PD-AAS-564

ISN 43145

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CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE

P.L. 480 Title III (GAO): Financial and Management Improvements Needed in the Food for Development Program

2. PROJECT NUMBER 511-0522

3. MISSION/AID/W OFFICE USAID/Bolivia

4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 85-7

GAO Evaluation

☐ REGULAR EVALUATION ☒ SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES

A. First PRO-AG or Equivalent	B. Final Obligation Expected	C. Final Input Delivery
FY 78	FY 84	FY 85

6. ESTIMATED PROJECT FUNDING ($000)

A. Total $ 195,000 1/

B. U.S. $ 92,500

7. PERIOD COVERED BY EVALUATION

From (month/yr.) 5/78

To (month/yr.) 8/85

Date of Evaluation Review 10/85

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
Because this was a GAO review, the standard PES format was not followed. The digest prepared by the GAO reviewers, however, constitutes a comprehensive summary of the evaluation and has been attached to the PES facesheet. The GAO evaluation does not contain any Bolivia-specific findings or recommendations. The report does, however, make several broad recommendations to the Administrator of A.I.D. and the Secretary of Agriculture for improvements in the overall management and implementation of the P.L. 480 Title III program. The PRD Division project manager will be responsible for taking these recommendations into consideration during project implementation. He will also be responsible for monitoring Agency directives pertaining to the implementation of the P.L. 480 Title III program. The findings and recommendations of the GAO report were utilized in designing the follow-on Title III proposal. 1/ The original 1978 Agreement was for $75.0 million. This program was increased to $92.5 million during 1983 to channel an additional $17.5 million of emergency Title III food aid to Bolivia in response to the El Niño natural disasters. The program was also extended through May 30, 1984.	DL Jessee PRD (USAID/Bolivia)	Continuing

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

☐ Project Paper
☐ Financial Plan
☐ Logical Framework
☐ Project Agreement
☐ Implementation Plan e.g., CPI Network
☐ PIO/T
☐ PIO/C
☐ PIO/P
☐ Other (Specify) N/A
☐ Other (Specify)

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A. ☐ Continue Project Without Change

B. ☐ Change Project Design and/or
☐ Change Implementation Plan

C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Clearances:
DP:WJGarvelink:
DP:AAFunicello:
PRD:DLJessee:

12. Mission/AID/W Office Director Approval

Signature

Typed Name
David A. Cohen Director

Date

AID 1330-15 (3-78)

GENERAL ACCOUNTING OFFICE
REPORT TO THE HONORABLE
GEORGE E. BROWN, JR.
HOUSE OF REPRESENTATIVES

FINANCIAL AND MANAGEMENT
IMPROVEMENTS NEEDED IN THE
FOOD FOR DEVELOPMENT PROGRAM

D I G E S T

Since 1954, over $35 billion in commodities has been provided to developing countries under the Agricultural Trade Development and Assistance Act as amended (Public Law 480).

Title III of the act, known as Food for Development, was amended in 1977 to give recipient countries an incentive to improve their domestic food supplies and the lives of poor people in rural areas. It allows the United States to enter into agreements with eligible recipient countries to provide multi-year food aid commitments under concessional financing. If recipients sell the commodities and use the local currency proceeds to pay for agreed agricultural or rural development or health or family planning activities, the repayment obligations of the recipient to the United States are forgiven.

Six countries had signed title III agreements by the end of fiscal year 1984. Repayment obligations totaled about $680 million, of which over $335 million had been forgiven. (See pp. 1 and 2.)

GAO's review, conducted at the request of the former Chairman, Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture, focused on procedures to forgive repayments, implementation of development projects, and adoption of policy reforms by the recipient countries. GAO evaluated the title III programs in Bangladesh, Bolivia, and Senegal. These countries accounted for $500 million or about 73 percent of title III agreements signed through September 1984. (See pp. 4 and 5.)

LOCAL CURRENCIES NEED BETTER MANAGEMENT

Funds generated from title III commodity sales should be deposited, where practicable, in special accounts in the recipient countries to ensure that local currencies are available when needed and are properly managed. GAO found instances where funds were

--not deposited in special accounts or were commingled with other sources of recipient country revenue, thus precluding proper oversight and audit;

--disbursed in excess of the amount budgeted for a project, used to cover shortages in another donor's project (i.e. World Bank), or disbursed for purposes considered questionable by AID, such as U.S. contractor expenses and construction of residential facilities; and

--insufficient for timely project implementation because of slow commodity sales or sales made by the recipient below cost of the commodity.

Bangladesh, which received the largest portion of title III resources (over $381 million in approved financing to purchase commodities), had not established a special account as stipulated in its agreements. GAO also found that some recipients' reports did not contain required financial and other information, were not submitted in a timely manner, or were not approved and certified by appropriate host-country officials.

In response to a GAO report issued in November 1984 concerning financial management problems in developing countries, the Agency for International Development (AID) said that it plans to analyze and improve accounting practices, including the development of minimum accounting standards. Based on the problems discussed in this report, GAO believes that AID should include title III programs in its assessment. Also, AID missions should assist title III recipients to establish systems which properly account for local currency receipts and disbursements, including special accounts. (See pp. 10 and 11.)

PROBLEMS IMPLEMENTING DEVELOPMENT PROJECTS

Bangladesh uses title III resources primarily as its contribution to overall support of projects financed mostly by other donors. The Food for Development agreements do not specify discrete elements of the projects which are eligible for support. This hampers AID from monitoring progress, evaluating effectiveness, and ensuring that expenditures were made for agreed purposes.

In Bolivia, Senegal, and Bangladesh some title III projects experienced problems similar to projects funded from other sources of U.S. foreign assistance--delayed implementation, unauthorized or unanticipated design changes, and changing host-country priorities. These types of problems are often inherent in projects implemented in developing countries, regardless of funding sources. The lack of experienced personnel with developed administrative capabilities, however, is particularly severe in low-income countries. Bolivia, however, has strong institutional support, well-trained administrators and, with AID's assistance, has been able to overcome many impediments at the project level despite rapid political and economic change. (See pp. 16 through 18.)

In countries which also receive other forms of U.S. and other donor assistance, title III project implementation problems can be more severe because of the additional administrative and monitoring burdens on host governments and AID missions. Together, these constraints often result in projects which are delayed, cancelled, or otherwise do not meet their objectives or reach all intended beneficiaries. Developing a host-country's institutional capacity to effectively implement and manage development activities is a basic AID strategy.

ESTABLISHED POLICIES ARE DIFFICULT TO CHANGE

A recipient government's domestic policies can inhibit expanding production, result in inequitable food distribution, or artificially influence consumer costs. When policy reforms are not fully implemented, some objectives of the title III agreements may not be fully achieved. Also, basic causes of poor agricultural productivity may continue to impede this area of development.

GAO found that recipient government's policy reforms under title III are generally directed toward long-term objectives. For example, Bolivia's original title III agreement included reforms which would have increased Bolivia's agriculture budget, reorganized agricultural agencies, maintained health sector support, and promoted domestic wheat production. These changes were to be implemented over the 5-year life of the program. However, because of political and economic changes none of these reforms were achieved. (See pp. 32 and 33.)

In Senegal, some progress was achieved in strengthening regional development organizations and farmer cooperatives. But almost no progress was achieved in conserving natural resources or promoting crop diversification through marketing and policy reforms, and declining world market prices prevented the successful implementation of pricing reform. (See pp. 33 and 34.)

According to AID officials in Bangladesh, title III has helped to implement several major reforms. For example, farmers are being given an incentive to increase domestic food grain production, elements of the food rationing system have been phased down, and sales of government owned stocks of grain are used to moderate consumer prices. Each of these reforms was included in the 1982 Food for Development agreement with Bangladesh. (See pp. 30 through 32.)

GAO could not directly attribute the adoption of any policy reforms to title III. Other donors may have also promoted the reforms, or recipient governments may have already been receptive to the needed changes. (See p. 34.)

CONCLUSIONS

Overall, the issues GAO notes--the need to properly manage local currencies, effectively implement development projects, and adopt policy reforms--represent instances where terms of the title III agreements are not being met.

Special accounts serve an important purpose, because disbursements must be certified as being made for agreed title III development activities, and they trigger forgiveness of repayment obligations. Care must be taken, therefore, to ensure that title III recipient countries manage sales proceeds and disbursements according to the terms of the agreements.

GAO believes that lack of special accounts, commingled funds, questionable disbursements, and inadequate host-country certifications and reporting raise doubt about the soundness of AID's process to forgive repayments. Some countries need better control and monitoring of local currency receipts and expenditures. Systems to properly account for and manage funds generated by the title III program would be an important step in this direction. AID's analysis of financial management problems should be helpful in resolving these types of problems.

Based on GAO's evaluation of projects included in the scope of this review, title III is most successful in meeting agricultural development needs in countries which have capable institutions with adequate trained personnel and AID assistance.

GAO realizes that the Food for Development Program imposes additional responsibilities on host-country organizations, which are often overburdened. In keeping with one of AID's basic development strategies, title III local currencies could be used, where appropriate, to train host-country managerial and technical personnel. Strengthening recipient country institutions in this manner would better ensure that projects reach intended beneficiaries and provide needed services.

GAO believes that title III requires AID oversight. The scope of title III projects should be within each recipient country's capacity to properly implement and manage as well as the AID mission's capacity to adequately monitor.

Title III funds that support other donors' projects should be used for specific, identifiable, and agreed activities which can be monitored and evaluated by AID. This will help to ensure that expenditures are made only for approved purposes.

Policy reforms, although difficult to attribute to conditions stipulated in title III agreements, are an important development objective. Implementation of such reforms should be evaluated annually to ensure that they remain relevant and achievable.

RECOMMENDATIONS

GAO recommends that the Administrator of AID direct that:

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

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

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

GAO recommends that the Secretary of Agriculture direct that:

--Deliberations on approving title III agreements and annual commodity deliveries ensure that adequate accounting systems are in place or steps are underway to develop such systems.

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

AGENCY COMMENTS

AID and the Department of Agriculture commented on a draft of this report. (See apps. III and IV.) GAO considered these comments and revised the report as appropriate.

In general, AID agreed with the report and believed it reasonably reflects the problems and difficulties in administering and implementing title III programs. AID believed, however, that GAO did not adequately reflect the importance that policy reforms play in title

III programs or in the progress achieved. GAO recognizes the importance of policy reform but focused on disbursements from special accounts and on progress in implementing projects because they are the basis for determining eligibility for debt forgiveness. While policy reform is a desirable objective, it is not the basis for determining eligibility for debt forgiveness. (See pp. 34 and 35.)

AID supported the recommendations and informed GAO of steps being taken or planned to meet actions called for in the recommendations. It said, however, that it should not have to duplicate other donors' monitoring, reporting, and accounting systems for title III projects. GAO believes that while such information may assist AID in monitoring projects, it should not be a substitute for documentation to support expenditures from a special account as required by the title III agreement.

The Department of Agriculture agreed with GAO's observations and recommendations. It said it will work toward achieving improvements and will request AID to ensure that the title III program conforms with the intent of the recommendations.

PC-AAA-050

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable George E. Brown, Jr. House Of Representatives

Financial And Management Improvements Needed In The Food For Development Program

Title III of the Agricultural Trade Development and Assistance Act provides developing countries with incentives for improving their agricultural productivity. If recipients use local currencies generated from the sales of U.S.-financed commodities for agreed purposes, repayment obligations are forgiven.

