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**REPORT TO THE CHAIRMAN
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

**Use Of United States-Owned
Foreign Currencies** B-146749

Department of State
Department of the Treasury
Agency For International Development

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

AUG. 19, 1974

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

B-146749

The Honorable J. W. Fulbright, Chairman
Committee on Foreign Relations
United States Senate

Dear Mr. Chairman:

We have studied the use of U.S.-owned foreign currencies. We made our study pursuant to your request of November 19, 1973. The report summarizes the results of our inquiries at the Departments of State and the Treasury, the Agency for International Development, and other selected agencies.

As you requested, we have not obtained written comments from the agencies. We did, however, discuss our findings with officials of the Departments of State and the Treasury and of the Agency for International Development.

We are sending a similar report to the Chairman, Subcommittee on the Near East and South Asia, House Committee on Foreign Affairs, in response to his request. Other members of the Congress are also interested in our work on this subject. However, we do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "Thomas P. Staats".

Comptroller General
of the United States

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ABBREVIATIONS

| | |
|------|---|
| AID | Agency for International Development |
| ARS | Agricultural Research Service |
| DLF | Development Loan Fund |
| FAA | Foreign Assistance Act |
| FBO | Office of Foreign Buildings |
| GAO | General Accounting Office |
| HEW | Department of Health, Education, and Welfare |
| M/FM | Deputy Under Secretary of State for Management (M), Funds Management (FM) |
| NIH | National Institutes of Health |
| OIH | Office of International Health |
| OMB | Office of Management and Budget |
| SFCP | Special Foreign Currency Program |
| USIA | United States Information Agency |

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COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN,
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

USE OF U.S.-OWNED
FOREIGN CURRENCIES
Department of State
Department of the Treasury
Agency for International Development
B-146749

D I G E S T

WHY THE STUDY WAS MADE

GAO was asked to study U.S.-owned foreign currencies to find possible ways to put them to more effective use. The study was intended to develop information on

- the nature and extent of current and projected holdings, including debts;
- the nature and extent of partially controlled currencies;
- current and prospective U.S. uses of currencies, by agency, and estimates of dollar savings; and
- applicable laws regarding use and debt settlement. (See app. I.)

FINDINGS AND CONCLUSIONS

Many U.S. Government agencies are engaged in activities throughout the world involving payments in foreign currencies. Most currencies needed to defray U.S. operating expenses abroad are purchased with dollars. (See p. 1.)

Since World War II, however, large amounts of these currencies have been made available without direct spending of dollars through foreign assistance and other programs, particularly in the sale of agricultural commodities on concessional terms. (See p. 1.)

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Except for certain foreign currency grants and loans made outside the appropriation process, agencies normally obtain these currencies from the Treasury Department with appropriated dollars for expenditure abroad. (See pp. 1, 4, and 8.)

Treasury and State Department documents showed a balance-of-payments benefit of about \$5.5 billion resulting from the use of nonpurchased foreign currencies during the period 1955-72. (See p. 32.)

U.S.-owned foreign currencies for which a 2 or more years' supply exists are generally determined by the Treasury to be excess. (See p. 4.)

The Congress has directed that maximum use be made of excess local currencies. Although all U.S. expenditures abroad must be met with U.S.-owned currencies instead of dollars, where possible, excess currencies may be used for additional beneficial purposes and projects. These include research provided for under special foreign currency programs presented to and approved by the Congress that may be of lower priority than those financed from regular dollar appropriations. (See pp. 4, 32, 34, and 36.)

U.S.-owned foreign currencies amounted to the equivalent of about \$1.9 billion as of June 30, 1973. Of this, about \$1.7 billion held in

eight countries was excess. (See app. III.)

Agency for International Development-administered loans payable in foreign currencies, the primary source of annual receipts, amounted to the equivalent of about \$4.9 billion as of December 31, 1973. (See app. IV.)

The phenomenon of excess currencies is diminishing even though there are indications that certain currencies will be excess for years. The number of excess currencies had decreased from 11 in fiscal year 1968 to 8 in fiscal year 1974; 7 are projected for fiscal year 1975. (See pp 17 and 18.)

Future accumulations of local currency will be effectively limited by

- the provision for development loans repayable only in dollars in the Foreign Assistance Act of 1961 and
- the 1966 amendment to the Agricultural Trade Development and Assistance Act of 1954, which provided for phaseout, during the period 1966-71, of agricultural commodity sales for local currency. (See pp. 7 and 17.)

Agency officials generally agree that, barring unforeseen political or other circumstances, additional currencies will not be declared excess. (See pp. 6 and 30.)

Within this framework and recognizing the economic, political, and other situations in given excess currency countries, the Congress and the executive branch are working to effectively manage and use excess currencies.

- There are several legal matters of interest, however, that relate to the use of foreign currencies as

provided for in the Foreign Assistance Act of 1961 and Public Law 480. (See p. 16.)

--Annual generations now significantly exceed the expenditure rate for appropriated uses in only two countries, Egypt and Pakistan. As of June 30, 1973, the onhand, nonrestricted balances amounted to the equivalent of \$235.5 million in Egypt and to the equivalent of \$135.4 million in Pakistan. (See pp. 22 and 24 and app. III.)

--Emphasis has been placed on preserving excess currencies in certain countries as the supply has decreased to (1) maximize balance-of-payments benefits, (2) support foreign policy objectives, and (3) extend program benefits. (See pp. 27 and 23.)

