently, in responding to our draft report, USAID/Zaire and the American Embassy Brazzaville advised us that they had been informed orally by Ministry of Commerce officials that all PL 480 rice had been sold.

USAID/Zaire and U.S. Embassy/Brazzaville officials held numerous meetings with responsible GPRC officials. During these meetings, the GPRC officials promised that the proceeds would be deposited in the special account. These promises were not kept as the amount of the sales proceeds still needed to be determined and deposited.

Currency Use Payments Had Not Been Received

The currency use payment (CUP) specified in the sales agreement and further amplified in the subsequent Memorandum of Understanding had not been received. The U.S. Embassy in the Congo requested payment of the CUP in a letter dated July 7, 1983.

In accordance with the sales agreement Part I, Article 8 and Part II, Article 2(B), and further amplified in the Memorandum of Understanding, the local currency equivalent of five percent of total counterpart funds was to be deposited in the Banque Internationale de Developpement du Congo in Brazzaville on the specific request of the Embassy, . These funds were then to be transferred to the BIAO-Paris account USDO II No. 35-706-001-P. In a letter dated July 7, 1983, the U.S. Embassy requested the GPRC to deposit the CUP of U.S. $94,866.15, in CFA1/ franc equivalent, at the current legal rate of exchange.

To date, the GPRC had not complied with the terms of the agreement or officially responded to the U.S. Embassy letter requesting payment. As in the case of other terms and conditions of the agreements, the GPRC made numerous promises but had not complied.

Counterpart Funds Earmarked For In-Country Administrative Expenses Relating To Congolese-American Cooperation Program Had Not Been Received

Although not addressed in the original sales agreement, the Memorandum of Understanding provided that ten percent of counterpart funds were to be set aside for in-country administrative expenses related to Congolese-American Cooperation program. These funds were to have been deposited in another account at the Banque Internationale de Developpement du Congo and transferred at the specific request of the U.S. Embassy to the BIAO-Paris account.

1/ The CFA (African Financial Community) franc is the official currency of the Congo.

According to USAID/Zaire officials, these funds are to be used to cover certain operating and administrative expenses in connection with the implementation of AID's development assistance program in the Congo. The major expenses include the costs for a U.S. AID laison officer in Brazzaville; travel expenses for AID administrative and technical personnel who regularly visit the Congo from Zaire; and administrative expenses incurred in connection with U.S. government officials who periodically travel to and from the U.S. in connection with AID-sponsored activities in the Congo.

To date, the GPRC has not complied with terms of the Memorandum of Understanding. Although there had been considerable dialogue between USAID/Zaire and responsible GPRC officials, we noted little evidence of any positive measures which the GPRC had taken to comply.

The GPRC Had Not Completely Implemented Agreed Upon Measures To Prevent Resale Or Diversion Of Commodities To Other Countries

U.S. Mission personnel in Zaire had noted that Zairian traders were bringing into Zaire one hundred pound bags of PL 480 Title I rice as early as February 1983. The source of this rice was the Congo. Exact figures were not available but at that time it was estimated that approximately one hundred bags a week were openly transported on the ferry that operates between Kinshasa and Brazzaville. After some investigation, it was learned that the Zairian traders were purchasing the rice from authorized retailers in the Congo and bringing it into Kinshasa for resale. No attempt was made at either border to conceal these activities. The situation was reported to AID/W and other involved agencies when it was first noted.

The sales agreement specifically requires the Government of the importing country to take all possible measures to prevent resale, diversion in transit, or transshipment to other countries or the use for other than domestic purposes of the agricultural commodities purchased pursuant to the agreement. After several months in attempting to meet with responsible GPRC officials to discuss the problem, a meeting was held on August 25, 1983 between USAID/Zaire and the Ministries of Cooperation, Plan, Commerce, Interior, Agriculture and Livestock. It was agreed, at that meeting, that signs would be made and posted on OFNACOM stores (site of sales of PL 480 rice). These signs would state that the sale of PL 480 rice was for local consumption only. Other signs would be posted at border crossings prohibiting the export of PL 480 rice. It was also agreed that customs agents would be officially instructed to prohibit any PL 480 rice to be shipped from or brought out of the Congo.