By the end of fiscal year 1984, the value of U.S.-financed title III commodities totaled about $680 million, of which $335.7 million had been forgiven.

This report notes progress in achieving some of title III's objectives and discusses problems in managing local currencies, implementing development projects, and adopting policy reforms. GAO believes that with enough trained personnel and Agency for International Development assistance, host country institutions can overcome many of these problems.

GAO makes recommendations for addressing these problems to the Secretary of Agriculture and the Administrator, Agency for International Development.

GAO/NSIAD-85-105
AUGUST 7, 1985

V111

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

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-217782

The Honorable George E. Brown, Jr.
House of Representatives

Dear Mr. Brown:

As requested by your letter of April 12, 1984, we reviewed how well the Public Law 480, Title III, Food for Development Program is achieving its objectives and assessed program accomplishments.

This report notes progress in achieving some of title III's objectives but also discusses problems in managing local currency accounts and implementing projects. Recommendations addressing these problems are made to the Secretary of Agriculture and the Administrator, Agency for International Development.

As arranged with your office, we are sending copies of this report to the Administrator, Agency for International Development; Secretary of Agriculture; Director, Office of Management and Budget; appropriate congressional committees; and other interested parties.

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE HONORABLE
GEORGE E. BROWN, JR.
HOUSE OF REPRESENTATIVES

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Contents

ILLUSTRATIONS

ABBREVIATIONS

AID	Agency for International Development
CCC	Commodity Credit Corporation
GAO	U.S. General Accounting Office
IG	Inspector General
UNCTAD	United Nations Conference on Trade and Development
USDA	U.S. Department of Agriculture

CHAPTER 1

INTRODUCTION

Many developing countries have serious food shortages and need donor assistance. Eventually, however, these countries must accelerate agriculture productivity, improve their ability to generate foreign exchange to finance food imports, and bring the poor fully into development activities so they have resources to purchase available supplies.

Since 1954, the United States has provided over $35 billion in food aid under the Agricultural Trade Development and Assistance Act of 1954 (commonly known as Public Law 480) (7 U.S.C. 1691 et. seq.). Title I of the act authorizes low-interest, long-term credits--repayable in U.S. dollars or convertible third country currencies--to purchase agricultural products. Title II authorizes food donations to meet humanitarian needs.

In 1977, title III of the act was amended by adding the Food for Development Program to more directly link food aid with recipients' efforts to improve agricultural productivity and assist people who rely on agriculture.

Under title III, countries or authorized importers buy commodities from U.S. suppliers under title I loan terms. As an incentive to undertake additional development activities, principal and interest on the obligations to the United States are forgiven if the commodities, or local currencies generated from their sale, are used for agreed purposes. Title III authorizes food-aid commitments up to 5 years, subject to an annual review of the recipient country's progress toward achieving agreed development goals, availability of commodities, and approval of appropriations. It is, therefore, a longer term approach to development than other Public Law 480 programs. Title III programs are subject to terms and conditions of title I.

USING FOOD AID AS A DEVELOPMENT TOOL

Title III Food for Development programs are geared to low income countries that meet the per capita income criteria for development loans from the International Development Association of the International Bank for Reconstruction and Development. According to AID's fiscal year 1985 congressional presentation, 58 countries met this criteria. AID proposed that 20 of these countries receive title I assistance in fiscal year 1985. Through fiscal year 1984, however, only six countries had signed title III agreements, as shown on the following page.

Title III Agreements
(As of Sept. 30, 1984)[a]

Country	Date signed	Length of agreement[b]	Credit amount: Total Approved	Credit amount: Total Forgiven	Credit amount: Could be forgiven
		(years)	(millions)		
Bolivia	May 1978	5	$ 90.7	$ 27.0	$ 63.7
Bangladesh	Aug. 1978	4	191.3	156.6	34.7
	Mar. 1982	3	189.8	45.6	144.2
Egypt	Mar. 1979	5	73.4	56.7	16.7
Honduras	Feb. 1979	2	3.9	3.3	0.6
	June 1982	3	9.9	-	9.9
Senegal	May 1980	3	28.0	9.2	18.8
Sudan	Dec. 1979	5	95.3	37.3	58.0
Total			$682.3	$335.7	$346.6

[a]In May 1985 a 3-year, $45-million agreement was signed with Haiti.

[b]Includes amendments.

Program proposals and annual commodity deliveries are approved by the Food Aid Subcommittee of the Development Coordination Committee chaired by the Department of Agriculture (USDA) and composed of representatives of the Agency for International Development (AID); Office of Management and Budget; and Departments of State, Commerce, and the Treasury, when appropriate. No single agency has responsibility for approving agreements and annual commodity deliveries; decisions are reached by consensus. AID is responsible for helping recipient countries to develop and justify proposals, administering approved agreements, and monitoring performance and uses of local currencies.

PROCEDURES FOR FORGIVING REPAYMENT OBLIGATIONS

Usually, title III commodities are resold in recipient countries for local currency, which is to be deposited, where practicable, in special accounts and disbursed for development activities. As required by their agreements, recipients are to report on deposits and disbursements quarterly, and AID certifies that disbursements were made for agreed purposes. Based on these certifications, the dollar value of disbursements is credited against principal and interest repayments due on the debt. Full forgiveness occurs if (1) deposits to the special account equal the dollar value of the credit provided by USDA's Commodity Credit Corporation (CCC) to purchase the commodities and (2) local currencies are fully disbursed for approved purposes. The CCC is authorized to pay for the cost of commodities and all related charges, such as freight, if the recipient is on the United Nations Conference on Trade and Development (UNCTAD) list of relatively least developed countries.

ACTIVITIES TO INCREASE FOOD SUPPLIES AND HELP RURAL POOR

Title III's goal is to improve food supplies by supporting activities which increase food production, distribution, protection, and use and to otherwise help small farmers, tenants, sharecroppers, and landless laborers. Programs can encompass agricultural and rural development, nutrition, health services, and family planning. Activities are to complement, but not replace, development efforts being sponsored by assistance from other U.S. programs, other donors, and recipient governments--a concept known as additionality.

Legislation provides that eligible countries wishing to participate in Food for Development Programs shall submit multi-year proposals which (1) specify problems to be addressed, (2) quantify annual targets or goals, where possible, and (3) explain how proposed projects will be integrated into their development plans and complement other assistance. Each year after the initial delivery of commodities the recipient government, with the assistance of the United States if requested, must submit a report on the progress achieved under the program.

Some requirements for additionality and documentation may be waived for recipients on the UNCTAD list if they cannot meet these conditions and need assistance to achieve important humanitarian or development goals. No waivers have been granted.

POLICY REFORMS TO FOSTER PROGRESS

Food for Development Programs can also address other causes of a weak agriculture sector by identifying and attempting to correct policies which act as disincentives to increased production and equitable food distribution. Such policies, for example, may artificially depress prices paid to farmers for crops or promote production of commodities for export. Other policies, such as targeted food-rationing schemes, may benefit more politically influential urban consumers and neglect those in rural areas. Also, a country may promote crop production for export to generate foreign exchange, which limits production of food for domestic needs. In general, agriculture may not be receiving the priority afforded other sectors. Title III can help to support a recipient country's efforts to remedy such problems, but policy changes do not trigger debt forgiveness. Policy reform is one of AID's basic strategies--along with involving the private sector in developing and building recipient country institutions to foster and sustain progress.

PRIOR GAO REVIEW OF TITLE III

In our June 1981 report[1] on management and policy issues constraining title III, we identified reasons why the program was not more popular and measures needed to enhance food aid as a developmental tool. We concluded that other U.S. food aid programs also offer highly concessional assistance with less rigorous planning and oversight requirements. We noted a need for an overall policy framework linking the degree of concessionality of U.S. assistance with recipients' development efforts, regardless of which Public Law 480 title provided commodities. We also recommended that AID be given lead agency responsibility for the development aspects of the program. The digest of that report is in appendix II.

OBJECTIVES, SCOPE, AND METHODOLOGY

The former Chairman, Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture, requested that we evaluate title III (See app. I.) In doing so, we concentrated on the (1) loan forgiveness procedures, (2) implementation of development projects, and (3) adoption of policy reforms.

We reviewed information at AID headquarters and discussed the status of ongoing and terminating programs with agency officials. We also discussed title III with the Office of Management and Budget and Departments of Agriculture, Commerce, State, and Treasury officials.

To obtain a broad perspective of methods, stages of implementation, purposes, and objectives, we reviewed programs in Bangladesh, Bolivia, and Senegal. Together, these countries received about $500 million, or nearly 73 percent, of all approved Food for Development agreements signed through September 1984.

--Bangladesh is receiving over 50 percent of all title III credit authorizations--$381.1 million. Policy reforms are an important goal. Title III commodities are used to stabilize food prices, which fluctuate according to domestic harvests.

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[1] Food For Development Program Constrained By Unresolved Management and Policy Questions (ID-81-32), June 23, 1981.

--Bolivia, the first title III recipient, has established a separate implementing agency to manage the program. Title III projects have continued to be financed despite periodic suspensions of other U.S. assistance. and continuing political and economic changes.

--Senegal is an example of a terminating program. Commodity sales were slow and did not generate sufficient local currency to fund project activities, so plans had to be revised and projects cut back or suspended. This situation was aggravated by the difficulties of complying with program requirements with only limited staff.

We believe that the issues we identified represent some of the successes and problems of title III in attempting to increase and improve food supplies. Although the problems cannot be portrayed in a statistical sense, they illustrate some of the impediments to delivering this type of assistance.

Our fieldwork was done between April and August 1984. We reviewed relevant documents, including previous U.S. and recipient country evaluations and audit reports. We visited project sites and interviewed AID and host-country officials, community leaders, representatives of international organizations, and others involved with food aid and agricultural development.

Our review was conducted in accordance with generally accepted government auditing standards.

CHAPTER 2

PROBLEMS WITH

PROCEDURES FOR FORGIVING REPAYMENTS

Under the Food for Development Program, countries should deposit local currencies generated from title III commodity sales in special accounts, where practicable, and disburse funds from this account for agreed development activities. If deposits equal CCC's credit value and all funds are fully disbursed for eligible purposes, recipients may receive full forgiveness of the repayment obligation as installments become due. As of September 1984, nearly $336 million had been forgiven. Local currencies, therefore, should be properly managed to ensure that disbursements are made for intended purposes. We found, however, that in some instances

--sales proceeds were not deposited in special accounts, or were commingled with other revenues;

--deposits did not equal the CCC credit values because commodities were sold at less than cost;

--reasons for disbursements were questioned by AID; and,

--financial or other reports were not prepared or submitted as required.

These problems cast doubt over the soundness of AID's debt forgiveness procedures.

POTENTIAL FORGIVENESS NOW ABOUT $680 MILLION AND COULD GROW

By the end of fiscal year 1984, title III recipients could receive about $680 million in debt forgiveness. Public Law 480 requires that annual title III amounts be at least 15 percent of title I, and since fiscal year 1981, title I has averaged about $775 million annually. Therefore, the size of the annual title III program should be about $116 million to meet the 15-percent requirement. Legislation permits waivers of the 15-percent criterion if there is an insufficient number of qualifying development projects, but AID is seeking to achieve the goal.

