COMPTROLLER GENERAL

Report To The Subcommittee On Africa, House Committee On Foreign Affairs

OF THE UNITED STATES

Search For Options In The Troubled Food-For-Peace Program In Zaire

Providing food to Zaire has been an important part of U.S. assistance to this economically troubled country since 1976. From the beginning of the program, monitoring and controlling food distribution--especially rice--has been a problem.

This report discusses this issue, the management of Zairian currency generated by food sales, and program alternatives.

UNITED STATES GENERAL ACCOUNTING OFFICE

ID-80-25

FEBRUARY 22, 1980

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-197637

The Honorable Stephen J. Solarz
Chairman, Subcommittee on Africa
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

We are pleased to provide you our report on the Public Law 480 program in Zaire, as requested in your letter of June 19, 1979. Our observations are summarized in the digest.

By arrangement with your office, we have not obtained formal comments from the concerned agencies, but we have discussed the matters in the report with program officials and have considered their comments in preparing the report. In addition, as arranged with your office, we are sending copies of the report to Mr. William F. Goodling, Ranking Minority Member; the Chairman, Committee on Foreign Affairs; the Administrator, Agency for International Development; the Secretaries of Agriculture and State; and to the Director, Office of Management and Budget. Copies will also be available to others who request them.

Sincerely yours,

Comptroller General
of the United States

Enclosure

COMPTROLLER GENERAL'S REPORT TO THE SUBCOMMITTEE ON AFRICA, HOUSE COMMITTEE ON FOREIGN AFFAIRS

SEARCH FOR OPTIONS IN THE TROUBLED FOOD-FOR-PEACE PROGRAM IN ZAIRE

D I G E S T

In 1976, during the wake of serious deterioration in the Zaire economy, the United States increased its food assistance to this troubled country. But continuous abuses of the program--especially with rice--prompted consideration of program alternatives.

Serious problems in controlling and monitoring the receipt and distribution of rice and in controlling the receipt and disbursement of Zaire local currency generated by the sale of U.S.-provided commodities, placed unprecedented efforts and a heavy burden on the U.S. Mission (U.S. Embassy and Agency for International Development Mission.)

Public Law 480 (the Agricultural Trade Development and Assistance Act of 1954, as amended) is the principal vehicle for providing U.S. food assistance to friendly countries. Since 1976, about $66.8 million has been programed under title I which provides for the concessional sale of agricultural commodities and about $7.3 million under title II which authorizes food donations to meet famine or other urgent requirements.

The House Foreign Affairs Subcommittee on Africa asked GAO to review the implementation of the fiscal year 1978 title I rice distribution plan and other related matters. All of the fiscal year 1978 rice was distributed during calendar year 1979.

RICE DISTRIBUTION AND MONITORING

U.S. officials believe that there were fewer abuses in distributing the 15,700 metric tons of title I rice during 1979 than there had been during distributions of prior years.

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The scarcity of complete and accurate records, and the limited U.S. monitoring, however, makes it impossible to measure how well or how badly the agreed-upon distribution plan was adhered to at the retail level. GAO estimated, based upon available records and discussions, that 13 percent of the rice (over 2,000 metric tons) was unaccounted for by the time it reached the major importers/distributors. Although thousands of persons benefited from sale at official prices, there were reported instances of where rice (1) was sold at much higher prices, (2) was improperly sold to government officials, and (3) was diverted to the blackmarket.

The U.S. Mission's capability to monitor the distribution was limited. The Department of State was unable to provide guidance on setting up a monitoring system, and the Government of Zaire would not agree to an independent audit by a private accounting firm. The U.S. Department of Agriculture did not provide a requested auditor because it did not want to set a precedent for in-country audits of title I. Nonetheless, monitoring efforts of the U.S. Mission and of the Government of Zaire did lead to investigation and prosecution of instances of violations.

The fiscal year 1979 program (under which rice is now being distributed) provides for clearer contractual relationships with importers/distributors and for more systematic reporting at various steps of the distribution process. Whether this will result i better control remains to be seen. (See ch. 2.)

OTHER COMMODITIES

Wheat, cotton, and tobacco, unlike rice, are processed into other products before consumption. These commodities are handled by a very few importers/distributors and appear to be better controlled. There were no apparent indications that these commodities were subject to extensive abuse. Wheat flour may be subject to control problems, but it is distributed under the supervision of the only large wheat mill in Zaire, thereby simplifying the problem. (See ch. 3.)

COUNTERPART FUNDS

Over the past year, the AID Mission has attempted to bring management of counterpart funds--local currency from commodity sales--under control. During this period the AID Mission and the AID Auditor General noted, among other things, that the Government of Zaire released counterpart funds, totalling the equivalent of $1.3 million dollars, to Government officials without obtaining the required AID project approval, and that long overdue deposits had not been made to the fund.

The AID Mission reached an agreement with Zaire for the restitution of the $1.3 million in counterpart funds by bringing under the umbrella of the fund, other agricultural development projects which were being directly funded by that Government. Zaire is also attempting to collect amounts past due from importers/distributors and has agreed to provide monthly reports of receipts and disbursements, which, if submitted, can be used by the AID Mission to monitor deposits and withdrawals. The problems of counterpart fund controls are not unique to U.S.-generated funds. Therefore, a coordinated effort among all donors may be necessary to strengthen controls. (See ch. 4.)

OTHER FOOD PROGRAMS

The U.S. title II donations program in Zaire and the food programs of other donors have not provided much insight on potential alternatives to the U.S. title I sales program. Methods used by other donors to distribute food are similar to those used under title I. They, too, have had similar problems. Title II programs have concentrated on emergency relief for comparatively short periods of time in areas close to ports. As such, they do not shed much light on the more difficult problem of extending the programs to the interior provinces of Zaire. (See ch. 5.)

CONCLUSIONS

The experience of the United States and other donors in Zaire suggests that some food losses and abuses are likely to continue. It also suggests that appropriate monitoring may be desirable. More importantly, it raises serious questions about the best method of achieving U.S. objectives.

GAO discussed with U.S. officials various options, including substitution of wheat and other commodities for rice, auctioning of rice, expanding the use of religious and other groups under title I, and transferring rice from a title I to a title II program. No simple answers exist.

The vastness of Zaire, the lack of adequate storage and transportation facilities, the economic conditions which have fostered an extensive blackmarket, along with the limited capability of the U.S. Mission to monitor the program, raise serious questions about the extent to which program abuses and commodity losses can be controlled. It is questionable whether food can be provided at less-than-market prices in the Zaire food-scarce situation without abuses; although continued monitoring may help to control the extent of abuse.

Consideration of alternatives raises many questions.

--To what extent can abuses be controlled or tolerated in the context of U.S. objectives?

