REPORT BY THE U.S.

General Accounting Office

Foreign Currency Purchases Can Be Reduced Through Greater Use Of Currency Use Payments Under Public Law 480 Commodity Sales Agreements

Local currencies payable to the United States for commodities provided under Public Law 480 sales agreements with developing countries have not been collected on a timely basis. These currencies were partial payments under otherwise long-term, dollar-repayable credits Because amounts owed the United States were not available when needed, U S missions purchased the equivalent of $29 million in local currencies between October 1981 and September 1983 to meet current obligations in several countries. Subsequent collections of the currencies may reduce future dollar puchases; if they remain uncollected their equivalent amounts are payable in dollars when the long-term credits become due.

Timely collections of local currencies (1) aid the U S balance-of-payments position, (2) reduce Treasury borrowing requirements, and (3) provide receipts to finance Public Law 480 program levels. GAO recommends actions to accomplish more timely collections of local currency payments and to promote greater consideration of currency use payments as a source for needed currencies

UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/NSIAD-84-76
APRIL 10, 1984

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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-214252

The Honorable John R. Block
The Secretary of Agriculture

The Honorable George P. Shultz
The Secretary of State

The Honorable Donald T. Regan
The Secretary of the Treasury

The Honorable M. Peter McPherson
Administrator, Agency for
International Development

We examined the U.S. collections of local currencies payable under provisions in certain Public Law 480 Title I commodity sales agreements to see if they were being collected in a timely manner. We found amounts owed remained uncollected while needed local currencies were purchased with dollars from commercial sources. Purchases of local currencies could have been reduced by $29 million between October 1981 and September 1983 by collecting amounts payable.

Timely collections are important because:

--Local currency collections aid the U.S. balance-of-payments position by reducing dollar outlays to meet current expenses in the recipient countries. Reducing dollar outlays has the effect of reducing Treasury borrowing requirements.

--The dollar equivalent of collections is credited to the Commodity Credit Corporation, which finances Title I sales. These receipts are projected in the Corporation's budget; if receipts are less than projected, the Corporation may have to reduce its program level or obtain necessary funds from other sources.

If amounts uncollected as of September 1983 are subsequently collected, they may reduce future dollar purchases; if they remain uncollected, their equivalent amounts are payable in dollars when the credit installments become due.

We recommend actions on pages 6 and 7 to accomplish collections more timely and to give greater consideration to currency use payments as a source for needed currencies.

BACKGROUND

Public Law 480 Title I provides for sales of U.S. agricultural commodities to friendly developing countries. The sales are financed by long-term, low-interest credits. The commodities are usually resold in the recipient countries, and the local currency proceeds are used for purposes specified in the sales agreements. Although the credits are long-term dollar repayable, some commodity sales agreements specify that partial payments will be made in local currencies for U.S. use upon demand after the delivery of commodities. Such payments are known as currency use payments (CUP), and are expressed as a percentage of the credit amount.

The Departments of Agriculture, State, and the Treasury; the Office of Management and Budget; and the Agency for International Development (AID) participate in the Title I program. They coordinate their activities through the Development Coordination Committee's Subcommittee on Food Aid, which is chaired by the Department of Agriculture. Treasury recommends CUP levels in Public Law 480 agreements for approval of the Subcommittee. Political and economic considerations enter into the Subcommittee's decisions on whether to include CUP provisions and the amount. Decisions are made by a consensus of the members.

The Treasury, through the Department of State, informs U.S. missions in recipient countries of CUP availability and provides instructions for collections, maintains records of collections as reported by the missions, and issues status reports. Missions are to request payments from the recipient countries as local currencies are needed, but no later than one year after the final disbursement under a Public Law 480 agreement, or the end of the agreement's supply period, whichever is later.

Local currencies resulting from CUP collections are made available to U.S. agencies to meet in-country expenses. An equivalent amount in dollars is charged to their appropriation and credited to the Commodity Credit Corporation, which financed the commodity sale. If the Corporation's total receipts, including those from agencies' use of CUP collections, fall short of its budget estimates, then it must obtain additional appropriations, resort to its borrowing authority, reduce program levels, or use some combination of these means.

We analyzed quarterly CUP transaction reports and semiannual foreign currency purchase reports prepared by the Treasury for October 1981 through September 1983 to determine whether missions collected local currency payments before purchasing local currencies commercially. We also determined whether eligible Title I agreements for fiscal year 1982 contained CUP provisions. We reviewed Treasury files and discussed related matters with representatives of AID and the Departments of Agriculture, State, and the Treasury. Our review was made in accordance with generally accepted government auditing standards.

CUP COLLECTIONS COULD REDUCE LOCAL CURRENCY PURCHASES

Title I commodity sales agreements with 19 countries contained CUP provisions. For 8 countries, payments were collected as needed. For one country, Mauritius, $166,000 which was available in June 1982 was collected in July 1983, but in the meantime $392,000 in rupees was purchased. For the other 10 countries, $29 million was outstanding in September 1983, which if collected, could have reduced local currency purchases.