CERTIFYING ELIGIBILITY FOR FORGIVENESS OF REPAYMENT REQUIRES AID OVERSIGHT

Title III guidance and agreements require that AID oversee special account activities to ensure that (1) deposits equal the dollar value of the CCC credit, (2) disbursements are made for eligible purposes, and (3) recipients meet reporting requirements. Agreements require that (1) recipients furnish quarterly reports and documentation showing what funds have been deposited and the use made of disbursements, (2) reports be certified by appropriate host-country authorities, and (3) records, procedures, and methods of disbursement can be inspected and audited by the United States.

PROBLEMS IDENTIFIED WITH SPECIAL ACCOUNTS

Local currencies often are not being deposited and managed as envisioned. Also, AID's certifications are frequently based on inadequate documentation.

Special account not established

Bangladesh is the largest recipient of title III funds, with over $381 million in approved loans as of September 1984. Although both title III agreements with Bangladesh require that title III proceeds be segregated and deposited in a special account, Bangladesh has not done so.

Host-country letters in late 1979 referred to a special account but also disclosed that title III funds were being commingled with other revenue. When AID informed Bangladesh that its procedure did not seem to conform exactly to the requirements of the 1978 agreement, Bangladesh responded that it was following standard practice and meeting the agreement's intent.

A November 1982 USDA/AID report evaluating both agreements questioned Bangladesh's local currency accounting procedures and recommended that a depository account be established in a commercial bank to allow for better tracking of disbursements. At the time of our review, instead of a special account, Bangladesh was using an "informational account" within its general fund, which commingled title III funds and does not provide a clear audit trail. Because the funds were commingled, we could not verify title III deposits or disbursements.

Shortfalls in deposits

Special account deposits should equal the value of the CCC credit because the local currency equivalent of the debt must be disbursed for recipient countries to receive full forgiveness of the repayment obligation. We found that deposits often were less than the value of the credit. For example:

—Bangladesh received commodities valued at $191.3 million under the first agreement, and AID officials told us that all commodities had been sold. According to host-country records, however, deposits totaled only about $156 million.

--Bolivia purchased $80.7 million worth of wheat under title III, but local currency equivalent deposits totaled only $62 million. During our review, AID asked Bolivia to deposit the difference. As of March 1985, the mission reported Bolivia had deposited about $1 million. AID officials told us the shortfall resulted from selling commodities below cost.

--Senegal had not deposited all title III sales proceeds to the special account. For example, as of April 1985, Senegal sold title III commodities for 8.7 billion CFAF but deposited only 7.1 billion CFAF (445 CFAF=$1.00 in August 1984) a difference of 1.6 billion. A Senegalese official said that shortfalls would be deposited.

Also, in Senegal numerous problems resulted because title III rice was more expensive than other sources of supply and was not a type preferred by consumers. It took over a year to sell the first shipment, and selling the second proved harder. Senegal purchased the additional title III rice at a relatively high price, and when transportation costs were added, the rice became noncompetitive with other commodities. After a year, only about 20 percent was sold. In an effort to increase sales, prices were reduced and credit sales were initiated. This, however, led to collection problems. The slow sales reduced the amount of local currency deposits and delayed implementation of title III projects.

When shortfalls occur, less funds are available for development activities, so anticipated goals may not be achieved and projects may fail to reach all intended beneficiaries. Additionally, recipients eventually will have to repay in U.S. dollars any remaining principal, with interest, as well as any differences in exchange rate fluctuations. This adds to external debt--a burden that title III was intended to alleviate. Recipients can make up shortfalls by depositing differences, but this also imposes financial burdens because their limited funds are diverted from elsewhere.

Special account funds commingled

Even when special accounts are used, funds can become commingled. For example, AID's Inspector General (IG) found that Sudan credited title III with about $31 million generated by title I. This resulted in incorrect statements of account balances. Title I funds thus could be disbursed for title III project activities, and, therefore, generate debt forgiveness;

according to the IG, neither AID nor Sudan would know the correct amounts available for title III activities if this practice continued.

Another IG review showed that Egypt commingled funds from three sources. This precluded matching the projects with funding sources and ensuring compliance with applicable regulations, so the IG could not verify whether title III funds were used properly.

Questionable disbursements certified for debt forgiveness

AID's IG and mission officials have, on occasion, questioned whether some expenditures were eligible to meet the terms of the title III agreements and qualify for applications against debt repayments. For example:

--Bangladesh disbursed $67 million for a fertilizer project. The title III agreement, however, budgeted only $46.5 million, and AID said that only budgeted amounts could be applied against debt repayments. Bangladesh responded that $67 million was within its development budget, disbursement was an accomplished fact, and any changes would present accounting problems and jeopardize other accounts. AID subsequently approved the entire disbursement.

--Sudan received debt forgiveness for U.S. contractor expenses, including those for residential facilities. A joint U.S./Sudan evaluation team questioned these transactions. The AID mission in Sudan indicated that its regional legal adviser had deemed the expenses to be appropriate. In commenting on our draft report, AID said that the facilities are needed to support U.S. and Sudanese project technicians and will be turned over to the Sudan government upon project completion.

--In December 1981, Senegal advanced the local currency equivalent of $143,000 in title III funds to a project not authorized by the Food for Development agreement. The disbursement was certified by AID as eligible for generating debt forgiveness. Subsequent to our fieldwork, the mission informed us that Senegal had redeposited most of the $143,000 to the special account.

In April 1984, AID's IG also reported that neither Senegal nor AID's mission had implemented effective systems to monitor disbursements. As a result, according to the IG, a $50,000 theft of local currency was certified by AID for forgiveness.

The theft was reported to the AID mission, but it took no action to cancel the forgiveness. After numerous inquiries by AID's IG, the mission informed Senegal of the ineligible transaction. Subsequent to our fieldwork, the mission informed us of plans to either recover the loss or reinstate the outstanding balance and said it has also taken action to strengthen oversight of special account transactions.

Inadequate or incomplete reporting

Recipients often do not meet reporting requirements. For example, AID's IG said Egypt's first annual progress report had not been submitted, even though the program was in its third year. Three of Sudan's financial reports, which generated $9.5 million in debt forgiveness, were not certified by their audit authorities as required in the agreement.

In Bangladesh, reports did not (1) include supporting information and documentation, (2) describe specific title III activities, or (3) contain evidence that disbursements were made for eligible purposes as required by their agreements.

Recipients have never been denied eligibility for debt forgiveness nor have future commodity shipments been withheld because of inadequate or incomplete reporting.

Improved financial management needed

In November 1984, we reported that poor accounting, budgeting, and auditing in developing countries were eroding development programs.[1] Donors indicated that programs which do not adequately address financial management may not meet expectations and can result in cost overruns and waste. In the least developed countries, it is questionable whether long-term progress can be achieved without improved financial management. We concluded that donors need to consider these problems when planning assistance.

AID and other donors have not adopted policies or fully coordinated assistance to help recipients improve their financial management systems. We recommended that AID encourage formal cooperation among donors to address these needs and establish a commitment to financial management training and technical assistance.

AID said that to improve financial management, it would

--extract lessons learned from a financial management project in the Sahel;

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[1] Financial Management Problems In Developing Countries Reduce The Impact of Assistance (GAO/NSIAD-85-19), Nov. 5, 1984.

--develop guidance for missions to assess accounting problems;

--develop minimum acceptable accounting standards;

--initiate discussions with other major donors to reach consensus on minimum standards;

--develop a data base to monitor the institutions, problems found, training and technical assistance needed, funds provided, and indicators of successful resolution of problems; and

--develop training and technical assistance plans to improve financial management in host-country institutions.

Based on the difficulties we observed regarding management of Food for Development local currencies, we believe that AID should ensure that the title III program is included in its initiative to improve financial management.

OVERSIGHT IS DIFFICULT

AID oversight of special account transactions is inherently difficult. Often, problems cannot be attributed to a single cause. According to AID, contributing factors include host-country sensitivities over managing local currency and limited institutional capacity, as well as limited AID staff to carry out oversight.

Local currencies belong to the recipients. Title III agreements, however, give the United States audit rights and a role in determining how the currency will be used. In actual practice, however, auditing may be a troublesome issue, particularly when reviewing individual projects. Intensive AID participation in the management of special accounts could be viewed as interference in domestic affairs. Different accounting standards and practices could also lead to confusion and disagreement.

Our 1981 review of title III showed that poorer countries have limited institutional capacities to undertake additional development efforts. As a result, title III is being implemented in countries least capable of meeting complex administrative requirements.

In the countries we visited, AID mission officials indicated their responsibilities for monitoring appropriated funds are already overwhelming. They believed that it would be difficult to adequately monitor special accounts without more personnel.

For example, an AID official in Bangladesh believed that providing more oversight would require engaging private accounting firms or hiring additional staff.

According to a joint 1983 U.S.-Sudan evaluation, only 19 of 27 authorized U.S. positions in Sudan were filled at any one time. Both AID headquarters and mission officials felt that title III activities require more staff resources than do programs funded by other sources of U.S. foreign assistance.

Disbursement records tend to follow project activities, so they are distributed over a wide geographic area, which complicates oversight and audit. For example, in Bangladesh, title III funds projects scattered throughout the country, and records may not be readily accessible due to distance, poor weather, and road conditions.

EFFECTIVE ACCOUNTING IN BOLIVIA

In Bolivia, AID's oversight, combined with a centralized, well-established, host-country agency to provide overall oversight and management, contributes to better administration. For example, the mission must authorize disbursements, and Bolivia requires receipts for expenditures before reimbursing project operating accounts. Mission officials also work to ensure that title III reporting requirements are met on time. Bolivian officials told us that the ministries or local organizations which initially proposed projects or oversee day-to-day implementation have 90 days to provide receipts showing how funds were used. They are notified of expenditures which are not adequately documented or do not meet the terms of the title III agreement. AID does not review receipts, because Bolivia's accounting system is based on AID procedures.

A 1982 evaluation funded by USDA reported that Bolivia's accounting system was in excellent order. The title III accounts were reviewed by independent auditors, and their fiscal year 1983 report concluded that accounting procedures conformed to acceptable principles and to the agreement.

CONCLUSIONS

The United States is obligated to forgive repayment obligations under title III to the extent deposits equal credit values and all proceeds are disbursed for agreed development activities. CCC credits now total about $680 million. It is important to ensure that the significant amounts of local currencies made available through the program are properly managed.

Our review indicated that management of local currencies needs more attention. Bangladesh, which receives the largest portion of title III funds, had not established the special account required by its title III agreement, thereby precluding adequate oversight, control, and audit. In some cases, title III sales proceeds in the countries we visited were less than the value of the credit, which could prevent recipients from receiving full debt forgiveness. Title III funds were commingled with other sources of host-country revenues, and financial and other reporting was inadequate. These problems cast doubt on the debt forgiveness process and on whether local currencies are being properly managed and projects properly and adequately funded.

We recognize that many factors in developing countries make traditional oversight methods difficult to use. For various reasons, recipients may be reluctant for others to participate in managing their local currencies. Recipients also have limited administrative capacities. These conditions notwithstanding, the relatively large payment obligations which may be forgiven require greater assurances that local currencies are properly managed. The host-country accounting system should ensure that

--expenditures are made for agreed development purposes and are supported by adequate documentation,

--all transactions are certified by appropriate host-country authorities, and

--recipients deposit sales proceeds equal to the value of the CCC credit in a special account.