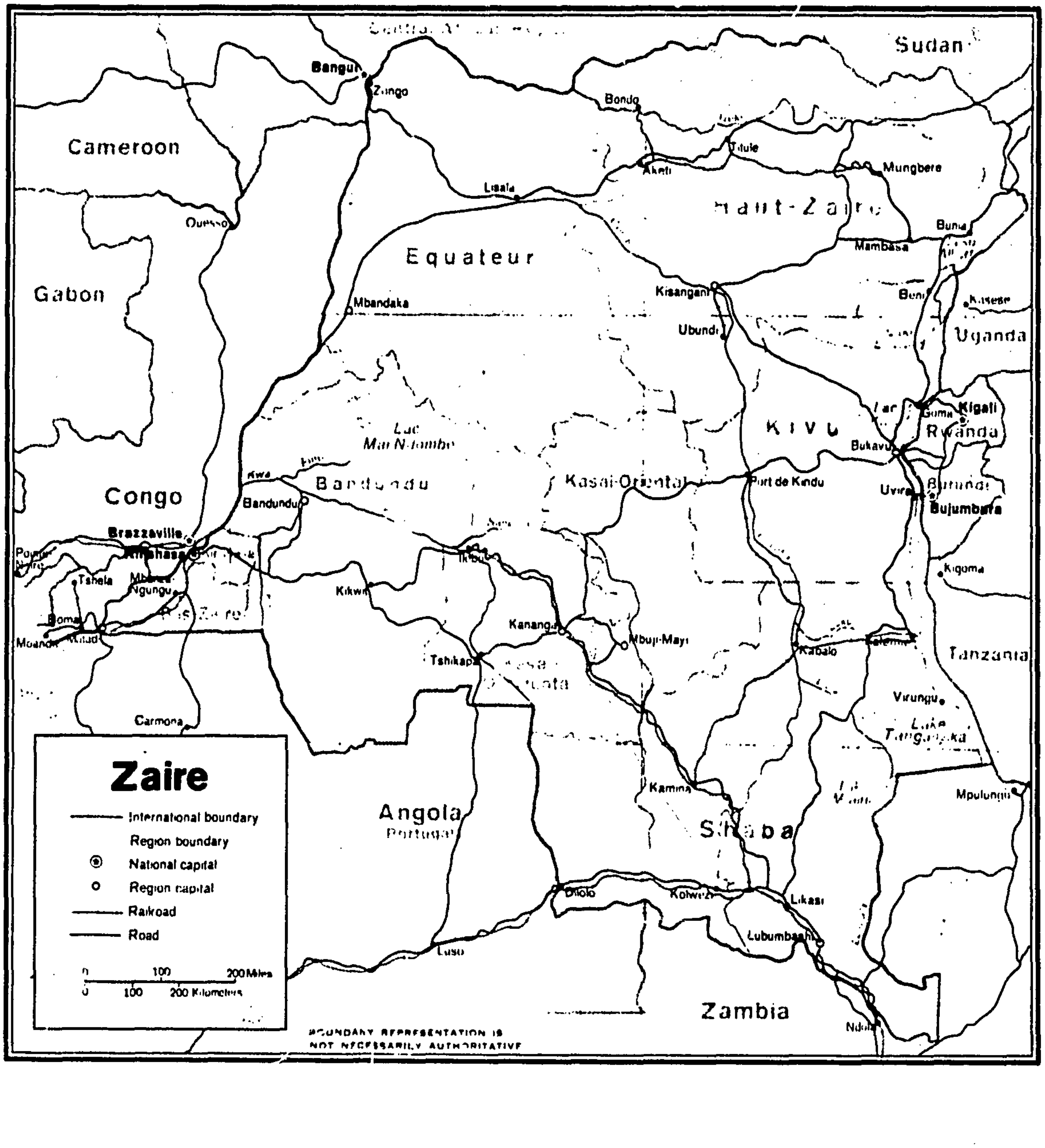
--To what extent should the United States be involved in planning, implementing, and monitoring commodity distribution under title I, and is it willing to bear the cost of such involvement?

--Can the United States achieve, in concert with other donors, a more coordinated approach to defining specific food needs in Zaire and the most appropriate means to distribute this food?

--Can the United States develop, and successfully promote, more definitive standards of performance for and means to assist the Government of Zaire to better manage commodity distribution and the use of counterpart funds? (See ch. 6.)

AGENCY COMMENTS

GAO did not obtain formal comments on the report from the concerned agencies, but discussed its contents with program officials of the Departments of Agriculture and State and of the Agency for International Development. Their comments were generally of a technical nature and were used in preparing the report. These officials, however, did not provide the agencies' comments on the policy aspects of the report.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Zaire
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Railroad
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Kolwezi
Likasi
Lubumbashi
Luso
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Contents

ABBREVIATIONS

AID	Agency for International Development
CRS	Catholic Relief Services
GAO	General Accounting Office
MIDEMA	Minoterie de Matadi
UNHCR	United Nations High Commissioner for Refugees
USDA	United States Department of Agriculture

CHAPTER 1

INTRODUCTION

We have reviewed the U.S. Public Law 480 or Food-For-Peace Program in Zaire. Public Law 480 (the Agricultural Trade Development and Assistance Act of 1954, as amended) is the principal vehicle for providing U.S. food assistance to friendly countries. Title I provides for the concessional sale of agricultural commodities; title II authorizes food donations to meet famine or other urgent requirements, to combat malnutrition, and to promote economic and community development.

This program has become an increasingly important part of U.S. economic assistance to Zaire. Because of its natural resources, size, location, and economic potential, Zaire is important to the stability and development of central and southern Africa.

During March 1979 hearings, testimony regarding corruption in the title I rice program was presented to the House Foreign Affairs Subcommittee on Africa. It was alleged that, due to profiteering of politically connected businessmen, U.S. rice sold to Zaire on a concessional basis was being resold in Zaire at mark-ups as high as 400 percent, well beyond the means of the average citizen of Zaire. In addition, claims were made that some of the U.S. rice bound for Zaire was being diverted to neighboring Congo-Brazzaville where higher prices could be realized.

During a March 1979 mark-up session on the International Development Cooperation Act of 1979 (H.R. 3324) by the full Committee, the Chairman of the Subcommittee on Africa proposed an amendment transferring the rice portion of the Zaire title I concessional sales program to a title II donation program. The subcommittee believed that rice would more likely reach the needy if distributed by private voluntary or international organizations under title II, rather than through normal commercial channels under title I. Although this amendment was not adopted, the House Foreign Affairs Committee stated in its report on the proposed legislation that the Committee intended to

> "* * * monitor closely the new efforts by AID to assure honest and fair administration of the Title I program in Zaire, and will reserve the possibility of recommending against further Title I rice for Zaire in the future if anti-corruption measures are not successful."

On June 19, 1979, the Chairman, Subcommittee on Africa, requested that we review various aspects of the Zaire Public Law 480 program. (See app. I.)

U.S. ECONOMIC ASSISTANCE

U.S. assistance has been designed, in concert with other donor assistance, to elicit economic and political reforms necessary to arrest deterioration of the Zaire economy and to improve the well-being of the disadvantaged in Zaire. The focus was placed on development of the Zaire unexploited potential in agriculture, including increased food production by small farms. In the wake of serious economic problems, the United States increased assistance to Zaire in 1976, after several years of relatively low levels of assistance during the early 1970s. (See following table.)

UNITED STATES

ECONOMIC ASSISTANCE TO ZAIRE a/

Fiscal Year	AID and Predecessor Agency b/			P.L. 480 Food-for-Peace c/			Peace Corps Grants	Emergency Aid to Zaire	Total Economic Assistance
	loans	grants	total	Title I	Title II	total			
	(millions)								
1962-1975	$ 94.2	$207.7	$301.9	$110.7	$30.3	$141.0	$10.3	$ --	$453.2
1976 d/	13.5	6.1	19.6	12.7	--	12.7	4.4	--	36.7
1977	16.6	3.4	20.0	13.4	--	13.4	2.9	--	36.3
1978	5.4	4.6	10.0	5.0	0.4	5.4	3.6	--	19.0
1979	5.0	4.4	9.4	25.0	4.2	29.2	3.2	6.6 e/	48.4
Total	$134.7	$226.2	$360.9	$166.8	$34.9	$201.7	$24.4	$6.6	$593.6

Notes:

a/Contributions totalling $28.0 million to the United Nations for Congo technical and operational assistance (FY 1963-70) are not included.
b/Development assistance and economic supporting assistance.
c/Actual shipments.
d/Includes transitional quarter.
e/Reflects assistance for calendar years 1978 and 1979.

Source: Agency for International Development.

Excessive foreign borrowing, unrestrained government spending, and poor export earnings reportedly brought the Zaire economy to the brink of insolvency in 1976. Conditions continued to worsen. Inflation was over 100 percent in 1978, and the gross domestic product continued to fall. Increasingly, the debt service payments consumed large amounts of Zaire's foreign exchange, thereby restricting the ability to procure imports necessary for agricultural and mineral production.