--Yugoslavia was scheduled to be removed from the excess currency category on July 1, 1974. With the decreasing supply of U.S.-owned currency there, Yugoslavia has participated in the funding of special foreign currency research programs. The concept of joint funding of special foreign currency programs could apply in other excess currency countries. (See p. 28.)

--State Department officials believe relations with India will improve now that the rupee debt has been settled and the excessive U.S. rupee ownership has been curtailed. (See p. 21.)

--Expenditures under the special foreign currency program amounted to the equivalent of about \$58 million in fiscal year 1973. In the excess currency countries 13 agencies are funding projects under the

lower priority program. (See p. 34.)

MATTERS FOR CONSIDERATION
BY THE COMMITTEE

Recognizing the efforts of State and Treasury and the Office of Management and Budget to achieve the maximum objectives and benefits through using excess foreign currencies, the Committee may wish to consider the need for limited legislative changes regarding foreign currency grants. These changes relate to

--the lack of provisions for the Congress and the cognizant committees to stop grants they object to that are proposed without appropriation and

--a question regarding the President's authority to grant excess

Public Law 480 currencies. (See p. 16.)

This report should be of special interest to the Committee and the Congress because it conveys the management concepts now practiced by the executive branch with respect to U.S.-owned foreign currencies.

Circumstances regarding U.S. foreign currency holdings and scheduled receipts in each of the excess currency countries should be of special interest to the Committee in monitoring U.S. activities in these countries.

In view of the decreasing supply of foreign currencies in certain countries, the information should be helpful to the Congress in examining the justification for appropriation requests, particularly special foreign currency program requests, in this new context.

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CHAPTER 1

INTRODUCTION

At the request of the Chairman of the Senate Committee on Foreign Relations, we studied U.S. owned foreign currency holdings to find possible ways to put them to more effective use. We looked into

- the nature and extent of current and projected holdings, including debts owed to the United States;
- the nature and extent of currencies partially controlled by the United States;
- current and prospective U.S. uses of currencies, by agency, and estimates of dollar savings; and
- applicable laws regarding use and debt settlement.

SOURCES OF FOREIGN CURRENCIES

Many U.S. Government agencies are engaged in activities throughout the world involving payments in foreign currencies. Most currencies needed to defray U.S. operating expenses abroad are purchased with dollars. Since World War II, however, large amounts of these currencies have been made available without spending dollars through foreign assistance and other programs.

Most currencies accrue to the credit of the United States because of international agreements that deal with (1) concessional sales of agricultural commodities to foreign countries for local currency or (2) loans of dollars or foreign currencies which may be repaid in the currencies of the borrowers. Currencies also become available in much smaller amounts under other types of international agreements and from the normal operations of the U.S. Government abroad. Currencies accrue primarily from two legislative sources: (1) the Agricultural Trade Development and Assistance Act of 1954, as amended (commonly known as Public Law 480), and (2) the Foreign Assistance Act (FAA) of 1961, as amended, and prior legislation. The Agency for International Development (AID) administers loans entered into under these acts.

CATEGORIES OF FOREIGN CURRENCIES

Foreign currencies generated under Public Law 480 and FAA and prior legislation are categorized as U.S. owned or country owned. Funds accruing under this assistance legislation that belong entirely to the U.S. Government are identified as U.S. owned. These funds, held in Department of the Treasury accounts abroad, have been received from payments for U.S. agricultural commodities sold abroad, from repayments of loans in local currencies, from interest on U.S.-held local currency balances in foreign banks, and from other minor sources. In the past most U.S.-owned funds accruing from sales of agricultural commodities have been reserved by the sale terms for country assistance programs through loans and grants.

The term "counterpart funds" has often been used to apply to any local currencies generated from U.S. commodity sales. In the true sense, however, the term applies to country-owned funds, most of which are generated when grant-aid commodities are sold in a country. More specifically the term applies to those special local currency accounts established in a recipient country to hold the sales proceeds. Most of the counterpart funds generated under aid programs are owned by the country and are held and used within it as specified in the FAA of 1961 and prior acts, as amended, and in bilateral agreements between the United States and the countries. Mutual agreement between the recipient country and the United States is necessary regarding the use of these funds. From 5 to 10 percent of the counterpart deposits, however, are transferred to U.S. ownership for use in administering the programs. Counterpart funds are identified in Treasury reports even though they are not held in Treasury accounts.

From time to time, assisted countries deposit funds designated for specific purposes in Treasury accounts. These funds, known as trust funds, are held in trust and used only for specific purposes designated by the participating country. Under such arrangements a country might provide local currency to finance part of the cost of an AID project or to meet administrative or other costs AID incurs for the project.

USE OF U.S.-OWNED FOREIGN CURRENCIES

U.S.-owned foreign currencies acquired under Public Law 480 are generally committed to U.S. use or country use by the terms of the international agreements under which they are received. Repayments of Public Law 480 loans, all of which are for U.S. use, may be allocated by the Office of Management and Budget (OMB) to agencies for country use. All foreign currencies acquired under FAA and prior legislation are for U.S. use. These currencies are generally used in accordance with the provisions of section 612 of the FAA of 1961 or section 104 of Public Law 480, as appropriate. Section 612 authorizes using currencies to meet the obligations of U.S. agencies outside the United States. It also provides that funds excess to needs may be used for the authorized assistance purposes set forth in part 1 of the act and to carry out voluntary family planning programs in countries which request such assistance. The Congress must appropriate all section 612 funds. The President may, however, use up to the equivalent of \$100 million in foreign currencies each fiscal year, without regard to source and without appropriation, for national security purposes as provided for in sections 614a and 652 of FAA. Also the Overseas Private Investment Corporation may loan excess foreign currencies, without appropriation, as provided for in section 234c of FAA.