Additionally, the accounting system should lend itself to audit. The problems observed in managing Food for Development local currencies show that title III programs should be included in AID's initiative to improve financial management in developing countries.

RECOMMENDATIONS

We recommend that the Administrator of AID direct the missions to work with host countries to establish systems which properly account for receipts and disbursements of title III local currencies. Special accounts should be a central mechanism of such systems.

In view of the financial management problems we observed, we recommend that the Secretary of Agriculture direct that deliberations on approving title III agreements and annual commodity deliveries ensure that adequate accounting systems are in place or are being developed before approval is granted.

AGENCY COMMENTS AND OUR EVALUATION

AID generally agreed with our observations and our recommendation to establish systems which properly account for receipts and disbursements of title III local currencies. It noted, however, that lack of administrative personnel is an inherent problem in low-income countries. Because of this weakness, AID is providing development assistance dollars as well as Public Law 480 local currencies to many countries to improve their weak administrative and management capabilities. This weakness, according to AID, may require accounting systems less sophisticated than would otherwise be desirable. We agree but believe it is important to establish and maintain a proper audit trail. Inadequate accounting procedures cast doubt on the credibility of the debt forgiveness process and on whether local currencies are being properly managed and used for their intended purpose.

AID said that in support of our recommendation it is revising its directives for title III requirements and that the revised directives will become part of title III program guidance and a consolidated accounting approach for missions to follow in helping recipient governments to establish proper accounting procedures. We believe this is an important step in improving financial oversight.

AID also commented on our observation that Bangladesh's quarterly reports did not include documentation describing title III activities or evidence that disbursements were made for eligible purposes. According to AID, the Bangladesh government had to submit detailed documentation at the time that projects were approved for title III funding. With this documentation in the files, AID did not require Bangladesh to submit descriptive material with each quarterly disbursement. In our view, this runs counter to the March 1982 title III agreement, which states that:

> "Bangladesh will furnish the U.S. a quarterly report of the deposits and disbursements made . . . and a description of the activities for which the disbursements were made. This report shall include documentation that . . . special account funds have been used to offset expenditures (e.g. vouchers paid) against agreed development projects."

It may be appropriate to rely on information provided by other donors to assist AID in monitoring project implementation; however, such information should not be a substitute for submitting documentation required by title III agreements to certify that disbursements were made for eligible purposes.

AID informed us that future title III agreements with Bangladesh should require a special account, local currencies would continue to be used to help defray the cost of other donors' projects, and AID overview procedures for local currencies would be retained.

USDA agreed that title III local currencies need to be properly managed. It reaffirmed our view that the title III program is most successful where there are capable host-country institutions with adequate trained personnel and AID involvement. USDA also accepted our recommendations.

CHAPTER 3

DEVELOPMENT PROJECTS NEED BETTER

MANAGEMENT AND AID OVERSIGHT

Local currencies generated from Food for Development Program commodity sales can finance such items as seed, fertilizer, and irrigation systems; facilities for processing, protecting, or marketing agricultural products; or start-up costs and land for small farmers and cooperatives. Projects for improving potable water supplies, health care, and family planning services are also eligible for support.

We found instances where facilities and services were being provided to beneficiaries who otherwise might not be reached. In Bangladesh, however, we also found instances where projects were delayed or not being fully implemented. For example, host-country institutions were not well developed and trained personnel were unavailable, and mission personnel were not actively involved in monitoring project implementation. Senegal had some of these same problems and also lacked sufficient title III local currencies for timely project implementation. Bolivia, by comparison, has a rather well-developed organization to support project implementation and thus has overcome many of these impediments.

BOLIVIA--INSTITUTIONS WITH CAPABLE PERSONNEL AND AID INVOLVEMENT FOSTER SUCCESS

Bolivia's implementing agency and AID review, approve, and oversee title III project activities. The implementing agency's review and approval process is consistent with AID's requirements for approving projects funded by other forms of U.S. assistance. Regional development organizations, government ministries, or other institutions submit profiles of proposed projects. The implementing agency's technical and economic staffs compare proposals with established criteria for need, cost-effectiveness, community support, self-sustainability, technical soundness, and conformity with title III guidance. After initial approval, host-country personnel assist in more detailed designs by visiting project sites, speaking with beneficiaries and sponsoring organization officials, and finalizing plans.

AID approves proposals, ensuring additionality and self-sufficiency. Title III funds the following major project-oriented activities encompassing almost 120 subprojects.

--Wheat collection centers.

--Farmer cooperatives.

--Access roads and bridges.

--Reorganization of the Ministry of Agriculture.

--Pesticide control and plant quarantine services.

--Rural development projects.

--Community conservation and forestry.

--Irrigation systems.

--Rural development studies.

--Farmer credit programs.

--Scholarships for children of poor farmers.

--Communicable disease control activities.

--Health care and nutrition programs.

Disaster relief activities have also been approved for support.

Some projects directly contribute to increased agricultural productivity and land conservation; others make capital available to farmers, provide improved community services, and support educational opportunities. For example:

--Rural development projects provide tree nurseries, livestock breeding facilities, water supplies, road construction and maintenance, training, and technical assistance.

--Lines of credit foster expanded production, and crop insurance protects small farmers against losses resulting from floods or drought.

--Health-care activities investigate and combat communicable diseases and provide immunizations.

--Scholarships enable children of poor farmers to pursue higher levels of education, and other funds upgrade facilities of participating educational institutions.

The government of Bolivia's 1983 annual report estimated that 47,000 families had benefited from rural development projects, credit had been extended to over 6,800 farmers, a better system for controlling contagious disease had been established, and 570 scholarships had been awarded. Projects for improving pesticide control, plant quarantine procedures, and increasing irrigation systems were also going forward.

Progress is being achieved in the face of frequent political change, currency devaluation, and inflation. Changes in leadership of important ministries at times brings into question political commitments and the availability of local currency counterpart funds which represent Bolivia's contribution to the projects. Currency devaluations affected the dollar value of undisbursed local currency. For example, according to Bolivia's 1983 program evaluation, the value of the special account balance was reduced by over $15.5 million as a result of three exchange rate fluctuations during 1978-1983. Salaries, construction costs, fuel prices, and transportation expenses have all risen because of continuing high inflation and further affect program and project budgets.

Not all projects achieve objectives

Adverse weather, contractor problems, government delays or inaction, and shortages of material caused some planned activities to be suspended or modified. For example:

--Only 2 of 12 originally planned wheat collection centers are operating. Problems contributing to the reduced number of centers included low harvests due to bad weather and Bolivia's reluctance to implement changes needed to resolve organizational, financial, and personnel matters.

--Technical and administrative support to develop farmer cooperatives had limited success. Only 3 of 20 planned organizations were receiving assistance. Problems included (1) poor communications and conflicts between participants, (2) inadequate capital contributions from members, which reflected low confidence, (3) lack of qualified managers, and (4) poorly planned and implemented credit activities. Plans to create a federation of cooperatives were cancelled.

--Construction of access roads was stalled in 1980 because of contractor' bankruptcy and bureaucratic delays. Prior road work has also deteriorated due to traffic and weather.

All of these projects were developed before the title III agreement was approved, but they were not implemented because of their low priority or lack of funds. They were designed before an implementing agency was organized and incorporated into the original title III agreement. They were also implemented without sufficient review, according to an evaluation[1] funded by USDA.

The same evaluation attributed many title III successes to the

--implementing agency's sound administrative practices, including timely accounting and sound budget controls, rigorous design reviews, staff continuity, competent technical advice, continuous field supervision, and ability to overcome administrative delays;

--tangible or perceived benefits accruing to beneficiaries, which fostered progress and further support; and

--use of decentralized, semi-autonomous local institutions to propose projects which reflect local needs, encourage user participation, and provide routine oversight.

Also, some very beneficial projects were the least expensive. Our discussions with AID mission and Bolivian officials and project site visits confirmed the evaluation's assessment.

BANGLADESH--PLANNING, IMPLEMENTATION, AND OVERSIGHT PROBLEMS DELAY PROGRESS

In Bangladesh, efficient and effective use of title III funds is hampered by changes in the country's agricultural development strategy, an insufficient level of host-country institutional support, coordination problems, and lack of AID oversight. As a result, projects have been dropped, or suspended, not all intended beneficiaries are being reached, and costs are increasing because of delays.

Since 1978, 32 projects have been approved for title III support: 10 in the 1978 agreement, 5 in a March 1980 amendment, and 17 in the 1982 agreement. Only 3 of these 32 projects have been completed and 8 are still ongoing. The rest were deleted or deferred.

The 1978 agreement listed 10 projects--2 in rural development, 5 in agriculture, and 3 in the health and population sector. Bangladesh, however, used all title III proceeds for only one of the 10 projects, a fertilizer and distribution project. This project was subsequently dropped, after expending over $67 million in title III local currencies, because it was contributing to an excessively costly fertilizer subsidy.

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[1]An Evaluation of the Bolivian Food for Development Program: Its Institutional Performance and Impact On Farmers 1979-1981, Rural Development Services, March 31, 1982.

A March 1980 amendment to the agreement identified 5 additional projects. About a year later, however, before any of these were funded, Bangladesh and another donor adopted a plan and new list of projects for achieving foodgrain self-sufficiency by 1985. In response, projects proposed in the March 1980 amendment were dropped and 16 projects from the proposed list were selected to help implement the plan. These projects, which focused mainly on water supply activities, were listed in a June 1981 amendment.

The March 1982 agreement included the amended project list and added support for construction of foodgrain warehouses--bringing the total to 17 projects. When we visited Bangladesh during May 1984, 6 of these projects had either been deleted or deferred.

Suspensions and delays are not unique in Bangladesh. According to the local consultation group, an organization of major donors in Bangladesh, only 133 of 228 projects planned for completion in fiscal year 1982 were fulfilled. These projects, on average, took 2 years longer than scheduled; in the interim, costs escalated 49 percent. According to the group, implementation problems have generated more concern among donors in Bangladesh than any other issue.

Impediments stem, in part, from Bangladesh's difficulty in effectively administering and controlling implementation. The local consultation group in 1983 listed the following problems.

--Project designs, equipment and material were changed without consultations and contradict agreements.

--Bangladesh's counterpart funds were inadequate.

--Authorities were unaware of problems because there was no convenient mechanism for surfacing such issues.

--Projects involving several agencies lacked coordination.

--Rigid, complex customs procedures delayed receipt of imports and funds to cover project-related imports were inadequate.

--Land acquisition problems delayed progress.

--Technical assistance was delayed because of poor coordination, unresolved questions concerning benefits, pay, and other problems.

--Bangladesh officials were unfamiliar with donor procurement procedures.

--Bangladesh directives limited expenditures for project-related equipment and personnel.

--Local staffs were not paid for months, which damaged motivation and jeopardized project implementation.

--Delegation of authority was inadequate.

In addition, key positions remained vacant because of unsuitable candidates, project staffs were not appointed in a timely manner, or incumbents were transferred before projects were completed.

Title III helps to support large, complex projects

Title III helps to finance projects undertaken and primarily financed by other donors. These projects, often large and complex, focus on expanding food production through better irrigation, flood control, water supply, storage facilities, and other services to assist farmers.

