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The Honorable William S. Moorhead
Chairman, Foreign Operations and
Government Information Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your February 8, 1973, request, we are presenting our observations on the feasibility of discontinuing the use of commercial banks and the purchase of insurance on commodity shipments financed by the Agency for International Development (AID).

U.S. Government policy is to make maximum use of private enterprise in carrying out its foreign assistance program. Section 601 (b) (5) of the Foreign Assistance Act, as amended, states that "the President shall * * * to the maximum extent practicable, carry out programs of assistance through private channels." Foreign assistance legislation since the Marshall Plan has contained similar direction.

In accordance with its interpretation of congressional intent, AID does not actively administer the commodity transactions. The goods are purchased and shipped through normal private channels of trade. AID acts only as a financier and employs the expertise of the commercial banks to assist in administering the program. AID has not conducted any studies to determine what it would cost to perform the services the banks now perform.

The Subcommittee staff was concerned that the commercial banks duplicated the work of the AID certifying officer in New York. We found no evidence that any of their functions were substantively duplicative or unnecessary.

The certifying officer performs an essentially clerical operation on documents forwarded to him by the banks. He relies almost wholly on the banks' systems to provide needed controls and the basis for certifications. If AID took over the banks' functions, it would need to increase its staff.

AID records did not readily permit us to precisely determine the annual payments for bank charges and insurance. However, on the basis of information supplied by AID, we estimate that AID pays almost $340,000 annually for bank charges. These payments result only from commodity transactions financed by loans, because AID generally does not pay bank charges on shipments financed by grants. Since the cooperating governments are required to repay the loans, the only cost to the U.S. Government, in the long run, is any excess interest the U.S. Treasury incurs over interest charged to the cooperating countries on funds used to pay the bank charges.

Under the present arrangement, the seller or the buyer, and not the Federal Government, bears the burden of risk for the loss of cargo, in accordance with

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the agreement between the parties. Because the Government would suffer no loss if the goods were damaged or not delivered, (title being with either the seller or the buyer), the situation is not one in which the concept of Government self-insurance is normally applied. Accordingly, we considered the feasibility of discontinuing the purchase of insurance from private insurers by having AID operate as the indemnifier of losses under these shipments.

The Federal Government has generally followed a policy of self-insurance for its own property. However, the seller or the buyer insures the AID-financed commodity shipments after they obtain title to such commodities, although AID finances the cost of the premiums in some cases. Section 601 of the Foreign Assistance Act states that the foreign assistance program should be administered as far as possible "through normal commercial channels of trade." (Marine shipments are normally insured.) Also, section 604(d) provides to the cooperating governments the necessary foreign exchange to allow importers, if they desire, to buy marine insurance from American underwriters. Because of these provisions, we believe the Congress anticipated that private insurers would handle any insuring of AID-financed cargo.

Unlike bank charges, insurance premiums are eligible for AID financing under both loans and grants, and those paid with grant funds are a cost to the U.S. Government. AID does not maintain records which precisely separate the premium amounts applicable to loans and to grants, but available information indicates that about $1.8 million of the annual premiums AID has paid have been financed by grants.

Complete information on past losses paid by commercial insurance companies on such shipments is not available in AID records, nor can it be readily developed. Consequently, we are not able to conclude whether savings would result from discontinuing the purchase of insurance from commercial underwriters and from starting a program of indemnification by AID to finance future casualty losses. However, we believe the costs AID would incur to develop or acquire needed technical skills and establish an in-house organization to administer an indemnification program would reduce or possibly negate any potential savings.

As agreed with your office, we have not obtained advance comments on this report. However, we have discussed the issues with AID officials and have considered their comments.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

[Deputy] R.F. Keller

Comptroller General
of the United States