Section 104 of Public Law 480 provides for using foreign currencies to (1) pay U.S. obligations entered into under other legislation and (2) carry out U.S. programs authorized by section 104. Some examples of programs authorized by section 104 are for market development, international educational and cultural exchange, research and scientific activities overseas, acquisition of buildings and sites, emergency relief, and loans and grants for economic development. Funds designated for country use under section 104 may be granted or loaned without appropriation under certain conditions.

MANAGEMENT OF U.S.-OWNED FOREIGN CURRENCIES

The Treasury has accounting and reporting responsibility for foreign currencies. Initially, disbursing officers deposit U.S.-owned foreign currency receipts into special collection accounts with designated banks in the cognizant countries.

The country-use portion of the funds generated by Public Law 480 sales is restricted by agreement for use under specific programs and may not be used for other purposes without the consent of the foreign governments involved. The U.S.-use portion of the funds is termed "nonrestricted" even though there are certain limitations on its use. These nonrestricted currencies are substituted for direct dollar expenditures, when feasible, and for currencies which the U.S. Government would otherwise purchase with dollars. The Treasury maintains accounts for the sale of nonrestricted currencies to any Government agency for official uses, as appropriated, and for accommodation exchange. Appropriated dollars received for currencies are credited to the Commodity Credit Corporation, if the currencies were derived from Public Law 480. They are deposited in the Treasury as miscellaneous receipts, if generated from other sources. The Treasury also maintains agency accounts for restricted currencies.

LEVELS OF U.S.-OWNED FOREIGN CURRENCIES

U.S.-owned foreign currencies on hand amounted to the equivalent of about \$1.9 billion as of June 30, 1973. In countries where the supply of nonrestricted currency is more than enough to meet U.S. requirements for the next 2 years (exclusive of requirements financed by restricted currencies), the Treasury generally designates the currency as excess. This designation means that every effort should be made to see that obligations in excess currency countries are made payable in the currency of those countries rather than in dollars. Nonrestricted excess currencies available for use on June 30, 1973, amounted to the equivalent of about \$1.7 billion.

An excess currency designation permits agencies to budget and obligate funds under appropriations for Special Foreign Currency Programs (SFCPs) which use excess currency exclusively and to request reservations of the currency for expenditure. SFCPs must be of enough importance to be justified under OMB criteria but are normally of a lower priority than items included in the agencies' regular dollar budgets. Two exceptions to the lower priority rule are programs of the United States Information Agency (USIA) and the Department of State's Office of Foreign Buildings. These organizations include in the SFCP budget items that would be included in their regular dollar budgets in the absence of excess currencies. Once appropriated, dollars for SFCPs are available only to purchase foreign currency from the Treasury.

In those countries where the supply of currency is more than enough for U.S. needs but not enough to be declared excess, the Treasury designates the currency as near excess. Although SFCPs are not operative in near excess currency countries, these currencies must be used instead of dollars, if possible. Currencies in other countries or nonexcess currencies must be purchased from commercial sources with dollars when treasury balances are inadequate to meet expenditure requirements.

AID maintains computerized records of scheduled foreign currency receipts through fiscal year 1998 for the loan programs it manages. Dollar equivalent balances on hand and projected principal and interest receipts through 1998 are shown for excess currency countries in the following schedule.

Excess Currency Balances
as of June 30, 1973, and Scheduled Interest
and Principal Generations Through
June 30, 1998 (note a)
(equivalent dollars in millions)

| <u>Country</u> | <u>Balance on hand</u> | <u>Scheduled receipts</u> |
|-----------------|------------------------|---------------------------|
| Burma | \$ 10.6 | \$ 70.9 |
| Egypt | 235.5 | 378.3 |
| Guinea | 6.4 | 26.0 |
| India | 911.4 | 169.1 |
| Israel (note b) | - | - |
| Pakistan | 138.3 | 594.1 |
| Poland | 318.5 | - |
| Tunisia | 18.8 | 137.4 |
| Yugoslavia | 33.0 | 275.6 |

^aA more detailed schedule, included as app. II, shows the expenditure rate for fiscal year 1973 and the estimated years' supply of currency. However, the projected years of currency availability, which is also shown in ch. 3 for each excess currency country, does not take into account use by allocation from U.S. use to country use. (See also apps. III to VI.)

^bRedesignated as a near excess currency country as of July 1, 1973.

In addition, Morocco was an excess currency country until fiscal year 1973, and Yugoslavia was scheduled to become a near excess currency country on July 1, 1974. On December 31, 1973, there were five near excess currency countries: Isreal, Morocco, Sudan, Sri Lanka, and Syria. Agencies' officials generally agreed that, barring unforeseen political or other circumstances, currencies in additional countries will not become excess.

CHAPTER 2

LEGISLATIVE ASPECTS OF

GENERATION AND USE OF FOREIGN CURRENCIES

Legislation down through the years reflects the concern of the Congress for the proper control, management, and use of U.S.-owned foreign currencies. The Congress, faced with new political and economic situations abroad, has changed certain laws that will allow the greatest use of U.S.-owned foreign currencies. Several of these laws are discussed below.