Our review of project files, discussions with AID and Bangladesh officials, and site visits show that these projects have been somewhat successful in providing facilities, equipment, and material. However, many problems, such as long delays, disputes over land, unauthorized changes, lack of coordination, inadequate host-country financial support, and the Bangladesh government's inability or unwillingness to fully implement, manage, and staff projects are of concern to the United States and other donors. We analyzed irrigation and flood control activities and found the following problems.

For a project to install irrigation, flood control, and drainage facilities and to provide supporting equipment and materials to strengthen agriculture extension services, facilities and equipment were installed 8 years after being started and 4 years later than originally planned. According to the major donor, coordination was lacking between implementing agencies, engineering plans and designs were not carried out, and untrained and inadequate staff were assigned to the project. Only four of five navigational locks were being installed, a change made without consulting the donor. In addition, 33 miles of flood embankment were deleted because of public hostility to land acquisition and escalating costs. Installation of 800 pumps was delayed because of disagreements over the sales price, rental charges, and credit. Agriculture extension activities did not achieve expected results because of farmers' resistance to change, lack of coordination, and reassignment of officials without replacements.

For a project to clear irrigation channels, install pumping stations, and provide almost 1,900 pumps, many construction activities were completed, but implementation was delayed because of inadequate funding. Agriculture extension services were halted when staff was withdrawn. Also, farmers were unable to grow high-yield variety crops because of inadequate credit. Pump installations were slow because of high sales prices or rental fees and loan defaults by farmers' cooperatives. Absentee owners also objected to land acquisitions. Problems in constructing equipment repair facilities resulted from inadequate funds.

Wells are important to agricultural development

Wells provide irrigation water during dry periods when surface sources are inadequate or supplies have been exhausted. In Bangladesh, title III supports well water projects. These projects experienced problems similar to irrigation and flood control activities. For example, one project was intended to provide 8,500 new water pumps, spare parts, and supporting services. Additionally, 5,000 existing but unserviceable pumps were to be rebuilt. The project was to be implemented between January 1980 and December 1983.

According to major donor and host-country reports, only about 4,500 new pumps had been procured as of December 1983 and only 1,700 of these were sold. Overall, demand was overestimated, farmers were not being motivated to adapt new irrigation methods, and other pumps were available from the same implementing agency at lower prices. Furthermore, farmers did not accept one pump model, so some of them were diverted to nonproject regions. Plans to recondition pumps were dropped as it was decided that it would be more cost-effective to sell them at auctions rather than repair them.

This project originally proposed $8.0 million for fuel so pumps would not be stopped because of shortages; $7.9 million of the allocation was disbursed, even though only 1,700 pumps were sold.

The project also provides credit for farmers and cooperatives to obtain irrigation equipment. A March 1984 report by a local university[2] noted that loans to small farmers actually benefited others, bribes were paid to loan approval officials, and false cooperatives were established so others could benefit. The report noted that Bangladesh continued to promote the program despite low loan repayments. The report noted other irregularities. For example, loans were distributed as vouchers for purchasing equipment which farm cooperative managers were to use to benefit the members. In some cases, the amount of equipment was in excess of needs, and managers sold the excesses and realized profits.

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[2]Low Lift Pumps Under IDA Credit in South East Bangladesh, A Socio-Economic Study, Rajshahi University, Bangladesh, Mar. 1984.

Food storage facilities important

Warehouses protect crops and relief supplies during adverse weather and emergencies. In 1978, another donor provided assistance to build new warehouses, replace dilapidated structures, procure equipment, establish a laboratory, and support pest control operations. The project started slowly due to administrative delays, problems acquiring land, and material shortages.

In March 1982, AID and Bangladesh agreed to provide title III local currencies to facilitate construction. During August and November 1983, an AID representative visited project sites and found that the (1) responsible agency had no means to maintain or repair facilities, (2) approach roads were impassable during bad weather, (3) flood prevention walls were not built, and (4) floors had settled improperly. As a result, the structures were deteriorating; grain was being hand-carried to warehouses, thus wasting time and energy and food from spillage; stocks were threatened by floods; cracks in the walls provided breeding sites for pests; and rain seepage could damage the contents. The official responsible for warehouse management told us that faulty construction was a problem. We noted that the facilities were relatively clean and the contents stored in an orderly manner.

Implementation is monitored by others

According to mission officials, AID does not actively participate in project monitoring and has little leverage to influence implementation due to the following facts.

--Title III local currencies represent only a small portion of total contributions to projects which are primarily funded by other donors.

--Project implementation is monitored by others, and AID involvement would only duplicate these efforts.

--Bangladesh would resist additional monitoring.

--AID staffing constraints preclude more active involvement.

--Title III in Bangladesh emphasizes policy reform, not project activities.

AID's current oversight activities include site visits and obtaining periodic progress reports from the major donor. Since 1983 AID has visited 7 of 11 projects as of June 1984. Observations and problems are noted and referred to responsible host country officials. There is no requirement, however, that problems be resolved before continuing title III support.

According to mission officials, their strategy is to achieve policy reforms through title III to help Bangladesh become agriculturally self-sufficient. These officials said Bangladesh is willing to consider reforms if AID does not insist on participating in programming local currencies, monitoring expenditures, or becoming involved during implementation. AID officials told us they see their limited involvement as leverage in persuading Bangladesh to adopt policy reforms. Also, title III's multi-year commodity commitments give Bangladesh an incentive to reform policies which impede agricultural development. Although policy reform is a desirable objective, the Food for Development program also requires appropriate financial controls and monitoring to ensure that development project activities are effectively implemented.

Attempt to improve oversight

In September 1981, AID authorized $56,000 for a project to establish a Bangladesh monitoring and coordinating unit which would

--establish accurate, up-to-date accounts for Public Law 480 transactions, especially title III local currencies;

--provide a capability for preparing and submitting required reports;

--maintain a capability to monitor project implementation; and

--carry out other AID-funded activities.

The unit could not satisfactorily accomplish its purpose. Problems included lack of guidance and trained personnel. The unit could not effectively maintain records of title III commodity deliveries and sales or deposits and disbursements of local currencies or apply title III local currency disbursements to loan repayments. According to AID's review, these problems resulted from lack of historical data, coordination, systematic accounts, an understanding of title III, staff initiative, and clear-cut responsibilities. During its 2-year life, the monitoring and coordinating unit produced only two monthly reports (December 1982 and January 1983) and AID found them to be erroneous and inaccurate. Preparation of quarterly reports was also untimely and needed considerable AID assistance. The staff made only one field trip, for which AID never received a report. Staff were also used for non-AID-funded activities. A vehicle obtained with project funds was used for other purposes. Financial support for the monitoring and coordinating unit was terminated in February 1984.

SENEGAL--TIMELY IMPLEMENTATION UNDERMINED BY INADEQUATE FUNDS

Senegal's overall management of project implementation is similar to that of Bolivia. It uses a full-time staff under a Management Committee representing concerned government agencies and AID. Projects are intended to complement AID and Senegal's joint development strategy, which includes increasing decentralization of development activities, strengthening the role of cooperatives, conserving natural resources, and reviewing agricultural policies.

At the time of our review, inadequate funding due to slow title III commodity sales had hampered progress. Other factors, such as contracting delays and poor coordination, slowed implementation. As a result, cost estimates have increased, and in some cases, original project objectives may not be met.

Since 1980, 19 projects have been approved for support. However, as of July 1984, 7 had received no funding and many of the others had experienced problems. For example:

--One project intended to build 50 warehouses the first year and 25 in each of 2 following years did not reach these goals. Shortly after the project started in 1980, sponsoring agencies were changed. In addition, there was lack of continuity in overseeing construction and designs were changed without AID approval. In some cases, construction was halted because of lack of funds and some funds were used for purposes the title III Management Committee considered ineligible.

By December 1983, the first 50 warehouses were completed, but some were improperly sited, foundations were eroding, and road access was difficult or impossible.

AID questioned whether to continue construction, since existing structures were not being fully used because of poor harvest due to droughts. Further work has been stopped until future needs can be assessed.

--One of two other projects which eventually prepared studies for agriculture policy reforms was delayed one year because of insufficient funds. A joint 1981 U.S.-Senegal evaluation noted that staffing changes and manpower shortages caused lack of continuity and periods of inactivity. Costs also rose 12 percent due to a currency devaluation. Research has now been completed, the results will be published in 1985, and a seminar was held in October 1984.

--Another project supported studies of commodity pricing policies which the implementing agency officials considered inadequate because 1973 and 1974 data was used to develop the findings. According to the project director, the scope was overly ambitious and impossible to carry out, sampling data was statistically invalid, and technical personnel were unable to adequately supervise work. A unit was established, however, to study farming systems.

--A dune stabilization project was to construct office and lodging facilities by 1981 and plant trees over 3,700 hectares of land by 1983. According to a joint Senegal and AID June 1984 evaluation, construction had not started and only 2,200 hectares were planted because of lack of funds due to slow title III sales. According to the project director, it was difficult to set objectives with no firm idea of future budget allocations.

Subsequent to our fieldwork, the mission director informed us that this project managed to meet 75 percent of its planting goal with less than half of its authorized allocation. The director said that construction was non-essential and deleting it provided additional funding for tree coverage.

Not all projects are encountering problems. For example, a project to relocate villages, teach inhabitants how to use new agricultural techniques, and improve living conditions is meeting expectations. Another project to create several millet food varieties substantially met its objectives.

In Senegal, AID does not actively participate in project implementation. According to the mission's program coordinator, AID is trying to institutionalize project management within the Senegalese Management Committee.

CONCLUSIONS

Title III local currencies support activities to foster agriculture development and to meet other basic needs ranging from large construction-oriented projects to smaller community-based activities to provide needed services; all are intended to promote productivity or otherwise help the rural poor.

Based on our evaluation of projects included in this review, title III is most successful in meeting agricultural development needs when there is (1) a strong host-country institutional capacity, (2) adequate and capable personnel, and (3) AID involvement. We believe that the size of title III programs should be limited to what recipients and AID missions can effectively manage and monitor or that programs should help strengthen a host-country's institutional capacity to promote agricultural productivity, thus more effectively linking food aid and agricultural development.

Bolivia

According to host-country and USDA reports and our discussions with AID and host-country officials, Bolivia's effective implementing agency with capable personnel, AID involvement, and title III resources combined to make what many consider a relatively successful program. Progress has been achieved despite serious political and economic problems. Bolivia established and maintained a viable institutional framework, and AID actively monitors the program. Project proposals are now reviewed by Bolivia's implementing agency and AID to avoid costly and poorly conceived activities. Oversight by Bolivia and AID improves the chance that projects will be properly implemented and resources effectively managed. This results in projects benefiting a large number of people. The stability of Bolivia's implementing agency in a constantly changing environment also helps to ensure continued success of the program.

Bangladesh

Project implementation in Bangladesh is hampered by a weak institutional capacity and the unavailability of trained host-country staff. Using title III local currencies as Bangladesh's contribution to supporting projects primarily financed by other donors essentially removed AID from exercising any influence over project implementation. Also, the agreements did not specify discrete activities which could receive title III support, thus hampering evaluation and audit.

Some projects initially approved have been either suspended or terminated. As a result, title III resources allocated for these activities have not been effectively used for development purposes. These funds represent a significant portion of Bangladesh's title III program.