Potential Reductions in Purchases of
Local Currencies Through CUP Collections
(Oct. 1, 1981 to Sept. 30, 1983)

Country	Currency purchases[a]	Currency use payments: Agreement amounts	Collections	Amounts uncollected[b]
	----- 000 omitted -----			
Costa Rica	$ 14,549	$ 1,275	$ 0	$ 1,275
Dominican Republic	21,139	1,200	856	344
Egypt	148,735	20,233	0	20,233[c]
El Salvador	77,387	2,444	0	2,444
Kenya	39,600	2,599	1,386	1,213
Madagascar	1,280	1,212	300	912
Peru	41,544	2,838	1,588	1,250
Sierra Leone	4,225	328	0	328
Somalia	5,940	1,923	1,285	638
Zambia	595	349	0	349
Total	$354,994	$34,401	$5,415	$28,986

[a]Purchases with dollars from commercial sources.
[b]Local currency available under CUP agreements less CUP collections.
[c]This amount was collected in four increments between Oct. and Dec. 1983; this will serve to offset future currency purchases with dollars.

No system has been established to ensure timely CUP collections. Treasury sends reminders to the U.S. missions in some cases, but it has no authority to enforce collections. Collections, according to the Treasury, are the responsibility of the Department of State. State, however, is not involved at the Washington level; collections are the individual mission's responsibility. The missions, however, do not directly benefit from their CUP-collection efforts. They give up dollars for any local currencies used, even if the currencies are CUP collections.

Treasury files show that the U.S. mission in Egypt experienced problems in collecting $20.2 million. Exchange rates to be used in calculating Egyptian pounds to be paid were in dispute. After several months of unsuccessful attempts to collect amounts due, the mission notified Treasury, which provided technical guidance in resolving the exchange rate dispute. Egypt paid the $20.2 million between October and December 1983. A Department of Agriculture official stated that consideration of the amounts due during the negotiation of a pending agreement was one factor which prompted the payment.

Even though $39.6 million of Kenyan shillings was purchased, the mission in Kenya cabled the Treasury several times requesting that $1.4 million payable under a 1982 agreement not be collected because of economic conditions in the country. Treasury denied the request, stating that Kenya's economic situation had been taken into account by reducing from 10 to 5 percent the CUP level in the agreement. Treasury further stated that Kenya may prefer paying the $1.4 million in shillings now rather than in dollars later when credit repayments become due. The mission collected the payment in August 1983, more than a year after its first request to Treasury. It attributed part of this delay to a 6-month lag before Treasury responded to its requests. Meanwhile, $1.2 million became payable under a new agreement. As of October 1983 none of this amount had been collected.

The mission in Madagascar collected two payments totaling $300,000 of $1.2 million payable under three agreements. Meanwhile, it used $1.3 million to purchase additional local currencies. In November 1982, the mission collected $200,000 of $474,900 which had been payable under one agreement for almost a year. Because of concern that a $474,900 payment would have a bad effect on Madagascar's year-end finances and would create bad feelings with the United States, the mission reduced the amount to $200,000. It did this in collaboration with the Paris Regional Administrative Management Center but without consulting the Treasury. Subsequently, Treasury informed the mission that it had no authority to reduce the CUP amount without Treasury approval; therefore, the remaining $274,900 was still payable. The mission replied that it had made several requests for clarification of this issue over a 9-month period before receiving a reply. To request the remaining amount from Madagascar would mean a reversal of its position. A compromise was made to recoup the unpaid amount by raising the CUP level in a 1983 amended agreement. In September 1983, Madagascar paid $100,000 of $237,487 payable under one of the other two agreements.

A Treasury official stated that the delays in responding to the Kenya and Madagascar missions were due in part to the missions' requests for authority to deviate from terms in CUP agreements; only the Subcommittee on Food Aid, not Treasury, can authorize such deviations. Also, the clearance process for cables to the missions added to the response time. Thus, there may be a need to expedite responses to inquiries from the missions.

For Costa Rica, El Salvador, Sierra Leone, and Zambia, none of $4.4 million payable was collected. For the Dominican Republic, Peru, and Somalia, $3.8 million was collected of $5.9 million payable. Collections could have been used to reduce purchases of local currencies by $6.5 million. The files contained no information on collection efforts by the missions. Some agency officials in Washington indicated that political and country economic considerations as well as lack of experience or familiarity with CUP transactions and procedures may be factors in non-collection.

GREATER USE OF CUP PROVISIONS COULD ALSO REDUCE CURRENCY PURCHASES

Eligible Title I agreements for fiscal year 1982 with seven countries where local currencies were purchased contained no CUP provisions. A Treasury official said that five of these agreements contained no CUP provisions because of political reasons and two agreements did not contain them because of apparent oversight. Thus, potential may exist for including CUP provisions in a greater number of agreements.