Zaire is an important source of copper, zinc, tin, columbium-tantalum, and manganese. It is also the world's single largest source of cobalt. Further, half of the non-Communist world's industrial diamonds are produced in Zaire. Yet, about 85 percent of the Zaire population is rural and depends largely on traditional agriculture for a livelihood. Following the disturbances regarding independence in 1960 and the subsequent civil unrest, food production in Zaire did not regain pre-independence levels until about 1970. Even then, however, per-capita food availability declined. In 1978, total food production was at about the same level as 1970, but per-capita production had declined 20 percent from that year.

Decreases in agricultural production have been attributed to

--government investment neglect;

--the deleterious effects of specific government policies, such as the 1973 nationalization which hurt the Zaire plantation system;

--unrealistic and self-defeating crop price controls; and

--widespread deterioration of transportation.

Zaire came to depend increasingly on food imports whereas, formerly it had been self-sufficient or had produced a surplus for export in a number of commodities.

Food stocks dropped dramatically in 1978 as a result of (1) the foreign exchange crisis which limited food imports, (2) the domestic crop failure due to drought, and (3) the difficulties in marketing those crops that were produced. Food prices in urban areas surged beyond the reach of a significant part of the population. In 1976 and 1977, U.S. economic assistance focused on immediate balance-of-payment support. Yet, economic recovery was not possible without fundamental economic and political reforms.

Beginning in 1978, U.S. policy incorporated certain reforms--formulated in concert with other donors--as preconditions to further assistance and as necessary to halting the economic decline and to prepare for long-term recovery. These reforms centered around the signing of an International Monetary Fund standby agreement and the appointment of expatriates in key positions of monetary and fiscal management in the Central Bank, the Treasury, and Customs. The agreement included exchange rate and price adjustments, deregulation of marketing and production, development of an appropriate interest-rate policy, and a larger allocation to agricultural development of available foreign exchange and domestic resources.

Public Law 480 assistance

The Public Law 480 programs were deemed critical to U.S. economic assistance because they

--provide leverage through balance-of-payment support to effect major reforms and policy changes;

--meet a critical need for basic food, pending increased domestic production and improved distribution; and

--enable the United States and the Government of Zaire, through the generation of local currency, to influence the allocation of domestic resources to meet development objectives.

Local currency, known as counterpart funds, has been generated in Zaire from the import and local sale of agricultural commodities under Public Law 480 Title I concessional sales programs. Although the Government of Zaire owns the counterpart funds, they are to be used as mutually agreed to by AID and the Government of Zaire. Acceptable uses are for agriculture, transportation, and health (including population/family planning). Emphasis should be placed on directly improving the lives of Zaire's poorest people and on their ability to participate in the development of their country.

The U.S. Mission has noted that without the leverage provided by Public Law 480 Title I food assistance, it is doubtful whether the United States could encourage a program of agricultural development or whether shortrun political and economic stability could be maintained in Zaire unless alternate supplies of food were assured.

About $7.3 million of emergency food was programed under title II in calendar years 1978 and 1979 of which $4.6 million had been shipped as of the end of fiscal year 1979. Public Law 480 Title I commodities--programed by dollar value and metric tons for fiscal years 1976 through 1979--are shown in the following table.

UNITED STATES

PUBLIC LAW 480 TITLE I COMMODITIES PROGRAMED

FOR ZAIRE

Commodity	FY 1976 (note a) Value (millions)	FY 1976 (note a) Metric tons	FY 1977 (note b) Value (millions)	FY 1977 (note b) Metric tons	FY 1978 (note c) Value (millions)	FY 1978 (note c) Metric tons	FY 1979 (note d) Value (millions)	FY 1979 (note d) Metric tons	Total Value (millions)	Total Metric tons
Wheat	$ -	-	$ -	-	$ 6.4	45,000	$ 4.7	24,550	$11.1	69,550
Rice	8.0	27,000	4.9	19,000	4.6	15,700	7.4	20,000	24.9	81,700
Cotton	5.0	3,484	-	-	3.0	2,200	3.5	2,200	11.5	7,884
Tobacco	-	-	13.3	3,000	4.0	1,000	1.4	300	18.7	4,300
Corn	-	-	0.6	5,000	-	-	-	-	0.6	5,000
Total	$13.0	30,484	$18.8	27,000	$18.0	63,900	$17.0	47,050	$66.8	168,434

Notes:

a/Agreement signed March 25, 1976; commodities shipped during fiscal year 1976.
b/Agreement signed May 24, 1977; commodities shipped during fiscal years 1977 and 1978.
c/Agreement signed August 25, 1978; commodities shipped during fiscal year 1979.
d/Agreement signed July 27, 1979; shipment of commodities other than rice began in fiscal year 1979. Rice shipments began in fiscal year 1980.

Source: Agency for International Development.

SCOPE OF REVIEW

Our review was directed to the following questions about the Public Law 480 Title I program in Zaire.

--To what extent has the fiscal year 1978 rice distribution plan been successfully implemented?

--Does AID have the capability to effectively monitor rice distribution?

--Are controls also needed for title I commodities other than rice?

--Does AID adequately monitor the use of counterpart funds?

--What are the advantages and disadvantages of various options to the present rice program?

Although we focused primarily on the title I rice program, we also briefly examined the distribution of commodities by the Catholic Relief Services (CRS) under a fiscal year 1979 title II emergency program for insight into the feasibility of distributing rice in this manner as an alternative to the title I program.

We examined records and discussed the program with officials at the Departments of Agriculture and State and at the Agency for International Development (AID) in Washington. During our visit to Zaire during October and November 1979, we talked with the U.S. AID Mission, the U.S. Embassy and the U.S. Agricultural Attache, Government of Zaire officials, rice importers and distributors, and other bilateral and international donors in Kinshasa, Lubumbashi, and Bas Zaire province. The AID Mission, the U.S. Embassy, and the U.S. Agricultural Attache were all actively involved in the title I program. Therefore, we use the term U.S. Mission as a general reference to U.S. officials in Zaire rather than to specific components of the U.S. organization.

Many of the matters discussed in this report were not fully documented by reliable records. This was especially true for rice sales by importers/distributors and for monitoring actions by the Government of Zaire. Records available to us in many instances were fragmented and incomplete or nonexistent. Therefore, much of the information in this report was obtained through discussions.

CHAPTER 2

MONITORING THE FISCAL YEAR 1978

RICE DISTRIBUTION PROGRAM

The U.S. Mission, by involving itself extensively in the planning for and monitoring of Public Law 480 Title I rice in Zaire, undertook a task without precedent in the title I program. The extensive involvement in the fiscal year 1978 rice distribution program resulted because of problems under the programs for fiscal years 1976 and 1977.

In the judgment of U.S. officials in Zaire, distribution of rice under the 1978 distribution plan improved over prior years. Yet, there were serious problems in controlling and monitoring the receipt and distribution of rice, with attendant losses resulting. The U.S. Mission's capability to monitor the distribution was limited. Receipt and sales records were missing or incomplete. Therefore, the extent to which provisions of the rice distribution plan were adhered to may never be known.

The monitoring effort of the U.S. Mission and of the Government of Zaire, combined with investigations and prosecutions of program abuse, indicate that the Government of Zaire made an effort, albeit not an unblemished one, to see that rice was distributed in accord with the plan.

The rice distribution plan for fiscal year 1979 requires clearer contractual relationships and more systematic and mandatory reporting. Whether those requirements will be met and, more importantly, whether they will serve as a better control remains to be seen. Even if the 1979 plan is diligently pursued, the difficulties in controlling and accounting for imported rice--including potential major losses at ports even before the rice gets into the distribution system--had not been fully resolved as of January 1980.

WHY A RICE DISTRIBUTION PLAN?