LIMITED LOCAL CURRENCY GENERATIONS IN THE FUTURE

Under the Development Loan Fund (DLF), established by the Mutual Security Act of 1957, significant dollar loans repayable in foreign currency were made during the period 1957-61. The FAA of 1961, however, abolished DLF and provided that both interest and principal on future development loans made in dollars be repayable in dollars. Furthermore, Public Law 480 was amended in 1966 to provide for the phasing out of agricultural commodity sales for local currency by December 31, 1971, and for sales for dollars only after that date. These changes limit local currency generations and have largely precluded commitments that will result in additional currency generations. According to loan repayment schedules, however, annual local currency receipts will be significant in some countries, at least through 1998. For this reason effective management of these currencies must continue to be emphasized.

RESTRICTED FOREIGN ASSISTANCE PROGRAMS IN EXCESS CURRENCY COUNTRIES

Basic policy requires that dollars not be spent for any purpose for which it is feasible to use excess or near excess currencies. Section 113 of the Foreign Assistance and Related Programs Appropriation Act, 1974 (Public Law 93-240, Jan. 2, 1974), goes beyond the basic policy with respect to foreign assistance in excess currency countries by stating:

"It is the sense of the Congress that excess foreign currencies on deposit with the United States Treasury, having been acquired without the payment of dollars, should be used to underwrite local costs of United States foreign assistance programs to the extent to which they are available. Therefore, none of the funds appropriated by this title shall be used to acquire, directly or indirectly, currencies or credits of a foreign country from non-United States Treasury sources when there is on deposit in the United States Treasury excess currencies of that country having been acquired without payment of dollars."

AID has said that this section is likely to cause problems in the future in helping to solve the urgent problems of the masses of poor people in excess currency countries. Local currency is a claim on local resources, and dollar aid is a claim on external resources. AID has said that, if local currency expenditures were significant, either additional external resources must be brought in at the same time or compensatory action must be taken to reduce local currency expenditures elsewhere in the economy to avoid inflation.

In addressing section 113 in terms of the situation in Pakistan, where budgetary resources are strained and insufficient to meet many existing priorities, AID has said that prohibiting the payment of dollars for local-cost financing prevents adding more budgetary resources for programs aimed at helping the country's poorest and most disadvantaged people. Thus, according to AID, although we can support local programs with dollars in nonexcess currency countries, Pakistan is penalized because of past needs to import food which we provided through sales for local currency.

CURRENCY USE LIMITATIONS
AND EXEMPTION PROVISIONS

A large part of the U.S.-owned foreign currencies for U.S. uses was not subject to budgetary control, reporting, or audit procedures until July 1952, when the Congress enacted section 1415 of the Supplemental Appropriation Act of 1953. This section, which prohibits the use of foreign currencies,

except as provided for annually in appropriation acts, has had a far-reaching effect on the use of local currency. It reads:

"Foreign credits owed to or owned by the United States Treasury will not be available for expenditure by agencies of the United States after June 30, 1953, except as may be provided for annually in appropriation Acts and provisions for the utilization of such credits for purposes authorized by law are hereby authorized to be included in general appropriation Acts."

Section 104 of Public Law 480 provided for many kinds of financing with local currencies generated under the act. Provisions have existed, however, for using these currencies without appropriation for certain purposes since the law was enacted as section 1415 of the Supplemental Appropriation Act of 1953 and was not made applicable to all expenditure categories and a Presidential waiver proviso was included in the original act. Also, under the opening paragraph of the section, authority has always existed to loan these currencies without appropriation. The major use of the currencies for grant purposes without appropriation has been based on the original waiver proviso and on a second proviso added in 1966, both following section 104. The currencies can be used for certain purposes listed in section 104, such as under 104d for emergency relief requirements. However, using these currencies without appropriation for these additional purposes is very rare.

About 75 percent of the Public Law 480 local currencies generated under sale agreements was reserved for country use and was available for loans or grants for assistance programs. When an appropriation would otherwise have been needed, the Presidential waiver was used for all grants of country funds until 1966, when Public Law 480 was revised. About 25 percent of the U.S.-owned Public Law 480 currencies were available for paying U.S. obligations. Except as mentioned below in connection with acquiring sites, buildings, and grounds, these funds are subject to the U.S. dollar appropriation process.

The proviso added in 1966 to section 104 of Public Law 480 is known as the Mondale-Poage proviso. Once enacted, all grants without appropriation (when appropriations were otherwise needed) were made under this proviso, rather than to the Presidential waiver proviso, until the United States-Indian Rupee Settlement Agreement early in 1974. Under the Mondale-Poage proviso, the use of excess currencies without appropriation is specifically encouraged (1) to acquire sites, buildings, and grounds for the use of the U.S. Government and its personnel and (2) to assist countries in taking self-help measures to increase production of agriculture commodities and facilities for storing and distributing such commodities. Such assistance may be only in addition to that which the country would have undertaken without the assistance. The Mondale-Poage proviso has been interpreted as applying to any country's use of excess foreign currencies authorized by section 104, subject to the priorities stated in the proviso and to the limitations stated in other laws.

Lack of provision for stopping
proposed grants

The two provisos added to section 104, Public Law 480, do not provide the cognizant committees and the Congress with clearly defined means by which they can stop grants proposed without appropriation that they consider objectionable. The waiver provision stipulates that the President transmit grant proposals to the Senate Committee on Agriculture and Forestry and to the House Committee on Agriculture. Grants are not to be made for 30 or 60 days after transmittal, depending upon whether the Congress is in or is not in session. Advice of proposals under the Mondale-Poage proviso must be furnished to the same committees. No mention is made in either proviso, however, regarding the steps these committees and the Congress may take to stop proposed grants they considered objectionable.