Greater use of CUP provisions, however, may be constrained by conflicting interests of the individual agencies. Political considerations are an important determinant. Also, AID's policy is to minimize CUP levels in those countries where the use of sales proceeds is closely integrated with its overall development programs. Its Policy Determination PD-9, September 27, 1983, establishes, to the extent feasible, standard levels as a basis for the AID position in the interagency negotiation process. It specifies CUP levels of zero for low income countries and not more than 5 percent for higher income countries. Deviations from these standards are permitted, if necessary, depending upon the overall grant element of the agreement. The Treasury has no written guidelines; it recommends a minimum 5-percent CUP level with a maximum of 15 percent, depending upon U.S. local currency needs and the recipient country's financial circumstances. These divergent interests are negotiated within the Subcommittee and a consensus reached on CUP terms.

AID's desire to maximize developmental uses of Public Law 480-generated local currencies is in harmony with its development mandate. Its position, however, works against greater use of local currency payments as a source of needed local currencies according to some Subcommittee representatives. No overall Subcommittee guidelines establish parameters that best serve U.S. interests. In general, Subcommittee representatives indicated that they would favor the Subcommittee establishing guidelines.

CONCLUSIONS AND RECOMMENDATIONS

CUP collections rather than local currency purchases should be used to meet U.S. needs to the extent possible. Collections should be made on a timely basis, and CUP provisions should be included in Title I commodity sales agreements to the extent appropriate. These actions would have a favorable effect on the U.S. balance of payments, reduce the immediate outlay of U.S. dollars, and provide operating funds for the Public Law 480 program.

Missions have little incentive to pursue CUP collections and participating agencies have varied interests; thus, close collaboration and cooperation as well as accommodation are required by Subcommittee on Food Aid participants. The Subcommittee should collaborate in establishing procedures to collect amounts due efficiently, to monitor collections systematically as a basis for corrective actions, and to increase the use of CUP provisions in providing needed local currencies. We recognize that CUP collections are a small, albeit important, component of a complex interagency Public Law 480 administrative process and that each participating agency has a role in carrying out the mutually agreed upon program. Thus, the agencies should collaborate in making the CUP process more efficient in providing local currencies to meet U.S. needs, including reduction in outlays of U.S. dollars.

Accordingly, in carrying out their individual responsibilities, we recommend that:

--The Secretary of Agriculture, as Chair of the Subcommittee on Food Aid, take the lead in establishing guidelines and procedures for (1) collecting currency use payments on a timely basis and (2) determining the extent to which needed local currencies will be obtained through the Public Law 480 commodity sales program rather than through dollar outlays.

--The Secretary of the Treasury (1) establish procedures for systematically identifying delinquent local currency payments, sending timely reminders to the missions, and bringing delinquencies before the Subcommittee on Food Aid when negotiating agreements for additional commodities and (2) promote greater use of CUP provisions in commodity sales agreements to generate local currencies for U.S. needs.

--The Secretary of State issue a directive to the missions to expedite CUP collections by (1) requesting payments promptly to satisfy local currency needs in accordance with Treasury notifications of CUP availability and collection guidelines and (2) obtaining approval from Treasury and the Subcommittee on Food Aid before delaying collections. In transmitting information to the missions regarding future CUP availability and collection procedures for individual agreements, the Secretary should refer the missions to this directive.

--The Administrator, Agency for International Development, collaborate with other members of the Subcommittee in establishing interagency CUP guidelines. Until such time as overall guidelines have been established, we believe the Administrator should ensure that the Agency's guidelines are applied in a manner that balances the Agency's development mandate with the desirability of reducing dollar outlays to meet U.S. local currency needs.

We discussed this report with representatives of the agencies participating on the Subcommittee on Food Aid and incorporated their comments in the text of the report as we deemed appropriate. The agencies' representatives generally agreed with our conclusions and recommendations for a more efficient CUP-collection system. They also indicated that they would favor Subcommittee guidelines for the use of CUP provisions.

AID officials disagreed with our initial proposal that the Administrator change the Agency's CUP guidelines to give greater recognition to meeting U.S. currency needs. They stated that their guidelines for establishing CUP levels are intended to be used as a frame of reference, and the guidelines are sufficiently flexible as not to impede the interagency CUP determination process. We believe that interagency guidelines should be established that best serve overall U.S. interests and which would provide parameters for the Subcommittee's deliberations. Even though the Agency's guidelines do provide flexibility, they strongly advocate levels of zero to 5 percent. We are not now recommending that AID change its guidelines. However, because the Subcommittee operates on a consensus basis, we believe the Administrator should ensure that the guidelines are applied in a manner which balances AID's mandate with the desirability to reduce U.S. dollar outlays for local currency needs.

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As you know, 31 U.S.C.§720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to cognizant congressional committees and to the Director, Office of Management and Budget.

David A. Littleton

for Frank C. Conahan
Director

(472042)