After several years of low or zero title I levels, the program became a significant element of U.S. assistance to Zaire in fiscal year 1976. The fiscal year 1976 program did not go smoothly from the start. This was thought to be partially due to inexperience and lack of careful planning by the Government of Zaire. For example, although only 10 firms were involved in importing rice, over 60 different firms handled its distribution. The distribution was characterized by a lack of control over prices, and the Government of Zaire had considerable trouble collecting counterpart funds due to its extension of credit to the distributors.

The problems in the fiscal year 1976 program led to agreement between U.S. and Zaire officials on a fiscal year 1977 sales plan for rice and also for corn which had been added to the program. The plan featured

--a smaller number of distributors (there was no requirement for U.S. concurrence);

--officially controlled prices; and

--an eventual (but not initial) requirement to break down 45-kilogram sacks of rice into 5-kilogram bags for distribution to consumers.

This plan proved to be ineffective, however, in preventing abuses. In the opinion of U.S. officials, these abuses may have occurred to some extent because the Government of Zaire applied the plan late and did not follow through on controls. Abuses that have been reported include

--sale of rice at highly inflated prices;

--distribution of rice to special interest groups;

--possible, but not proven, smuggling of rice to Brazzaville;

--failure of importers/distributors to publish prices;

--failure to rebag rice in small bags;

--inability of one importer to account for about 350 tons of rice; and

--diversion of corn to breweries and diversion of corn for animal feed.

Subsequently, attention was turned to establishing tighter controls over the fiscal year 1978 program.

WHAT THE PLAN PROVIDES

Corn was dropped from the fiscal year 1978 program, and U.S. officials insisted on approval of a rice distribution plan before purchase authorizations were issued. U.S. and Zaire officials agreed on a plan in September 1978.

--Zaire was to submit for U.S. approval a list of importers/distributors meeting specified criteria.

--Eighty-five percent of rice sales were to be directly distributed to consumers in 5-kilogram bags; 15 percent were to be distributed in 45-kilogram bags to companies having canteens for their workers, and to hospitals, prisons, schools, and charitable organizations.

--All importers/distributors were to publish prices and the complete list of the places where rice was to be sold, in the local press.

--Each importer/distributor was required to sell his rice allotments over a 3-month period.

The distribution was to be supervised by the Zaire Department of National Economy and Industry which was also to set official prices for each region. Official prices were set February 23, 1979. Regional commissioners and the Kinshasa city commissioner--along with Department regional authorities, other Government of Zaire entities, and private trade and labor associations--were to organize the rice distribution locally and to monitor rice sales. Fifty-two percent of the rice was to be sold in Kinshasa; 18 percent in Shaba; 12 percent in Bas Zaire; and 6 percent each to Bandundu, East Kasai, and West Kasai. The regions of Haut Zaire and Kivu, as well as other localities known as important rice-producing areas, were excluded from receiving Public Law 480 rice so that local production would not be discouraged.

U.S. approval of the importers/distributors to receive rice involved the U.S. Mission in considerable controversy. Criteria for selecting importers/distributors set forth by the Government of Zaire Executive Council on August 25, 1978, included regular payment of counterpart funds; capability to repack rice in 5-kilogram bags; existence of a commercial organization that could directly reach consumers; and payment of taxes. The Department of National Economy compiled a list of firms meeting the criteria. Several influential firms not included on the list lodged protests with that Department and with the U.S. Embassy. However, they were still not listed.

Although the Embassy was apparently convinced that the approved firms had met the criteria for selection, events proved otherwise. One firm in Bas Zaire was found to have an insufficient distribution network. Zaire authorities cut the firm's rice allotment in half and awarded the difference to another firm. It was also disclosed in October 1979 that as of July 31, 1979, three other firms were in arrears in payments to the counterpart fund from participation in prior year programs.

MONITORING OF IMPLEMENTATION

At best, the U.S. Mission had limited capability to monitor the distribution of 15,700 metric tons of rice to the city of Kinshasa and to five Zaire provinces--involving 30 importers/distributors, multiple retail outlets, company canteens, schools, hospitals, and the armed forces.

The U.S. Mission's extensive involvement in a title I program is unusual. Title I concessional sales have historically been treated as a commercial transaction insofar as the receipt and disposition of commodities by the recipient governments are concerned. Under these programs, the U.S. Department of Agriculture (USDA) maintains control over commodities until they are loaded on ships. It then tries to obtain information on the quantity and condition of commodities received from the recipient country. Sales of the commodities in-country are not specifically monitored. Therefore, the program in Zaire is unique in the extensive involvement of U.S. officials in planning for and monitoring the sale of title I commodities.

Port controls

A basic element of commodity control begins with adequate physical control of commodities upon arrival in-country, and with accurate information on quantities received and their condition. Such information is vital to the settlement of claims for losses in transit and for accounting for distributed commodities. In the case of Zaire, such reports become more important as the necessary foundation for monitoring the entire rice distribution process.

Few accurate tallies have been made for the arrival in Zaire of Public Law 480 Title I commodities. In August 1979, the U.S. Agricultural Attache reported that in spite of a 6-month effort, he had been unsuccessful in obtaining complete reports from the Government of Zaire on the arrival of title I commodities at the port of Matadi, where most commodities are received. This situation was unchanged at the end of October 1979, and there was no indication that the information necessary for these reports would be forthcoming.

Officials from the Zaire port authority, from the major independent cargo surveyor, and from the major freight forwarder, each informed us that they did not trust the respective cargo tallies of the other. In January 1980, the U.S. Embassy reported that it had initiated discussions with these parties and the Government of Zaire on methods of controlling rice from arrival through to distribution points. The port authorities asked to be relieved of accountability for rice held at depots in Matadi because it cannot be controlled. Although their responsibility was reaffirmed, their request accents the difficulties in preventing losses at the port.

Monitoring actions

The U.S. Mission said that 73 staff-months were used between August 1978 and October 1979 to negotiate, implement, report on, and monitor the title I and title II programs and the title I counterpart funds. Yet, in January 1979 the U.S. Mission reported that its ability to monitor the distribution and sale of rice was limited.

U.S. officials made several attempts to acquire an auditor for the program, including a request for a USDA title I auditor, a request to the Government of Zaire for an independent audit by a public accounting firm, and the hiring of a food monitor under a 2-month contract. USDA did not provide an auditor because it did not want to set a precedent for in-country auditing of commodity distribution under title I. The Government of Zaire would not agree to an outside audit by a public accounting firm. State Department officials informed U.S. officials in Zaire that because monitoring the distribution of title I commodities in-country is not a routine practice, they could provide no examples concerning monitoring practices. State Department officials also said that the mission was in the best position to identify methods and procedures to monitor the Zaire situation.

With a succession of three 2-month contract monitors, the Mission attempted to keep abreast of the distribution of fiscal year 1978 rice. The first contract monitor, who was hired in February 1979, produced no documentation according to U.S. officials. In April, the U.S. Mission hired the second food monitor, and it was subsequent to this that losses and diversions in Bas Zaire became known. Beginning in June, the third food monitor started tracing the shipments of rice to the interior regions.

In addition to these monitors, the U.S. Mission used members of the Embassy's economic section, the Agricultural Attache, the AID Mission, and the Consulate in Lubumbashi, to help prepare regional government authorities and importers/distributors to receive the rice; to help in the tracking of rice shipments; and to visit and make spot checks on the actual retail sales. In March 1979, members of the U.S. Consulate in Lubumbashi observed rice sales in the Shaba province. In June 1979, AID reported that it was generally satisfied that most of the rice had been sold according to the plan. This conclusion was based largely on U.S. monitoring in Kinshasa and in Lubumbashi, revealing that thousands of Zairians had bought 5-kilogram bags of rice at controlled prices. In August 1979, the Embassy noted that the distribution up until then had been a big improvement over previous years; although, it still left much to be desired.

Although the U.S. Mission became increasingly involved in planning and monitoring rice distribution under the fiscal year 1978 program, it was the ultimate responsibility of the Government of Zaire to oversee and track the distribution. This was done by the Department of National Economy through its central and regional offices and in conjunction with local authorities.