Senegal

In Senegal, implementation problems initially stemmed from slow commodity sales which resulted in inadequate local currencies to fund title III projects. Costs increased because of delays. In some cases, projects were cancelled or their scopes significantly reduced. In others, implementing agencies did not provide adequate oversight and problems first surfaced after projects were well underway or completed.

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Title III programs should be limited to each recipient's capacity to properly implement and adequately staff project activities. We recognize this is an inherently difficult requirement, especially in the less developed countries eligible for title III assistance. Therefore, where practicable, title III programs should help recipients to develop this capability. We believe that helping recipients in this manner is as important as project implementation. Capable, properly managed host-country institutions are necessary to initiate and to sustain effective development activities.

Furthermore, we believe title III programs should be limited to AID's capacity to properly monitor project activities. Also, AID should not rely solely on other donors, as in Bangladesh, to ensure that local currencies provided through U.S. programs are properly and effectively used.

Title III can be used to provide needed assistance to other donors' projects, but such contributions should not be in the form of general budget support, as they are in Bangladesh. Title III local currencies should finance specific, identifiable project components which meet Food for Development criteria and which can be evaluated. Expenditures should be traceable and certified by appropriate authorities. AID should require periodic reports of progress toward established objectives and resolution of serious implementation problems.

RECOMMENDATIONS

We recommend that the Administrator of AID direct that title III proposals describe the extent to which

--recipient countries can adequately implement, manage, and staff additional development activities. If recipients lack effective institutions and adequate and trained personnel, proposals should describe how title III will specifically overcome these impediments.

--AID missions can adequately monitor additional project implementation activities.

We also recommend that the Administrator direct that requests for title III funds to support other donors' projects identify discrete activities which will receive title III support, and how local currency expenditures and project implementation will be monitored. Expenditures should be traceable to specific project activities.

We recommend that the Secretary of Agriculture direct that, before approval of annual commodity deliveries, (1) progress is being achieved in implementing development projects or (2) evidence shows that problems hampering implementation are being addressed.

AGENCY COMMENTS AND OUR EVALUATION

AID agreed that the lack of experienced recipient country personnel presents problems in implementing and monitoring development programs. AID is providing assistance to help improve these capabilities.

AID said that in view of past problems, it and others have been more aware of the need to closely monitor recipient country and mission capabilities when considering new programs. This issue was given considerable attention during the development and approval of the recently approved Haiti title III program, and according to the agency, all future programs will be carefully reviewed in this respect.

AID also stated that in Bangladesh, increased management and monitoring requirements on the part of AID would inevitably result in hiring additional staff. We realize that AID has personnel constraints. Nevertheless, the size of the title III program in Bangladesh (over $381 million in approved credits as of September 1984) indicates a need for continued oversight.

AID agreed with our recommendation that requests for title III funds to support other donors' projects should identify discrete activities to receive title III support. It pointed out, however, that when projects managed by other responsible donors are well-designed and have established monitoring, reporting, and accounting systems, AID should not have to duplicate those efforts. It was not our intention to establish duplicative monitoring and reporting systems. We agree that it is appropriate to draw on information prepared by other donors; however, as discussed in chapter 2, AID should ensure that Bangladesh submits quarterly reports of deposits and disbursements made from a special account for the title III portion of the other donor projects.

USDA said the report adequately summarized the need to effectively implement projects. It agreed with our recommendations and said it would work with AID toward achieving improvements.

CHAPTER 4

EFFECT OF IMPLEMENTING POLICIES TO INCREASE FOOD PRODUCTION IS DIFFICULT TO ASSESS

Policies which result in ineffective use of limited host-country resources, inhibit free markets, or discourage investment can constrain development. In agriculture, such policies can hinder domestic productivity or equitable distribution of available supplies.

AID's title III guidance states that policy changes can help to improve food production, marketing, and consumption by promoting reforms which

--reduce inter-seasonal and inter-crop price and supply fluctuations;

--eliminate or minimize subsidies;

--increase budget allocations for agriculture;

--encourage private sector participation; and

--establish reserves to ensure adequate supplies during emergencies.

In countries we visited, some policies thought to constrain agriculture are being changed. Instituting such reforms, however, can be a lengthy process and not all agreed upon changes are being fully adopted.

It is difficult to assess the relationship among title III, the adoption of agreed policy reforms, and increased agricultural productivity. Other donors may also have promoted the same policy changes, or recipient governments may already have been receptive to such reforms. Also, factors such as price incentives for farmers, weather, use of high-yield variety crops, and improved agricultural practices influence production.

POLICY REFORM STRESSED IN BANGLADESH PROGRAM

AID officials in Bangladesh said they view policy reform as the major emphasis of the title III program. They agreed that development projects have an important role in increasing agricultural production, but pointed out that the government must be willing to adopt and implement policies that give farmers the incentives to invest in foodgrain production.

The 1982 title III agreement, which AID considers an extension of the 1978 agreement, addresses the following seven distinct aspects for the country's development.

1. Maintain incentive prices to farmers and other self-help measures to accelerate agricultural development.

2. Implement an open-market-sales program of rice and wheat to moderate consumer price increases.

3. Improve overall food security by holding and properly managing adequate foodgrain self-sufficiency reserves.

4. Phase out major elements of the Public Food Distribution System (rationing) by the time food-grain self-sufficiency is achieved.

5. Develop a private spinning industry.

6. Sell vegetable oil wholesale and retail through the private sector.

7. Use title III proceeds for agreed development projects.

With the exception of using title III proceeds for development projects, the development objectives are viewed as macroeconomic policy reforms.

According to AID officials, maintaining incentive prices, phasing out the ration system, and implementing the open market sales system are considered the primary reforms needed to provide foodgrain production incentives to Bangladesh farmers. The other reforms are considered important but are geared more toward food security and economic development than increased agricultural production.

With progress in phasing-down rationing, AID focused on providing farmers with price incentives to increase domestic foodgrain production. Bangladesh agreed to purchase all available domestic grain supplies when prevailing market prices dropped below a "floor" and to announce procurement prices before planting seasons. Thus, farmers had an incentive to increase production by using new technologies and more land because they had a market for all available supplies at guaranteed prices. Procurement was triggered during 1980 and 1981 when Bangladesh purchased about one million tons of domestic grain. According to an AID official, this action convinced farmers that the government intended to maintain this incentive.

Making food supplies available at affordable prices to foster demand was approached through a system of open market sales of government-owned commodities when consumer prices rose above a "ceiling." In effect, the government would enter markets with supplies to force prices down. Bangladesh was initially reluctant to release large amounts of food reserves for this purpose.

The World Bank and others estimate that Bangladesh needs about 1.2 million metric tons of grain reserves to achieve food security. Bangladesh was able to maintain this level until 1982, when droughts affected domestic production and led to declines in public stocks and procurement. Since then, increased imports and domestic harvests have improved stocks.

We found it difficult to directly relate the adoption of a particular policy reform to the title III program. Adopting a reform could, in fact, be due to other factors, such as the influence of other donor programs. AID officials, however, believe that title III was helpful in promoting the adoption of reforms in Bangladesh.

BOLIVIA--LONG-TERM REFORMS ARE IMPEDED BY POLITICAL AND ECONOMIC CHANGE

The first title III agreement with Bolivia in 1978 envisioned a number of reforms to be implemented over the program's 5-year life, including

--doubling agriculture's budget;

--reorganizing government agricultural agencies;

--maintaining health-sector support; and

--supporting domestic production by agreeing to purchase all wheat brought to government collection centers, which were also to be expanded.

Because of changing economic and political conditions none of the reforms were fully adopted. For example, doubling agriculture's budget and maintaining the pace of health-sector financing became unrealistic under growing balance-of-payment problems, deficits, recession, domestic inflation, and costly droughts and floods.

Reorganizing agricultural agencies ran into problems due to continual turnover of Bolivian government officials. Since signing the agreement, Bolivia has had eight presidents, constantly changing management personnel, a military coup, and repeated strikes.

The government could not completely comply with supporting wheat production by purchasing supplies through collection centers because expansion of storage facilities did not fully materialize. According to a 1982 USDA funded evaluation this was fortuitous, since the government did not have the capacity to effectively administer an expanded network of collection centers.

Bolivia's 1982 annual report and the 1982 USDA-funded evaluation recognized these problems. In 1983, the reforms were modified to reflect current conditions. Basically, references to doubling agriculture's budget and expanding wheat collection centers were deleted. However, a system was established to ensure that domestic wheat prices were not lower than prices of imported supplies.

Mission officials told us that a problem with the original title III agreement was promoting long-term changes in an environment of rapid and continuing political and economic change. Under such conditions, policy reforms are better aimed at short-term objectives.

In mid-1983, the Bolivian government established a policy analysis unit, partially financed with title III funds, to evaluate alternatives and implement agricultural reforms. Mission officials told us that to date the unit has not been effective because of changing political conditions.

SENEGAL--SOME REFORMS HAVE BEEN ACCOMPLISHED

The purpose of policy reforms in Senegal is to provide a framework which fosters agricultural and other development activities. Changes viewed as helping to achieve this goal included

--decentralizing development activities by strengthening regional organizations;

--broadening the role of farmer cooperatives;

--conserving natural resources; and

--promoting crop diversification through marketing and pricing reforms.

These reforms were to be fully implemented by 1984, when the title III agreement expired. However, no intermediate objectives were established which could be used to assess progress during annual evaluations.

According to mission officials, some progress was achieved in establishing regional development agencies and strengthening farmer organizations. For example, two quasi-governmental agencies have been dissolved and one has been turned over to private enterprise, and small village groups have recently been given access to credit. Almost no progress has been achieved toward implementing reforms to conserve natural resources or diversify agriculture.

The government did increase prices paid to farmers for peanuts, Senegal's major export crop, and production increased substantially. The international price, however, fell by almost 50 percent and Senegal suff·red a loss of over $50 million.

CONCLUSIONS

Policy reforms are important development objectives where existing practices continue to hamper agricultural development and productivity. Achieving policy reform through title III programs seems to have had mixed results in countries we visited. In Bangladesh, for example, AID officials said they believe several reforms outlined in the title III agreement are being adopted and that title III was helpful in promoting these reforms. In contrast, none of the reforms in the Bolivia agreement were adopted. Even where the recipient adopts reforms identified in title III agreements, however, there is no assurance that they are solely or directly attributable to the title III program. Since agricultural productivity is influenced by many factors, it is difficult to directly attribute improved food supplies to policy reform--the reforms may be due to the influence of other donor programs.

We believe that title III policy reforms should consider political and economic factors which could influence their adoption. Furthermore, implementation of such reforms should be evaluated annually to ensure they remain relevant to these influences. Also, adoption of achievable and worthwhile reforms should be a condition for approving continued commodity deliveries.

RECOMMENDATION

We recommend that the Secretary of Agriculture direct that before approving annual commodity deliveries, either

--progress is being achieved in adopting agreed policy reform or

--evidence shows that problems hampering progress are being addressed.

AGENCY COMMENTS AND OUR EVALUATION

AID said our report emphasized the problems of local currency use, program administration, and project implementation and did not adequately reflect the critical importance of policy reforms in title III programs or the progress achieved.

AID pointed out that weak policies are key constraints to development and require special attention in most African countries and Bangladesh. AID also said that there may be circumstances where dialogue with host governments to secure agricultural policy reforms may be preferable to allocating substantial resources to implementation and monitoring projects in the absense of policy change.