These circumstances were a matter of concern during the January 29, 1974, hearings on the then-proposed United States-Indian Rupee Settlement Agreement before the Subcommittee on the Near East and South Asia, House Committee on Foreign Affairs. When one subcommittee member stated his intent to introduce a resolution to determine the "sense of the Congress" regarding the proposal, the question arose about the effect that a resolution of disapproval would have

on the proposed agreement. The ensuing discussion revealed that the ability of the Congress to block such a settlement was unclear to the Subcommittee. Although AID's position is that it has no intention of opposing the wishes of the Congress, there appears to be a need for a clearly defined formal means by which the Congress or the cognizant committees can stop grants proposed without appropriation they consider objectionable.

Grant procedures not clear
for excess currencies

A question exists regarding the executive authority to use the Presidential waiver in section 104, Public Law 480, for granting excess currencies without appropriation. This question arose before the February 18, 1974, United States-Indian Rupee Settlement Agreement. On February 8, 1974, the Chairman, Subcommittee on the Near East and South Asia, requested the Secretary of State to obtain a decision from the Comptroller General of the United States as to AID's statutory authority to enter into the proposed settlement agreement. In a February 26, 1974, decision (see app. VII), the Comptroller General defined the issue as whether the Presidential waiver proviso could be used, as planned, in view of language in the Mondale-Poage proviso which would appear to render the waiver proviso inappropriate in the case of excess currencies. The Comptroller General said that a literal reading of the statutory language made the waiver proviso unavailable as authority for the entering into the subject or similar grants which involved the grant of excess currency to an excess currency nation. He also said, however, that, reading the legislative scheme as a whole and recognizing that a primary purpose of the Mondale-Poage proviso was to furnish added means for using large reserves of excess currencies, it seemed somewhat anomalous to conclude that the Congress intended to make unavailable previous authorities and procedures under which grants could be made without using appropriated funds.

Accordingly, although the matter was not entirely free from doubt, we did not object to the use of the waiver proviso in this instance, provided that the cognizant congressional committees had no objection. It was pointed out, however, that, due to the uncertainty caused by the words "shall not apply" in excess currency countries contained in the

Mondale-Poage proviso and applicable to the waiver proviso, the Congress should clarify the intent of the Mondale-Poage proviso before AID enters into any similar agreements.

Annual restrictions imposed by section 702
for State, Justice, Commerce, Judiciary,
and Related Agencies Appropriation Act

The Department of State and other agencies are unable to take advantage of the Mondale-Poage proviso for their programs in view of restrictive language in the annual appropriation act. More specifically, section 702 of a recent annual State, Justice, Commerce, Judiciary and Related Agencies Appropriation Act has stated:

"No part of any appropriation contained in this act shall be used to administer any program which is funded in whole or in part from foreign currencies or credits for which a specific dollar appropriation therefor has not been made."

The language was first included in the appropriation act for fiscal year 1961, after it was recommended in the House Committee on Appropriations report on the proposed legislation. AID, however, is not similarly restricted since its funds are appropriated under different acts.

Section 702 also relates to the 1970 extension of Public Law 480 which amended the act to authorize the use of foreign currencies for certain purposes without requiring the prior appropriation of dollars to purchase the local currencies from the Treasury. The amendment authorized using foreign currencies without appropriation for international cultural and educational exchange programs. Because of section 702, however, this provision has been inoperative for State and USIA, the principal agencies involved in these programs, since State is the administering agency for international cultural and educational exchange programs.

Lack of provisions for granting
non-Public Law 480 funds

In contrast to the two provisions at the end of section 104 of Public Law 480, FAA made no provisions in section 612 for granting, without appropriation, foreign currencies generated under the act and prior acts as amended.

This situation created an administration and negotiation burden in the recent United States-Indian Rupee Settlement Agreement in which the United States granted India approximately two-thirds of its rupee ownership. (See p. 21 and app. VIII.)

This lack of compatibility between the two acts was noted in our report on "Opportunities for Better Use of United States Owned Excess Foreign Currency in India," (B-146749, Jan. 29, 1971). We pointed out that the Congress might wish to consider whether to provide authority for the President to use non-Public Law 480 excess currency for grants in India without appropriations similar to his existing authority to use Public Law 480 excess currency. In some cases, according to a State Department official, the availability of authority of this nature could permit using more restricted currencies for grant purposes, permitting the retention of broader application Public Law 480 currencies for balance-of-payment or other benefits. Although the authority to grant non-Public Law 480 excess currency would provide added flexibility to the executive branch, it could materially accelerate using these currencies for country uses without appropriation.

DEBT RELIEF AND LEGISLATIVE REPORTING REQUIREMENTS

AID-administered loans repayable in foreign currencies amounted to about \$4.9 billion as of December 31, 1973. These loans constitute almost all foreign currency balances due the U.S. Government. No distinction is made between dollar and local currency loans in the legislation and in other documents we reviewed relating to the recoupment of foreign debts.