In spite of efforts starting in February 1979 to obtain copies of the result of Department of National Economy monitoring efforts, the U.S. Mission reported in August 1979 that it had received only one report covering rice distribution in Kinshasa from March to April 1979. The Department had not shared its information on abuses or irregularities with the Mission, nor provided regular reports on the status of rice sales as the U.S. Mission requested.

On August 6, 1979, the U.S. Mission formally requested that the Department of National Economy account for the fiscal year 1978 rice and for efforts undertaken to ensure its equitable distribution. It was not until October 25, 1979, that the Department of National Economy submitted its report on the rice distribution to the U.S. Mission. The report noted:

> "Preparation of an exhaustive report on the rice distribution is difficult because of the incompleteness of the information received from the regional authorities as well as from the importers/distributors themselves."

Based on information from several sources, we estimated that about 13 percent of the rice, or some 2,000 metric tons, was unaccounted for by the time it reached the importers/distributors. This estimate includes recorded losses, such as leaks through torn sacks, spoilage, theft or disappearance, which were incurred at the port of Matadi and on the rail and barge transport network inland to the interior provinces. Also included in the estimate are other amounts unaccounted for, such as where records did not exist or were incomplete as to quantities received by the importers/distributors.

As noted above, U.S. officials report that they have monitored sales to some extent, and some distributors report that they have complied with the distribution plan. Overall, however, this information is too incomplete to draw meaningful conclusions about the sale of rice by distributors and their compliance with the distribution plan.

Province summaries

Because of inadequate data, the following summaries do not contain extensive information on retail sales and may tend to overemphasize abuses in relation to the total program. However, these summaries indicate that to varying degrees, the following provisions of the distribution plan were complied with, namely:

--Importer/distributor sales locations and official prices were published.

--Rice was rebagged into 5-kilogram bags, but there was a shortage of bags in some instances.

--Program abuses were investigated and prosecuted.

In addition to the abuses, these summaries also indicate deviations from the sales plan, including:

--Sales were made to legislators from some regions.

--The allocation of 15 percent of the rice to hospitals, schools, prisons, and companies was exceeded.

--Some of the rice designated for sales in 5-kilogram bags was sold in 45-kilogram bags.

--Some sales were also made in less than 5-kilogram bags.

Kinshasa

Kinshasa was allotted 52 percent of the 1978 rice, or about 179,400 bags. Publication of the official price (7.05 zaires per 5-kilogram bag), as well as the places where importers/distributors would be selling the rice, took place through a Government public communique of February 28, 1979, which was published shortly thereafter. Sales by Kinshasa's 10 importers/distributors were made largely during March, April, and May of 1979. Reported sales to hospitals, schools, prisons, companies with employee canteens, and to the Zaire armed forces accounted for 18 percent of the total, approximating the 15 percent originally planned. Sales reports were not sufficiently detailed to determine how much of the Kinshasa rice was rebagged into 5-kilogram units. Partial records indicate that, for the most part, importers/distributors did rebag the rice. Further, in April 1979, the U.S. Mission reported that the price of locally grown rice in the Kinshasa market had dropped about 10 percent in 2 weeks, to 3.05 zaires per kilogram, as a result of the availability of Public Law 480 rice.

Several of the Kinshasa importers informed the U.S. food monitor in May 1979 that monitors from the Government of Zaire had visited them with varying degrees of frequency. Importers/distributors also complained of unruly crowds and interference in sales by military and police personnel asking for small bribes or "entrance fees" from the crowds they were supposed to be controlling. Some consumers reportedly returned repeatedly to buy small bags for resale or they used friends and relatives for the purpose.

One distribution that was thought to be relatively problem-free was made by the Catholic Church. The Government requested the Catholic Church to distribute some 13,150 bags of rice in 32 parishes in the Kinshasa area. The church obtained the rice from importers/distributors at wholesale prices. Identity cards presented by the church to the head of each family allowed them to purchase one 5-kilogram bag each month at the official price. The proceeds were used to cover distribution costs.

Shaba

The Shaba Province was allotted 18 percent or about 66,400 bags. According to the Department of National Economy, regional authorities misinterpreted instructions and told importers/distributors to sell 50 percent, instead of the authorized 15 percent, of the rice to companies, hospitals, prisons, schools, and other organizations.

Sales in Shaba extended from March to September 22, 1979, with most sales taking place in April and May. Public announcement of the official prices for which distributors would sell the rice was made by Government authorities and by the American Consulate. Rebagging into 5-kilogram bags reportedly was extensive, but records do not show to what extent. The records of one importer/distributor show that sales to the armed forces were made in 45-kilogram bags at wholesale prices rather than as required in 5-kilogram bags at retail prices. In March 1979, American Consulate officials noted one retailer selling some 200 5-kilogram bags of rice above official prices. The 85 unsold bags were confiscated by regional officials of the Department of National Economy and donated to charity; the retailer was fined.

Bas Zaire

This province was allotted 12 percent or about 40,200 bags. Two of the six importers/distributors had been eliminated from the eligible list by the Department of National Economy in February 1979 before the rice was shipped to Bas Zaire; one firm because of an insufficient distribution network and the other because of alleged advance sales. After the personal intervention of the Zaire Prime Minister in April, the two firms were reinstated but were required to give up half of their respective allotments to two additional firms.

Subsequently, one of the newly chosen firms incurred losses of 3,150 bags, accounting for most of the losses in Bas Zaire. Regional officials confirmed that approximately 2,400 of these bags had been diverted illegally from Bas Zaire to Kinshasa. None of this rice was recovered. In another situation, 1,170 bags were diverted by a regional trade association official who was later arrested. Most of that rice was recovered. In another instance, an employee of the Department of National Economy obtained 500 bags from one importer, but this rice was reportedly confiscated by regional authorities and returned to the distributor.

In the original distribution plan, each importer/distributor was to sell 15 percent of the rice to hospitals, schools, prisons, and companies with employee canteens; the remaining 85 percent at the official price in 5-kilogram bags. Regional government authorities, however, included the armed forces in the 15 percent allocation and set aside an additional 35 percent for company canteens, with the remaining 50 percent for retail sales. They also allowed each of the legislators from Bas Zaire to buy 150 45-kilogram bags of rice.

The Catholic Church in Matadi was an importer/distributor with an allotment of about 5,367 bags. According to church officials, very small losses were experienced and all the rice was distributed in small bags at official prices through the church network throughout Bas Zaire.

Bandundu

Bandundu was allotted 6 percent or about 19,900 bags of rice. Sales were reported to have been made during June, July, and August. Problems were encountered in obtaining a sufficient number of 5-kilogram bags, and the regional commissioner authorized sales by the kilogram or by the glass at official prices. Control was difficult because there were 40 retailers in the city of Bandundu alone.

In August, the AID food monitor was told by a regional official of the Department of National Economy that an official of a regional trade association was implicated in a scheme to transport 360 bags of rice to Kinshasa. The list of firms and individuals who could receive the rice was also altered. Ostensibly this scheme was reported to government authorities in Kinshasa.

One importer/distributor had to shift sales from one sub-region of the province to another because market demand was being met by locally grown rice. Part of the original plan was to exclude such areas from receiving rice so that local production would not be discouraged.

Kasai Oriental (East Kasai)

Kasai Oriental was also allotted 6 percent or about 19,900 bags. The information available for this province was comprised essentially of conflicting and incomplete reports.

The Department of National Economy said it had no reports from one firm as of October 25, 1979, but that the firm, according to regional authorities, had just started to make sales. This firm was allotted 6,656 bags. A local national employee of the Embassy visited the firm several times during mid-October 1979 but was not successful in contacting the owner. It was alleged to the Embassy employee that the firm sold all its rice in 45-kilogram bags at blackmarket prices.