We agree with AID that in a number of less-developed countries, weak policies are a key constraint to development. We did not seek, however, to compare the relative importance of policy reform with other aspects of Food for Development Programs. Our analysis was based on concerns that eligibility for debt forgiveness should be based on certified disbursements from special accounts and overall progress in meeting requirements of title III agreements. While it is a desirable objective, policy reform is not a basis for determining eligibility for debt forgiveness.

AID said that it needs the flexibility to strike a balance between the objectives of title III, individual recipient country and mission circumstances, capabilities, resources, well-conceived policy reforms, and the need to reduce the number of projects under implementation at any given moment. We agree.

Regarding our observation that the government of Bolivia's policy unit had not been effective because of changing political conditions, AID said that the unit became functional in the fall of 1984, after the completion of our fieldwork and taken the lead in formulating macroeconomic policy reforms.

The Department of Agriculture agreed with our observations and recommendations.

APPENDIX I

GEORGE E. BROWN, JR., CALIF.,
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MINORITY CONSULTANT

April 12, 1984

The Honorable Charles M. Bowsher
Comptroller General of the
United States
General Accounting Office
441 G Street, N.W.
Washington, D. C. 20548

Dear Mr. Bowsher:

The Food for Development Program (Public Law 480, Title III) was authorized in 1977. The purpose is to link U.S. food aid to development activities in the recipient countries. It allows multi-year food aid commitments under the terms of Title I of the Act. If the country uses the commodities or the local currencies generated from the sale of the commodities for certain development activities, the loan is forgiven.

I am requesting your office to evaluate how well Title III is achieving the objective and assess what has been accomplished. The analysis should cover, but not be limited to, the following areas:

-- oversight of the Special Accounts used to manage the receipts and disbursements of local currencies;
-- reasonableness of the loan forgiveness process;
-- implementation of the development activities which are financed by the local currencies, including provisions for operating and maintaining the projects; and
-- adoption of policy reforms intended to correct basic weaknesses in a recipient country's agriculture sector.

A report on these issues by early 1985 will help us prepare for extending Public Law 480 as part of the Agriculture and Food Act next year.

Any questions regarding this request should be directed to Skip Stiles of my staff (225-6161).

Sincerely,

George E. Brown, Jr.
Chairman

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FOOD FOR DEVELOPMENT PROGRAM
CONSTRAINED BY UNRESOLVED
MANAGEMENT AND POLICY QUESTIONS

DIGEST

The Food for Development Program, even with repayment forgiveness, has had limited acceptability as a means of better linking U.S. food aid to recipient country development efforts. This program's record is not likely to improve until basic management and policy questions are solved and its incentives are coordinated with those of other food aid programs.

About $30 billion in U.S. commodities has been provided to friendly countries since 1954 under Public Law 480, the principal vehicle for providing food aid. Concessional sales, loans made with low interest rates and long repayment periods, are made under title I and donations are made under title II. To provide an incentive for recipient countries to take greater self-help measures in alleviating their food problems, title III (Food for Development) was added in 1977. It authorized a multi-year food aid commitment under title I loan terms. If a country agrees to use the commodities or the local currency proceeds for development activities that it otherwise would not undertake the loan is forgiven.

The program is administered on an interagency basis with participation by the Department of Agriculture (USDA), the International Development Cooperation Agency (IDCA), the Agency for International Development (AID), the Office of Management and Budget (OMB), and the Departments of State and Treasury. No one agency has lead responsibility and decisions are reached by consensus.

Only six agreements have been signed in 3 years. Some developing countries more capable of undertaking title III have not found it attractive in comparison to highly concessional and less demanding title I loans. The poorer countries, with the most urgent needs to overcome inadequate agricultural production, have been the least capable of meeting title III requirements. Use of U.S. food aid for development has been made difficult by a number of administrative problems.

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Demanding, complex, multiple program requirements have caused some countries to avoid the program. Countries have the choice of food aid within the title III framework or of the already highly concessional food aid under title I with less demanding requirements. (See pp. 6 to 9.)

For example, Indonesia objected to title III requirements and saw title I as less demanding, while highly concessional. No title III agreement was reached, but title I assistance was continued. (See p. 16.)

Interagency administration and disagreements within AID have complicated the program, delayed individual program approvals, and caused confusion among AID missions and candidate countries as to what constitutes an acceptable program. (See pp. 9 to 11.)

Lack of interagency agreement delayed an April 1979 proposal for Sudan until December while U.S. agencies debated the adequacy of proposed Sudanese policy reforms. Similarly, a May 1980 agreement with Senegal was signed a year after the proposal was received in Washington and after at least three major revisions. (See pp. 17 to 19.)

USDA and AID lacked planning and analysis staffs to program food aid for development at the time the legislation was passed. Such staffs have now been organized at USDA and AID headquarters level raising the potential for overlap. Overseas missions remain understaffed which hinders their efforts to assist recipient countries in necessary analysis, and program design, implementation, and evaluation. (See pp. 11 to 13.)

AID, USDA, and OMB have initiated new procedures to better program food aid for development. These actions include more systematic assessments of food aid needs and revised guidelines for the preparation of title III proposals. However, these actions are in the preliminary stages, do not provide for leadership in resolving interagency differences; and, most importantly, do not address the underlying problem that title I continues to offer an alternative of highly concessional assistance with less demanding self-help requirements.

CONCLUSIONS AND RECOMMENDATIONS

There is a need to fix responsibility and authority for the design, review, approval, and evaluation of the multi-year development plans under the title III program with one lead agency--namely AID--which could draw upon USDA and other outside technical expertise in dealing with development planning and implementation. Perpetuation of a decisionmaking process whereby every agency--and yet no single agency--is in charge raises doubts in the minds of U.S. mission and recipient government officials as to what specific additional development efforts will meet Washington approval. This conclusion reaffirms and refines GAO views on this matter as contained in two previous reports on U.S. food aid programs. GAO is making further recommendations in this report. (See pp. 23 to 25.)

U.S. policy makers face the dilemma of persuading recipient governments to take difficult self-help measures in return for U.S. food aid, which they may perceive that they will get anyway. Agencies also face the problem of getting maximum impact of food aid on development under title III with its stringent requirements in an environment of highly concessional alternative food aid under title I with less stringent requirements. The multiple objectives of the Public Law 480 program--foreign policy, market development and humanitarian and development concerns--accent this problem. A means for dealing with this dilemma is critical to the expanded use of food aid for development purposes, regardless of title. (See pp. 27 to 29.)

A policy framework for linking the concessionality of food assistance to self-help measures needs to be established. Such a policy, if it is to be meaningful, will require close cooperation among the concerned departments and agencies and will require appropriate consultation with congressional committees.

GAO recommends that the Secretary of Agriculture, in the Department's role as chair of the interagency Food Aid Subcommittee establish or refine as necessary, standards

--for tailoring the terms and self-help measures of food aid to the purposes for which such assistance is provided and to the needs of recipient countries, and

--for basing the concessionality of future assistance on the degree of recipient countries self-help performance.

AGENCY COMMENTS

GAO concluded there was a need to address the overall policy questions in it~ draft report. The concerned agencies generally agreed that further consideration needs to be given to self-help measures and other terms and conditions of the title I program and their impact on the use of food aid for development purposes, including title III. Based on its analysis of the agency comments, GAO is recommending that standards be established.

There is strong disagreement among agencies on providing AID with lead agency responsibility or of altering the basic interagency decision-making process for title III agreements. IDCA and AID have agreed with this recommendation but other agencies--the Departments of Agriculture, State, the Treasury, and OMB--believe the present process best serves the multiple objectives of the Public Law 480 program and is necessary if each agency is to meet its respective responsibilities under the program. GAO continues to believe that lead responsibility for the development design and evaluation aspects of the program should be assigned to AID. Such an assignment of responsibilities would not prevent the other agencies from exercising their responsibilities for the country allocation, commodity supply, financial and budgetary, and other aspects of the program. (See pp. 25 to 30.)

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

MAY 8 1985

Mr. Frank C. Conahan
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

In response to your request to M. Peter McPherson, enclosed are the Agency's comments on GAO's draft report, dated March 1985, entitled, "Links between Food Aid and Development Need Strengthening," (GAO assignment code 472039).

We appreciate the opportunity to review the draft report and are prepared to discuss the enclosed comments with members of your staff upon request.

Sincerely yours,

Julia Chang Bloch

Julia Chang Bloch
Assistant Administrator
Bureau for Food For Peace and
Voluntary Assistance

Enclosure

Agency for International Development
Comments on the General Accounting Office (GAO)
Draft Report on PL 480 Title III,
"Links Between Food Aid and Development Need Strengthening"
(472039), dated March 1985

We appreciate the opportunity to review GAO"s draft report on links between PL 480 Title III food aid and development needs and present our comments and suggestions on the report's findings and recommendations. In general we agree with the draft report and believe it reasonably reflects the problems and difficulties developing countries and Missions have experienced in administering and implementing Title III programs, particularly as related to administering special accounts and program management and oversight. With some reservations, AID supports the report recommendations and has already taken steps to initiate corrective action on recommendations addressed to AID.

It is generally felt in AID that while the report gives heavy emphasis on the problems of local currency utilization and need for better administration of the special account procedures, it does not adequately reflect the importance that policy reform plays in development and the progress achieved to date under Title III programs. AID specific comments and recommendations on the report follow.

GAO's Recommendations

The GAO report contains two recommendations directed to the Secretary of Agriculture for action by the Food Aid Subcommittee. We concur in these recommendations and offer no further comment.

The GAO report also contains three specific recommendations for AID:

"GAO recomends that AID's Administrator direct that:

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

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

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

With the reservations noted below, we concur in the recommendations addressed to AID. We have also included in our comments below corrective action already initiated.

Management, Monitoring and Accounting Problems

AID agrees with the GAO report findings that the lack of experienced personnel with developed administrative capabilities is particularly severe in low-income countries and presents problems in implementing, accounting, and monitoring development programs in general and Title III specifically. It is because of these weaknesses AID, in many countries, is providing Development Assistance dollars as well as PL 480 local currencies to help improve developing countries' administrative and management capabilities. We would also recognize, however, that these weaknesses may require less sophisticated systems of Title III accounting than would otherwise be desirable.

In support of the report recommendations, the AID Office of Financial Management already has underway a revision of its directives covering accounting requirements under Title III. The results will be incorporated into Handbook 19 which will form the basis for a consolidated accounting approach for all Missions to follow in helping recipient governments and Missions establish proper accounting and special account procedures.

The "PL 480 Food for Development (Title III) Program Guidance", dated January 28, 1983 outlines for Missions the information to be incorporated in the documentation to be submitted to Washington for the review and approval of Title III programs. The paper requires that the PP outline how the program is to be implemented, managed and monitored. This information is then incorporated in Annex B which is part of the Title III agreement. In view of the problems experienced in the past, AID and other agencies had been made aware of the need to more closely examine both recipient country and Mission management/administrative capabilities when considering new programs. Considerable attention was given to this matter during the development and approval of the recently approved Haiti Title III program and all future programs will be carefully reviewed in this respect.