In our report to the Congress on "Developing Countries' External Debt and U.S. Foreign Assistance: A Case Study" (B-177988, May 11, 1973), we said that debt-relief exercises, involving many developing countries, were occurring more frequently and were increasingly an important form of economic resource transfer. In chapter 5 of that report (included as app. IX), we addressed the subject of executive and legislative participation in debt renegotiations. In the opening paragraph we said that, according to the Attorney General of the United States, the executive branch had authority,

without congressional review or approval, to renegotiate terms of loans to countries.

The Attorney General's views, expressed in his opinion dated December 24, 1970, in response to a request from the Secretary of the Treasury, apply to debts under the FAA of 1961 and prior acts as amended and Public Law 480. These views were also expressed in testimony July 24, 1973, before the Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations, when the Acting Assistant Secretary for Economic and Business Affairs of the Department of State said:

"The Department of State is of the opinion, and other agencies have indicated that they agree, that the President does have authority in appropriate circumstances to settle claims against foreign Governments, even if in a particular case no payment can be obtained where, for example, it is established that the debts are uncollectible."

A major exception to this statement appears in section 620r of FAA which prohibits a writeoff of principal and interest on FAA loans. These views appear to justify the opinion that "The Executive asserts broad legal authority, both statutory and inherent, to renegotiate foreign indebtedness," as expressed by the Subcommittee on International Finance and Resources, Senate Committee on Finance, in a Committee print dated October 29, 1973.

In our report cited above, we said that, although legislative restrictions on executive branch authority to renegotiate loans were few, the Congress had shown considerable interest in developing countries' ability to repay existing debts and in debt relief. Accordingly, we stated that the Congress might wish to:

--Consider the need for it to play a larger role in determining U.S. policy concerning debt relief to developing nations and in related program oversight concerning the terms and conditions under which assistance in the form of debt relief may be granted.

"--As a prerequisite in order to have essential information, consider legislation to require comprehensive annual reporting by the Secretary of State, to be submitted in January of each year and thus be available to the committees of the Congress in their considerations of authorization and appropriation proposals. Such reporting might make available for the Congress current summary perspectives of the worldwide dimensions of the debt burden problem, as well as the specifics of debt relief granted or proposed."

We have noted that section 17 of the FAA of 1973 (Public Law 93-189, dated Dec. 17, 1973) amended section 634 of the FAA of 1961 to include:

"(g) The President shall transmit to the Speaker of the House of Representatives and to the Committee on Foreign Relations of the Senate, not later than January 31 of each year, a comprehensive report, based upon the latest data available, showing--

"(1) a summary of the worldwide dimensions of debt-servicing problems among such countries, together with a detailed statement of the debt-servicing problems of each such country;

"(2) a summary of all forms of debt relief granted by the United States with respect to such countries, together with a detailed statement of the specific debt relief granted with respect to each such country and the purpose for which it was granted;

"(3) a summary of the worldwide effect of the debt relief granted by the United States on the availability of funds, authority, or other resources of the United States to make any such loan, sale, contract of guarantee or insurance, of extension of credit, together with a detailed statement of the effect of such debt relief with respect to each such country; and

"(4) a summary of the net aid flow from the United States to such countries, taking into consideration the debt relief granted by the United States, together with a detailed analysis of such net aid flow with respect to each such country."

Although the late enactment of the legislation did not permit furnishing the report by January 31, 1974, the Department of State, on January 29, 1974, advised the designated recipients of plans to meet the new legislative requirement. We believe, if data is provided in the comprehensive manner required by the legislation, the reporting requirements are now sufficient to keep the Congress fully informed of executive activities with respect to foreign debts owed the United States.

MATTERS FOR CONSIDERATION BY THE COMMITTEE

In view of the circumstances described above, the Committee may wish to consider the need for legislation that would:

1. Specifically give the Congress and cognizant committees a clearly defined formal means by which grants proposed without appropriation that they object to can be stopped.
2. Clarify the question that exists regarding the executive authority to use the first proviso of section 104, Public Law 480, for granting excess currencies without appropriation.

We have noted that there are no provisions in section 612 of FAA that authorize the executive branch to grant these funds without appropriation as it may do for Public Law 480 currencies as authorized by two provisos of section 104. Our discussions with agency officials did not reveal valid reasons for this lack of conformity between the two acts.

We have also noted the continued use of restrictive language in section 702 of the annual State, Justice, Commerce, Judiciary and Related Agencies Appropriation Act even though more liberal language is used in Public Law 480 as a result of the Mondale-Poage proviso of 1966 and the 1970 amendment regarding international cultural and educational exchange programs.

CHAPTER 3

EXCESS CURRENCY COUNTRIES

Nonrestricted excess currency balances on hand amounted to about \$1.7 billion as of June 30, 1973. The executive branch's comprehensive approach to the centralized management of these currencies dates back to 1960. Events since that time have resulted in major changes in management practices as well as reductions in the amount of excess currency balances. More recently the number of excess currency countries has decreased.

In mid-1960, the executive branch established a system of management and control over foreign currencies for U.S. uses that would be effective without having to change the many provisions of the then-existing law. Although section 1415 of the Supplemental Appropriation Act of 1953 had prohibited the use of foreign currencies without appropriation, increasing amounts of currencies generated under Public Law 480 were being used without appropriation for purposes exempted from this restriction by provisions in Public Law 480. The new system required that amounts set aside for U.S. uses be controlled through the appropriation process.