In its October report, the Department of National Economy also stated that another firm had not received any of its 6,656 bags although the rice had been forwarded by barge from Kinshasa. During a mid-October 1979 visit to the firm by an Embassy employee, however, the firm manager said that all of its rice had been received and that it had all been sold in 5-kilogram bags at the official price.

A third firm claimed shortages of 1,427 bags in the amount it received. The Department's October report said the firm had just started its sales. However, the firm told an Embassy employee in mid-October that all of its rice had been sold in 5-kilogram bags at the official price.

Kasai Occidental (West Kasai)

Kasai Occidental was also allotted 6 percent or 19,900 bags. Most of the rice arrived in June and July. Due to a shortage of 5-kilogram bags, the Department of National Economy informed the regional commissioner in mid-October that the rice could be sold in 45-kilogram bags. This was contrary to the distribution plan. A Government of Zaire official said the U.S. Embassy had agreed to sales in 45-kilogram bags. The U.S. Embassy, however, disavowed that such an agreement had been made by any U.S. Government entity.

According to the U.S. food monitor, substantial quantities of rice deteriorated from July to October due to inadequate storage facilities in the region. The owner of one firm was sent to jail. According to Embassy reports, all of his 6,656 bags of rice were allegedly sold on the black-market in Kananga, Kinshasa, Lubumbashi, or elsewhere.

CHANGES IN THE FY 1979 PLAN

The 1979 rice distribution plan, issued by the Department of National Economy on September 18, 1979, requires more systematic reporting by and clearer contractual arrangements with importers/distributors than the 1978 plan. The plan also sets aside a larger percentage of the rice for sale to companies with employee canteens, prisons, schools, hospitals, and to the armed forces.

Although this plan generally retains provisions of the previous plan, it adds several new provisions.

1. All distributors must keep sales records for later examination by the Department of National Economy.

2. Distributors must submit monthly sales reports to regional authorities, detailing

--initial rice quota,

--quantity received to date,

--quantity yet to be received,

--quantity already sold,

--quantity still in stock, and

--suggestions for improvements.

In addition, importers/distributors must sign contracts, detailing their financial obligations and their agreements to conform to them, before they can receive allotments. The rice has been allotted regionally, with 53 percent to Kinshasa; 19 percent to Shaba; and 7 percent each to Bandundu, Bas Zaire, East and West Kasai. The rice is to be distributed in the following proportion:

--20 percent to companies for resale to employees;

--20 percent to prisons, schools, and hospitals;

--10 percent to the armed forces and the police; and

--50 percent for retail to the general public.

CHAPTER 3

CONTROLS OVER OTHER PUBLIC LAW 480 COMMODITIES

The United States has exported wheat, cotton, and tobacco--in addition to rice--to Zaire under the fiscal year 1978 Public Law 480 Title I program. Unlike rice, these commodities, are processed into other products before consumption, thus losing their identity as U.S.-supplied commodities. These products are handled by comparatively fewer firms. The final products are ostensibly, but not effectively, subject to the overall price control established by the Government of Zaire. The problems experienced with these commodities, judged by available indications, have been relatively minor compared to those for rice. Thus, controls and monitoring to the same extent as for rice may not be warranted.

WHEAT

Because the Zaire domestic wheat production is very low, it imports, mostly from the United States, over 90 percent of its supply (estimated in fiscal year 1979 at 146,000 metric tons). The title I program included 45,000 metric tons in 1978 and 24,550 in 1979.

All title I wheat and most commercial wheat is imported by MIDEMA (Minoterie de Matadi), Zaire's only large commercial wheat mill. Wheat is unloaded from ships directly into the MIDEMA facilities at Matadi where it is ground into flour. Flour made from Public Law 480 wheat is distributed in the same manner as that from other sources. The flour is distributed through a quota system to the bakeries, with MIDEMA supervising the distribution and the adherence to official prices up to that point. Sixty percent of the flour ground by MIDEMA is distributed to about 120 bakers in Kinshasa and the rest is distributed to bakers in other towns, The official price for bread in Kinshasa has been the same for the last 3 years, and thus has not kept up with increasing costs. During that time, bakers with the tacit approval of the Government increased their selling prices above the official price as costs increased. New official prices were set by the Government in January 1980.

There is one concern, however, which involves the use of flour in addition to wheat for part of the fiscal year 1979 program. Flour is transported in bags to the port of Matadi where, unlike wheat, it is not unloaded directly into the controlled storage of the flour mill. The state-owned transport company is responsible for unloading, storing, and transport. The bagged flour, like rice, is a vulnerable commodity, susceptible to diversion and losses. MIDEMA officials noted that they intend to have extra personnel observing and surveying this operation at each stage to preclude significant losses.

COTTON

Imports account for a small portion of the Zaire cotton supply. All the title I cotton under the 1978 program was imported by the largest of five privately owned textile firms in Zaire. Subsequent processing, ginning, weaving, and distribution for sale is handled by a few private firms.

TOBACCO

All tobacco imports are by Zaire's two privately owned cigarette manufacturers, British American Tobacco and Tabazaire. Distribution is though company-owned canteens and privately owned wholesalers and retailers. U.S. and industry officials acknowledged that retailing tobacco products is largely beyond the effective control of the Government of Zaire. Tobacco industry sources have noted that cigarettes sell for 2 to 3 times official prices. They have also expressed fears that a diminished supply of Public Law 480 tobacco would increase that spread.

CHAPTER 4

MANAGEMENT OF COUNTERPART FUNDS

During the past year, the AID Mission has attempted to bring management of counterpart funds--Zaire local currency generated by sale of title I commodities--into conformity with the written agreements that govern the generation and use of those funds. These efforts resulted from findings by the Mission and the AID Auditor General in a mid-1979 audit. Two major problems with counterpart funds have been identified as well as various other irregularities.

--Overdue deposits of at least 9.5 million zaires have not been made to the fund, (equivalent to about $4.7 million dollars at the October 1979 exchange rate).

--Funds equivalent to $1.3 million were released to Government officials without the AID Mission having approved the projects.

INSUFFICIENT COUNTERPART FUNDS DEPOSITED

In October 1979, the Mission Controller issued a reconciliation of deposits to the counterpart fund as of July 31, 1979. This reconciliation showed that insufficient deposits had been made to the counterpart funds, as follows.

Year	Required deposits	Deposits	Outstanding	Percent deposited
	----------------(in	zaires)----------------		
1976	13,386,560	9,332,938	4,053,622	70
1977	14,933,347	14,486,372	446,975	97
1978	29,823,190	24,820,456	5,002,734	83
Total	58,143,097	48,639,766	9,503,331	84

According to the Controller, the outstanding balance is a conservative estimate because in several cases the Government of Zaire did not specify the amounts owed by the commodity distributors. Where the amounts were not specified or where no contracts existed, the Controller based his estimates on minimum amounts which are thought to be less than would have been owed, had proper documents existed.

Although the Government of Zaire is ultimately responsible in accounting for the outstanding balance, it has not done so. The Government of Zaire is still attempting to collect overdue payments from importers/distributors.

FUNDS RELEASED WITHOUT OBTAINING AID PROJECT APPROVAL

As of July 31, 1979, net withdrawals of funds (in local currency) from the title I account were 4.6 million in 1977; 13.5 million in 1978; and 17.5 million in 1979. Thus, the use of counterpart funds is accelerating and, according to AID Mission officials, should continue to accelerate as further projects enter the implementation stages.

During the last half of 1978, the Government of Zaire released the equivalent of $1.3 million to seven Government officials, without submitting the projects to the Mission for review and approval as required by the title I agreement. When the Mission learned of these disbursements, it demanded full restitution by the Government of Zaire. Under the agreement eventually reached, the Government of Zaire identified several projects in its investment budget equaling the amount due the counterpart fund and attributed these projects to counterpart funding. The Mission Director stated that, although this solution was not entirely satisfactory, it did restore the integrity of the fund. He also said it was the best that could have been hoped for under the circumstances.