Numerous meetings and discussions were held with responsible GPRC officials to get them to comply with agreed upon measures. The GPRC had not completely implemented agreed upon measures to prevent the resale or diversion of commodities to other countries. The Director of Customs Service for the Regional Office in Brazzaville issued a letter to custom posts within the Brazzaville area with specific instructions to block the export of PL 480 rice. However, we were unable to ascertain whether similar instructions were issued in other areas of the country. Also, USAID/Zaire and U.S. Embassy officials in the Congo both advised us that although they had been told that signs had been made, they had not seen any of them posted in places as agreed upon.

GPRC Had Not Complied With The Usual Marketing Requirements

The GPRC had not complied with the usual marketing requirement stipulated in the sales agreement. In fact, based upon the limited reports provided by the GPRC, they had not imported any rice other than PL 480 Title I during the period covered by the FY 1982 program. USAID/Zaire and the U.S. Embassy continued to remind the GPRC of this requirement, as well as other conditions stipulated under the agreement. We noted no measurable effort on the part of the GPRC to address the requirement.

The sales agreement stated that the government of the importing country would insure that total imports from the exporting country and other friendly countries into the importing country paid for with the resources of the importing country would equal at least the quantities of agricultural commodities as specified in the usual marketing table set forth in Part II of the agreement. Part II of the agreement established 4,575 metric tons of rice as the usual marketing requirement during the FY 1982 import period. The U.S. Embassy's quarterly reports to the Department of State indicated that no rice had been imported commercially into the Congo since the signing of the sales agreement in August, 1982.

Reporting Requirements Specified In The Memorandum Of Understanding Needed To Be Addressed

Reporting requirements specified in the Memorandum of Understanding had not been met. The Memorandum of Understanding called for:

(1) a monthly report detailing for each special account the amount of local currency deposited during the previous month and cumulative deposits as well as the amount disbursed and the recipient funds;

(2) a semi-annual report indicating the receipt and expenditure from the project activity accounts, and the status of project implementation, including any explanation of delays in expenditures or other implementation problems;

(3) an annual certified report on the receipt and expenditure of the sales proceeds, certified by the appropriate audit authority of the GPRC, and in the case of expenditures, the budget chapter in which they were used; and

(4) a self-help report due no later than November 15, 1983 on the progress of implementation of the self-help measures agreed upon in Part II, Articles 5 and 6 of the sales agreement.

We find this lack of reporting especially significant with reference to the self-help report. Annual PL 480 Title I self-help reports are due in AID/Washington not later than December 15. Timely receipt of the annual report is essential to prepare and meet the deadline for the President's annual Food for Peace Report to Congress in accordance with Section 408 of PL 480. The report should relate information on the achievements of specific self-help provisions contained in current year agreements. This information is also vital to the Mission in its evaluation of the host country's performance in carrying out self-help provisions of PL 480 agreements. The need for a meaningful evaluation of a recipients country's self-help performance is made explicit in the PL 480 Act. Section 109(a) makes clear that:

"Before entering into agreements with developing countries for sale of United States agricultural commodities on whatever terms, the President shall consider the extent to which the recipient country is undertaking wherever practicable self-help measures to increase per capita production and improve the means for storage and distribution of agricultural commodities."

In our opinion, this is but another example of the reluctance or inability of the GPRC to take positive measures to comply with the terms and conditions of the program.

APPENDIX A

LIST OF REPORT RECIPIENTS

	No. of Copies
Field Offices	
RFFPO, REDSO/WCA	2
USAID/Zaire	5
U.S. Embassy/Brazzavile	5
AID/Washington	
AA/AFR	5
AA/FVA	2
AA/M	1
AA/PPC	1
AFR/CA	2
EXRL	1
FVA/FFP	3
GC	1
IG	1
LEG	1
M/FM/ASD	2
OPA	2
PPC/E	1
PPC/E/DIU	2