Under the new system, the primary objectives in managing foreign currencies were: first, to obtain maximum use of these funds as a substitute for U.S. dollar expenditures and second, to treat the currencies as a real fiscal asset to be spent for programs approved on the basis of annual budgetary review. The system also provided for SFCP appropriations, and, due to concern within the executive and legislative branches during the 1960s about maximizing the use of excess currencies, many agencies initiated these appropriations with lower priority programs than those in regular agency dollar appropriations. In addition, the Congress has taken action to limit the future generation of currencies. As discussed in chapter 2, the FAA of 1961 reduced local currency generation by requiring all future assistance loans to be repayable in dollars. Likewise, the 1966 change to Public Law 480 directed a progressive transition from local currency agricultural commodity sales to dollar-credit sales by December 31, 1971.

Another important event, pursuant to our recommendation that an organizational entity be established and charged with specific responsibilities for managing U.S.-owned foreign

currencies, was the Department of State's 1965 establishment of a foreign currency staff in the Office of the Deputy Assistant Secretary for Budget and Finance to coordinate foreign currency matters throughout the Federal Government. The staff is now located in the Deputy Assistant Secretary's Office of Funds Management (M/FM). A basic goal of the staff is to facilitate maximum use of the currencies, with major emphasis on their substitution for dollars that would otherwise be spent abroad. With this objective in mind, the staff participates in Government-wide planning efforts to develop and implement effective policy for managing U.S.-owned foreign currencies. According to M/FM officials, when coordinating the uses of foreign currencies, they maintain an impartial position toward any competitive SFCP requirements of U.S. agencies and do not evaluate the merits of proposed SFCP projects and programs.

Because of the policy of using excess currencies to the maximum extent possible and because of the legislative changes regarding the generation of local currencies, the number of excess currencies had decreased from 11 in fiscal year 1968 to 8 in fiscal year 1974, 7 are projected for fiscal year 1975.

M/FM officials said that policies and procedures had been partially modified in recognition of the reduction in U.S. balances of some currencies resulting from the policy for maximum use and the legislative changes reducing generation. The modification was due, in part, to an early 1972 study by the foreign currencies staff of local currency availabilities and requirements in Yugoslavia and Tunisia, which disclosed that availabilities in these countries were no longer adequate to meet all the demands which U.S. agencies planned to place upon them. The study indicated that planned SFCP use controlled within availabilities was mandatory if any continuing use was to be made of these currencies for SFCPs after June 30, 1972. M/FM's present technique in planning the use of currencies of limited availability requires estimating the amount available for SFCP appropriations, after first setting aside an ample supply for uses benefiting the U.S. balance of payments, and the equitable division of these funds among SFCP needs with full agreement of using agencies, OMB, and the Treasury.

CURRENT MANAGEMENT VIEWS

M/FM officials believe that U.S. interests are better served by effectively managing excess currencies to yield maximum benefits to the United States rather than by adhering to the previous practice of using currencies as rapidly as possible. In particular, when the potential demand for a currency threatens to exceed the availability, there may still be a period of years during which annual receipts may be well above regular annual expenditures of the U.S. Government which benefit the balance of payments. This overage, under a managed approach, can be used under existing agency appropriations to permit a gradual phaseout of SFCP activities benefiting U.S. foreign policy interests, U.S. agency program interests, and economic and professional interest in the foreign country.

Prematurely dropping the excess designation before annual receipts are in phase with expenditures can result in the currency's rebuilding to excess status. If a currency were to go off and back on the excess status, it would have an undesirable effect on SFCPs which may be carried out in excess currency countries only, since many projects produce the results over the long run. Officials believe that a country should not be dropped from the excess list until the action is permanent. Thus, an important aspect of taking a country off the excess list is insuring a reasonable phasedown of SFCP activity rather than an abrupt and disruptive end.

OMB officials said that they considered the current emphasis on more effective management of excess currencies to be the natural result of past actions to use more of these funds and not a basic shift in policy to extend the currencies' use period. Early in the 1960s the U.S. Government moved to use more excess currencies. Over time the drawdowns resulted in finite amounts of funds whose transition from excess status to near excess status was a later step in the plan to spend the currencies. According to OMB officials, this step requires careful excess-currency management during the transitional period to minimize disruption that can occur to U.S. Government programs funded by excess currency.

Treasury officials said that their overall concept of excess currencies was to try to maximize the currencies' use for budgetary and balance-of-payments benefits and that they did not attempt to maximize SFCPs. Historically, officials

viewed excess currencies as meaning the United States had a 2 or more years' supply of the currencies but they now view excess status more in terms of the present supply and how soon Treasury will have to purchase a currency if it is spent as a result of being declared excess. In general, Treasury officials said they were reluctant to declare a currency excess if the accelerated drawdown of U.S. holdings would result in the early purchase of the currency for dollars.

STATUS OF THE EXCESS CURRENCY COUNTRIES

India

On February 13, 1974, the United States and India officially concluded a settlement of India's rupee debt. GAO provided information to the House Subcommittee that held hearings on the proposed settlement. (See app. VIII.) Although there are some economic justifications for this settlement, it is basically a political settlement of a long-standing political irritant between the two countries. The State Department believes that this settlement will pave the way for improved relations with India and facilitate the most flexible use of the remaining U.S. rupee balances.

Basically, the agreement provided for India to prepay the outstanding rupee debt principal and the interest due up to the date of signing. The United States then granted to India the rupee equivalent of \$2 billion for various economic development projects to be funded in the next Indian 5-year plan. The United States retained the rupee equivalent of about \$1 billion, of which the rupee equivalent of \$93 million is the only U.S. holding drawing interest. This interest-free status of U.S. holdings contributes to placing a limit on our holdings in India.