The Mission Controller said that it would be very difficult to prevent unauthorized use of counterpart funds because they are owned and controlled by the Government of Zaire. The Controller did note that in the future he should receive monthly statements of receipts and disbursements and that he will monitor the statements.

OTHER PROBLEMS

Other problems that have been identified include inadequate and untimely reporting on fund operations, improper allocation of administrative expenses to the fund, and lack of independent financial audits. Government of Zaire officials expressed their intent to correct these matters.

During its audit, the Auditor General noted that the Mission did not possess sufficient staff with appropriate financial analysis backgrounds to strengthen controls over, and coordination of, counterpart activities. The Mission responded that it would be in a better position to consider the need for additional staff after its reconciliation was complete.

Counterpart funds are also generated by the assistance programs of other donors. The Auditor General reported that about 75 percent of the funds generated since mid-1978 are the result of other donor programs. All counterpart funds are managed by the Zaire Counterpart Fund Secretariat. As such, the problems of fund control are not unique to U.S.-generated funds. Further, any solution to better fund control should likely be one coordinated among all donors.

CHAPTER 5

OTHER FOOD PROGRAMS

The U.S. title II donations program in Zaire and the food programs of other donors have not provided much insight on potential alternatives to the U.S. title I sales program. Methods used by other donors to distribute food are similar to those used under title I. They, too, have had similar problems.

Although the control of commodities under title II in Zaire has apparently been better than title I, the limitations on further expansion of a title II program in Zaire remain unclear. Title II programs have concentrated on emergency relief programs, have been of comparatively short duration for specific target groups and, for the most part, have been concentrated in the Bas Zaire region comparatively close to ocean ports with resulting shorter inland transport requirements. Consequently, title II program experience provides little insight into the capability of private, nonprofit organizations to effectively carry out a program in the interior regions with the inherently more difficult problems.

The AID Mission made the following statement in 1979 regarding a large-scale title II donations program.

> "Should an increase in PL-480 Title II programs prove necessary, we can anticipate serious distribution problems. The conditions under which large scale Title II programs would be recommended would be those of a deteriorating economic/social/administrative environment. The lack of a transportion and logistics system in most areas of Zaire would pose serious problems in implementation. Heavy inputs of personnel, equipment, and funds would be required, and that would represent an additional strain on the existing fragile system."

TITLE II PROGRAMS

The United States made available $13.9 million in emergency assistance to Zaire in calendar years 1978 and 1979. Of this amount, about $7.3 million was title II foodstuffs--$4 million for an emergency-relief program in Bas Zaire administered by the Catholic Relief Services (CRS), and $3.3 million for refugee relief program in Bas Zaire and Shaba provinces administered by the United Nations High Commissioner for Refugees (UNHCR) and the World Food Program.

Bas Zaire is normally a large supplier of food for Kinshasa, but a long drought in 1977-78 caused a reported 60-percent crop loss. On November 3, 1978, the League of Red Cross Societies launched an appeal for foodstuffs, medicines, and cash. During that same month, a U.S.-financed nutrition survey was undertaken by a team from Tulane University and the Center for Disease Control. On January 20, 1979, the U.S. Ambassador determined that the disaster was of significant magnitude warranting U.S. assistance. About 12 percent of the people were found to be suffering from acute malnutrition and 18 percent were suffering from kwashiorkor, a serious and often fatal form of protein deprivation.

At the request of the U.S. Mission in Zaire, the AID Office of Foreign Disaster Assistance investigated the willingness of private voluntary organizations to help establish a large-scale food distribution program. According to AID, CRS was the only organization to agree, and it did so somewhat reluctantly. CRS was provided a grant of $1,059,235 to administer the distribution of about 15,000 metric tons of title II foodstuffs, seeds, and medicines to the Bas Zaire zones of Tshela and Lukula from June 1, 1979, through February 29, 1980.

According to CRS field representatives, their food distribution (primarily nonfat dry milk, soy-fortified bulgur, and vegetable oil) is strictly controlled and losses in shipping and inland transport, on the first two shipments, were only about .3 percent in shipping and another .3 percent in inland transportation. The CRS warehouse is located close to the port of Boma in Bas Zaire where it receives shipments. Two CRS employees are used at the port to ensure physical control of the commodities. A Lloyds of London agent is used to independently account for commodity arrivals.

As of December 3, 1979, CRS had received 8,446 metric tons and had distributed a cumulative total of 4,812 metric tons. The CRS contract was extended to April 30, 1980, at no additional cost to AID, to enable CRS to receive and distribute the balance of the 15,000 metric tons programed.

Foodstuffs are taken by trucks from the warehouses to Catholic, Protestant, and Kimbanguist missionary hospitals and distribution centers that channel food to their respective villages. CRS conducts end-use checks to insure that distributions are made. Missions are encouraged to rent trucks, when available, to transport food to remote villages and to limit distribution to families suffering from malnutrition.

Mission monitoring of the title II program revealed sales of title II foodstuffs in markets in Bas Zaire, and in Kinshasa as late as December 1979. Thus, in spite of better title II controls, it is not possible to prevent donated commodities from being sold.

The AID mission hired an experienced Food for Peace Officer for a 1-year contract, starting in January 1980. Part of his duties are to advise the mission on (1) the design of a fiscal year 1980 title II feeding program through a private voluntary organization yet to be determined and (2) the design of a possible food-for-work program.

OTHER DONOR PROGRAMS

Representatives of UNHCR, the Belgian mission, and the Commission of the European Community noted food losses due to spoilage; theft from Zairian ports and pilferage in warehouses; and selling and reselling of food at inflated prices. They expressed concern that their food be properly distributed and indicated that continual monitoring is necessary.

Belgium and the European Community use commercial importers/distributors to sell food and generate counterpart funds in a similar manner as that under the U.S. title I program. As of early 1979, Belgium pledged 120 million francs ($4.3 million) for emergency food. From 1977 to 1979, the European Community supplied 3,000 metric tons of powdered milk, 14,000 metric tons of corn, 10,000 metric tons of wheat, and 150 metric tons of cooking oil. Additional quantities of rice, powdered milk, and cooking oil were distributed through UNHCR, the U.N. Children's Fund, and a local Catholic charitable organization. In 1978 and 1979, UNHCR committed about $4.3 million for food assistance to refugees in Zaire that had come from Angola, Burundi, Zambia, and elsewhere.

Belgium had four permanent employes devoted to monitoring the distribution of food and other commodities. The European Community did not have monitors, and it did not receive reports from the Government of Zaire until late October 1979 on commodity distribution in spite of its constant urgings.

Some officials of these organizations noted that losses are likely under any program. They preferred to use missions and churches for food distribution, but here too, monitoring would still be required. They expressed doubts about the capability of missions and churches to handle a distribution program the size of the U.S. title I program.

CHAPTER 6

CONCLUSIONS

The experience of the United States and other donors in providing food assistance to Zaire suggest that some losses and abuses are likely to continue. It also suggests that appropriate monitoring of programs may be desirable. More importantly, it raises serious questions on how best to achieve U.S. objectives in Zaire.

We discussed various options to the program and their apparent advantages and disadvantages with U.S. officials in Zaire and in Washington as well as the acceptability of these alternatives in the context of U.S. objectives in Zaire. No simple answer exists. Each alternative considered carries with it implications on how best to meet U.S. objectives.

Some of the arguments against the extensive involvement of the U.S. Mission in planning and monitoring rice distribution under the title I program include (1) forcing the U.S. Government to become too involved in the political and commercial affairs of Zaire, (2) straining relations by holding the Government of Zaire responsible for the failures of private companies, (3) wasting goodwill and political leverage which should be used on fundamental reforms, and (4) contradicting the U.S. desire for the Government of Zaire to abolish price controls on agricultural products.