We agree, to an extent, with the report recommendation that requests for Title III funds to support other donors' projects should identify discrete activities to receive Title III support. There may be cases, also, where provision for some future flexibility should be built in, recognizing that in a multi-year program, which is also planned over several years, some ability to adapt to future facts, short of formal amendment to the agreement, may be valuable. As the report indicates, in many instances both the recipient government and AID Mission staff face severe manpower constraints. While we recognize and accept the need for project accountability to be maintained, where projects managed by other responsible donors are well-designed and have an established system for monitoring, reporting and accounting, we feel it places unwarranted demands on already overburdened poor developing countries and Mission staff to have to establish duplicative reporting and monitoring systems. In meeting Title III accountability and monitoring requirements, as appropriate, it should be possible to draw on information provided by other responsible donors as to progress achieved and how the local currency was expended.

General Comments Regarding Policy Reform

It is felt in AID that the report does not accurately reflect the critical importance of the policy reform aspect of Title III. The treatment of policy reform indicates that it is viewed by the authors as clearly secondary to programming of local currency funds for project implementation. For example, in the executive summary, although the report acknowledges that policy reforms "are an important development objective", (p xii), the interpretation of the legislation (p i) implies that the primary goal of the program is project-related and that the policy aspect is almost incidential. Quoting from page i, "Policy reforms...can also be stipulated in the agreements to help remove basic causes of poor agricultural productivity." As a reflection of this attitude in the report, none of the recommendations made on pages xii and xiii addresses the central role of policy reform in development. For most African countries, it is considered by AID as a well established fact that weak policies are the key constraints to development, requiring special attention. Similar conditions exist in Bangledesh.

We do not question that financial accountability is essential under all circumstances. In striking a balance among the various objectives of Title III, however, we believe that there may be individual country circumstances where entering into a well conceived policy dialogue with the host government to secure agricultural policy reforms may be preferable to allocating a substantial amount of resources to implementation and monitoring of projects in the absence of policy change. Indeed, the AID Africa Bureau strategy formulated to deal with

GAO note: Page number references may not correspond to page numbers in the final report.

the very difficult problems of development in sub-Saharan Africa has emphasized two critical areas: first, the need for well-conceived policy reforms to effect the structural changes without which most African economies cannot expect to move forward; and second, in view of both limited host country management capacity and limited AID staff resources, the imperative to reduce the number of projects under implementation at any given moment. The availability of a multi-year resource more flexible than project funding is crucial in helping recipient countries to implement and sustain difficult policy changes.

Country Comments

Bangledesh

Overall Program Situation

The draft GAO report treats lightly the fact that the Title III program in Bangledesh has helped implement major policy reform. Major policy improvements were, in fact, effected in the areas covered by the Title III program: foodgrain procurement and support prices procedures were markedly improved; the subsidies inherent in the Public Food Distribution System (PFDS) were substantially reduced; and excessive retail price rises for foodgrains during periods of scarcity were effectively controlled through the Open Market Sales (OMS) program. It is correct that these improvements had the support of major elements in the Bangladesh Government (BDG), but it is improbable that the BDG as a whole would have carried them out as rapidly and completely in the absence of the Title III program.

There is fairly heavy criticism as to the inadequacies of the BDG, AID staff limitations, monitoring problems, yet, at the same time, recognition that there are potential harmful effects of overly rigorous AID procedures. We are thus faced with a situation in Bangledesh which is typical of many AID programs in underdeveloped countries: An important measure of progress can be made, but there will be shortfalls and defects; a reasonable degree of accountability can be readily established, but it may be the case that it can be brought up to the level that would be possible in the United States itself only at a prohibitive cost in US resources and Mission leverage with its counterparts.

Suggested Resolution

We feel the problems posed by this situation could be addressed in future Title III agreements with Bangledesh as follows:

1. The special account should be established. If properly handled, it will not present major diplomatic, administrative, or accounting problems (we have such accounts in the case of most PL 480 Title I/III programs) and it will create a proper audit trail.

2. Utilization of the local currencies generated by the Title III program should continue in much the present mode, with application to help defray the cost of projects managed by reputable donor organization (e.g. World Bank, Asian Development Bank) and primary reliance on such reliable donors for project management and accounting. The present USAID overview procedures would be retained.

We could thus have the best of both worlds. The special account would provide the audit trail, insuring the local currency was in fact disbursed to, say, World Bank project X and Asia Development Bank Project Y. From that point, we could depend on those organizations (which are as competent as we are) to manage and account for the projects without the confusion and intrusion that would be entailed were we to come in and seek to duplicate their efforts.

Errors in the Draft

Although the draft is, on the whole, a reasonable presentation of the problems found in the Bangladesh Title III program, we want to point out some factual errors and comment on questionable interpretations.

1. The GAO draft report (page 16) states:

"In Bangladesh, reports did not include supporting information and documentation or describe specific Title III activities or evidence that disbursements were made for eligible purposes." This statement overstates the problem. The BDG had to submit detailed project documentation at the time that projects were approved for Title III funding. This BDG documentation included the individual project proforma describing the activity and the Medium Term Foodgrain Production Plan which identified these projects as BDG priorities. This BDG documentation was substantiated by Mission contact with the primary foreign exchange donor (often the World Bank) which

APPENDIX III

meant that the Mission also had copies of the other donor's project documentation both describing the project and performance. With this documentation in the files, the Mission did not require the BDG to submit descriptive material with each quarterly disbursement. The BDG had to certify that the appropriate implementing agency had detailed and auditable documentation in its records to substantiate each disbursement. Finally, the Mission monitoring system confirmed both the actual implementation of the projects and the financial status of the project.

2. The dropping of the fertilizer project is not properly described on page 29 of the draft. The GAO auditors indicate it was dropped because: "it was subsidizing sales and adversely affecting private production." The project was, in fact, dropped because it was contributing to the excessively costly fertilizer subsidy. But the issue of adversely affecting private production is incorrect. There is no private production of fertilizer, and the fertilizer subsidy does not adversely affect private foodgrain production.

3. On pages 36/37, the report notes the deficiencies and problems encountered during the limited 2 year duration of the monitoring and coordinating unit. However, the report does not go on to discuss Mission efforts to correct this problem, including the hiring of a full-time direct hire FSN and a full-time contract FSN to manage and monitor Title III activities. It should be pointed out that the considerably higher supervisory profile this draft report recommends would inevitably require engaging private accounting firms or hiring additional staff (probably contract, given direct-hire ceilings) in the future. Such local currency support financing is currently being provided under the Title III program in Sudan to assist with management/monitoring requirements. If the Mission must move in this direction, then consideration certainly should be given to funding the additional assistance from Title III proceeds -- a requirement sure to be seen by the Government as offensive and wasteful of resources which should be used for the poor of Bangladesh.

Bolivia

In the section titled "Bolivia--Long Term Reforms Are Impeded by Political and Economic Change", on page 50, the draft refers to the Policy Reform unit set up by the Bolivian Government in 1983. The draft, prepared last summer, states "AID Mission officials in Bolivia told us that to date, the unit has not been effective because of changing policiial conditions." We suggest that this be deleted and replaced with the following:

> Uncertain political and economic conditions in Bolivia and the resultant changes in the President's cabinet and the economic team delayed initiation of a functional role for the Unit within the GOS policy-making process until the Fall of 1984. The Unit has taken the lead since then in formulating macroeconomic policy reforms, working closely with the Central Bank and the Ministry of Planning. It is worth noting that this has been true despite further cabinet changes. The Mission believes that the Unit is accepted within the Bolivian Government as an integral part of the policy making bureaucratic structure.

Senegal

The evaluation of the Senegal program is fair. The problems identified and successes achieved are properly stated. Largely as a result of the situation described in the report, aggravated by the difficulties of complying with program requirements with a limited staff, the Title III program has been discontinued in Senegal.

Sudan

On page 15, the report notes that AID staff questioned certain expenses certified for offset purposes. It specifically notes the Sudan program received offset for US contractor expenses, including those for residential facilities, which was approved by AID's regional legal advisor. The report does not indicate the basis of the legal approval and may leave the impression the offset was inappropriate. It should be pointed out that in many poor countries like Sudan the rural areas where projects are being developed and implemented have absolutely no facilities or infrastructure to support project technicians. In the case of Sudan, Title III local currency is financing the infrastructure to house and support both US and Sudanese technicians who will implement the projects, such as rural health facilities. Upon completion of the project, the facilities are turned over to the GOS for project use.

APPENDIX IV
United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

MAY 6 1985

Mr. J. Dexter Peach
Director
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We have reviewed the GAO Draft Report "Links Between Food Aid and Development Need Strengthening." covering the Title III, Public Law 480 Food for Development program. The Department of Agriculture (USDA) agrees with the General Accounting Office that the Title III program is most successful in meeting agricultural development needs where there are capable host-country institutions with adequate, trained personnel, and AID involvement. The draft report's findings adequately summarize the need for participating countries to manage properly local currencies, effectively implement development projects, and adopt policy reforms.

In general, USDA accepts the GAO recommendations described at the end of Chapters 2, 3 and 4, i.e., deliberations on approving Title III agreements and annual commodity deliveries must take into account whether (a) adequate accounting systems are in place or steps are under way to develop such systems and (b) approval should be based on progress in implementing development project and adopting policy reforms, or on evidence that problems are being addressed. However, as is reflected in the bulk of this report, the primary role in Title III falls to AID, especially through its overseas missions. The USDA, through its chairmanship of the Food Aid Subcommittee, will work with AID toward achieving these improvements, and will request that agency to assure the Subcommittee of program conformance with the intent of those recommendations.

We have the following specific comments on the draft report as follows:

(1) The draft report refers to policy reforms that promote domestic crop production over export cash crop production as a primary objective. It should be noted that in some cases an objective that strengthens a country's comparative advantage and leads to increased trade may be more productive from both an agronomic and economic point of view. This self-sufficiency approach is especially important in countries where resources and available technology are very limited or costly.

Mr. J. Dexter Peach

(2) Page 4 of the draft report states that the requirement for additionality and certain documentation may be waived. The only aspect of additionality that may be waived is the provision that Title III assistance not replace any part of the development program of the recipient country and no waiver of this aspect of additionality or documentation is permitted unless the recipient country is on the UNCTAD list. (7 U.S.C. 1727c(c)).

(3) Page 4 of the draft report states that "CCC is authorized to pay the cost of commodities and all related charges to deliver them to the recipient country." In fact, CCC may pay freight charges only for countries on the UNCTAD list of relatively least developed countries. (7 U.S.C. 1727c(d)).

(4) On page 2, the draft report cites an annual per capita income level of $795 or less for a country to qualify for the Food for Development program. There is no requirement for a specific income level for participation in the Food for Development program. However, to be eligible, a country must meet the criteria for development loans of the International Development Association of the International Bank for Reconstruction and Development, which include an annual per capita income level that varies year to year. (7 U.S.C. 1727a(b) (2)).

(5) The draft report refers to a statutory requirements that the aggregate value of Food for Development Programs be not less than 15 percent of the aggregate value of Title I agreements in a fiscal year. You may wish to note that this minimum may be waived when there is an insufficient number of qualifying projects. (7 U.S.C. 1727a(c) (2)).

(6) The draft report refers to Title III long-term "loans." Technically, USDA does not lend money under Title III but extends credit by financing commodity purchases. The terms "credit", "debt", "obligations", or "agreements" should be substituted for the term "loans", as appropriate, in the draft report.

(7) References in the draft report to the "U.S. Government Subcommittee on Food Aid" should, more accurately, refer to the "Food Aid Subcommittee of the Development Coordination Committee."

Sincerely,

Richard A. Smith
Administrator

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