One alternative would be to decrease rice and increase wheat and wheat flour along with other commodities. The cited advantages of this approach include

--providing the same or increased levels of balance-of-payment support;

--freeing foreign exchange for commercial rice purchases and/or other uses;

--maintaining the generation of counterpart funds for agricultural and other development projects; and

--lessening to some extent the need for the AID mission monitoring and for time-consuming confrontations with the Government of Zaire.

Because of the concentration of bakeries in the major urban centers, this approach may mean that proportionately less food could be provided the more remote provinces if flour were provided than if rice were provided. Another alternative could be the auctioning of title I rice at the port of Matadi to eliminate the opportunity for windfall profits and to enlarge the counterpart fund. Such a system, however, might result in much higher prices to consumers.

Another consideration is possibly expanding the use of religious and other groups under title I. As shown in the discussions for Bas Zaire and Kinshasa, the Catholic Church was reportedly relatively successful. In the interior region of Kasai Occidental, the Archdiocese of Kananga will have its Public Law 480 rice imported through a commercial firm under the fiscal year 1979 program. In this way, the Archdiocese will avoid having to financially carry the rice for an extended period before realizing returns through its sale--as it had to do under the fiscal year 1978 program. The extent to which it is possible or practical to expand the use of such organizations is not apparent. Further, if such use were expanded, the extent to which monitoring would be required is also not apparent.

Considerable discussion has centered on transferring rice from a title I to a title II program administered by private voluntary organizations. Such a transfer would diminish the generation of counterpart funds for development projects. The limited experience under title II has been largely in areas close to the ports with resulting shorter inland transport requirements. This experience has not shed much light on whether an expanded title II donation program could cope with inadequacies of the transport networks in the more distant parts of the country, nor on the capabilities and willingness of private voluntary organizations to carry out such a program.

The appropriate commodity mix and means of distribution may require a choice of (1) whether to pursue the primary objective of economic and political reforms through the title I or other balance-of-payment support programs without attempting to control distribution or (2) whether to pursue balance-of-payments support while also attempting an equitable distribution of title I foodstuffs at less-than-market prices.

It is questionable whether food can be provided at less-than-market prices in the food-scarce situation without some abuses. The vastness of Zaire, the lack of adequate storage and transportation facilities, the economic conditions which have fostered an extensive blackmarket--combined with the limited capability of the U.S. Mission to monitor the program--raise serious questions about the extent to which program abuses and commodity losses can be controlled. In this situation, we believe that abuses are likely to occur and that the heavy involvement of the U.S. Mission with the Government of Zaire in planning, implementing, and monitoring commodity distribution may be necessary if abuses are to be minimized and equitable distribution promoted.

This report may provide some answers about the program in Zaire. IT DOES RAISE MANY QUESTIONS:

--To what extent can abuses be controlled or tolerated in the context of U.S. objectives?

--To what extent should the United States be involved in planning, implementing, and monitoring commodity distribution under title I, and is the United States willing to bear the cost of such involvement?

--Can the United States achieve, in concert with other donors, a more coordinated approach to defining specific food needs in Zaire and the most appropriate means for distributing this food?

--Can the United States develop, and successfully promote, more definitive standards of performance for and means to assist the Government of Zaire to better manage commodity distribution and the use of counterpart funds?

AGENCY COMMENTS

We did not obtain formal comments on the report from the concerned agencies, but discussed its contents with program officials of the Departments of Agriculture and State and of the Agency for International Development. Their comments were generally of a technical nature and were used in preparing the report. These officials, however, did not provide the agencies' comments on the policy aspects of the report.

Congress of the United States
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

June 19, 1979

Mr. Elmer B. Statts
Comptroller-General of the U.S.
General Accounting Office
Washington, D.C. 20548

Dear Mr. Statts:

I would like to request a GAO investigation of the PL-480 Title I rice program in Zaire.

During my January 1979 visit to Zaire and the Subcommittee on Africa's March 5, 1979 hearing on Aid to Zaire, substantial evidence was presented to me of corruption in the Title I rice program. It has been alleged that due to the profiteering of politically connected businessmen, Title I rice sells for up to 400% more than controlled prices in Zaire, well beyond the means of the average Zairian. In addition, much of the Title I rice is said to go to neighboring Congo-Brazzaville where it fetches a better price in hard currency.

In response, AID maintains that it has recently undertaken reforms to end the acknowledged corruption. However, upon examination it appears that AID's reformed distribution system, which is currently being applied to FY 1978 rice just arriving in Zaire, is only marginally different from that which was applied -- with little success -- to FY 1977 rice:

FY 1977 U.S.-Zaire Title I Rice Agreement	FY 1978 Agreement
1. List of approved importers	1. Same
2. Controlled prices for regional centers	2. Same
3. Request small bags (2½-5 Kilograms)	3. Require small bags (5 Kilo) except if intended for certain institutions
4. Importer/distributor publication of quanitity and price of rice	4. Same
5. Generally, half the rice to be sold outside of Kinshasa, the capital	5. Same

According to AID, the major difference between the plans is not one of substance but in the experience of the Zairan Ministries of Plan and National Economy and increased AID monitoring of the FY 1978 agreement.

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While AID officials have indicated positive results for the new controls, I have seen AID cables referring to continued distributor profiteering and loopholes of uncontrolled prices outside of regional centers (see attached). Significantly, Zaire's own Government controlled newspaper has recently published a lengthy and detailed report indicating that AID's reforms are not working (translation attached). This is also in accord with expert testimony before the Africa Subcommittee this spring concerning the "institutionalization of corruption" in contemporary Zaire (testimony of Profs. David Gould and Crawford Young attached).

Zairian corruption has also affected utilization of Title I counterpart funds. In fact, Zaire is the only country in the world with a special account for counterpart funds due to past difficulties in monitoring their utilization. Even so, AID officials admit that it is difficult to determine whether or not these funds (especially those not involved in AID projects) are being devoted to economic development benefitting the neediest as required by law. (As a human rights violator, Zaire must use either the commodities themselves or the counterpart funds generated to directly benefit the needy.)

In its Report on H.R. 3324, the International Development Cooperation Act of 1979, the House Foreign Affairs Committee stated that it "intends to monitor closely the new efforts by AID to assure honest and fair administration of the Title I program in Zaire and will reserve the possibility of recommending against further Title I rice for Zaire in the future if anti-corruption measures are not successful."

Among the questions I would like to see answered about the Title I rice program in Zaire are the following:

1. To what extent have the provisions of the FY 1978 Title I rice distribution scheme been successfully implemented? Specifically:

   (a) Are only bona fide importers/distributors utilized, and are corrupt ones promptly rejected?

   (b) Are the established price controls for the various regional centers effective?

   (c) Are there loopholes for uncontrolled prices outside of these regional centers?

   (d) Are the requirements for distribution in small bags being met?

   (e) Do importers/distributors publish in newspapers the quantities and prices of available rice?

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(f) What proportion of the rice is sold outside of Kinshasa?

(g) Is there evidence of hoarding of Title I rice?

2. Does AID (with a single full-time monitor for the rice program) have the capacity to effectively monitor the rice distribution?

3. Are the wheat and non-food portions of the Title I program in Zaire also in need of controls due to corruption?

4. Does AID adequately monitor use of counterpart funds in Zaire, especially their dedication to economic development projects benefitting the neediest?

5. Given the institutionalized political corruption in Zaire, is there any way that the Title I rice program can be successfully reformed?

In conclusion, I believe that the issues raised by the experience of the Title I rice program in Zaire (the 4th largest Title I rice program in the world) are not only important in themselves, but dramatize problems in the PL-480 program as a whole. The spring 1978 White House Working Group report on World Hunger and Malnutrition: Improving the U.S. Response called for improvements in PL-480's "developmental effectiveness" by "giving greater attention to how U.S. food aid is used within low-income countries, particularly regarding its effects on the poor."

Sincerely,

Stephen J. Solarz

STEPHEN J. SOLARZ
Chairman
Subcommittee on Africa

(471760)

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