The settlement provides for:

- "Assured usage" of our rupee holdings for established uses, including funding of the American School in New Delhi.
- A ceiling on U.S. annual expenditures of the rupee equivalent of about \$59 million, which can be raised by mutual consent or due to inflation.
- Three-year funding of the annual rupee equivalent of about \$8 million for the AID program in Nepal, including the training of Nepalese in India.
- The conversion of \$64 million in rupees to dollars for transfer to the United States over the next 10 years. The \$64 million consists of (1) a \$10 million conversion entitlement that had not been exercised, (2) a \$40 million conversion entitlement that would have materialized as the loans were repaid, (3) a \$3 million

conversion entitlement that had been delinquent from 6 months to 1 year, pending inclusion of the amount in the settlement, and (4) a \$11 million negotiating advantage.

--Maintenance of value for 10 years on the equivalent of \$500 million, or about half the rupees the United States will retain.

--The option during the next 5 years to purchase up to \$100 million worth of mutually agreed-upon Indian goods and services, for which 25 percent of the price may be paid in rupees.

--The retention of the rupee equivalent of about \$93 million in interest-drawing deposits in various commercial banks in India. These funds are in branches of American banks.

--The Indian Government to furnish the U.S. Government annual and final statements on the status of these funds and such additional summary information concerning their use as the U.S. Government may reasonably request.

--A side agreement to settle a longstanding dispute on surplus property that grew out of the partition of India and Pakistan in 1948.

State Department officials, in discussions with us and in hearings on the United States-Indian Rupee Settlement Agreement, emphatically stated that this settlement did not create a precedent as there was no other excess currency situation like that in India. The amounts of currency held in other excess currency countries, such as Pakistan, do not threaten to become infinite as was the situation in India.

On the basis of present levels of expenditures, the State Department estimates that the present U.S. rupee holdings (after the settlement) will meet U.S. Government expenditures in India for 14 to 24 years.

Pakistan

Annual U.S. rupee receipts in Pakistan are almost double the annual expenditure. Under current circumstances the issue

of continuing rupee accumulations is not a problem, according to a State Department official. The official did not see any immediate indication of problems and believed that the Pakistani Government was more interested in its oil-shortage problem, which could lead to food shortages, and problems regarding its hard-currency debts.

During hearings held by the Subcommittee on Near East and South Asia on the United States-Indian Rupee Settlement Agreement, the questions of need for debt settlement with Pakistan and whether the Indian settlement constituted a precedent arose. In his questioning of witnesses, the Subcommittee Chairman alluded to papers prepared by the AID Mission in Pakistan, which stated that the United States and Pakistan were discussing the rupee debt. The language in these papers on the summary of conditions in Pakistan was similar to the language used to describe the situation in India before the settlement, i.e., these large U.S. Government holdings of Pakistan currency were already a potentially serious irritant in our relations with the Pakistani Government. AID Washington officials said, however, that this document was a workpaper prepared by an AID economist in Pakistan. Although they view the rupee situation as an irritant, they believe that existing legislation can resolve it and that an India-type solution is not appropriate for Pakistan.

Even though receipts are now almost double use, M/FM officials believe the situation is manageable under existing legislation and practice. The United States has spent large amounts of Pakistan rupees for U.S.-use and country-use requirements. The 1972 devaluation of the Pakistan rupee also reduced the dollar equivalent of U.S. holdings. Because of the war with India and the Bangladesh breakaway from Pakistan, the economy is in a depressed condition. Budgetary resources are strained and insufficient to meet many existing priorities. The Pakistani Government asked the United States to help its economic recovery by exercising a reasonable restraint in spending rupees.

On the basis of the above conditions, M/FM officials believe that the current annual level of U.S. expenditures (about \$15 million for fiscal year 1973) cannot be readily increased now. They noted that, unlike expenditures in India, U.S. expenditures in Pakistan had never reached their practicable level. Although this makes projection of future use

difficult, their current estimates are that the United States has over a 25-year supply of rupees. Strictly on the basis of its fiscal year 1973 level of expenditures, however, we estimated that current holdings of the equivalent of about \$138 million and receipts of the rupee equivalent of about \$594 million through fiscal year 1998 could sustain the present expenditure level for a total of 49 years. (See app. II.) M/FM personnel told us that the State Department planned to review this situation each year and that the U.S. Government had the capability, by selective use of Mondale-Poage grants, to manage U.S. holdings and prevent creating an India-type excess currency problem in Pakistan.

There is a point of interest regarding the Bangladesh breakaway from Pakistan. The breakaway could raise a rupee debt-split issue similar to the one still under negotiation for the dollar debt. Almost all the rupee debt potentially allocable to Bangladesh is of Public Law 480 origin, and the loan repayment portion would be available for grants. AID officials said, however, that neither country would gain any economic advantage through a split of this debt. Although a split would reduce the amount of rupees Pakistan owes the United States, it would also reduce future grants of these funds, once repaid, back to the country.

Bangladesh's assuming part of the debt would result in the loss of foreign exchange since U.S. agencies would use repayments to meet operating expenses within the country. Thus, some AID officials feel the likelihood of such a split is remote. With the recent Pakistani recognition of Bangladesh, they believe that such an issue could become an obstacle to improved relations between the two countries. State Department officials, however, believe Pakistan and Bangladesh interests in a rupee debt split is not necessarily remote but certainly is not a current interest of the Governments of Pakistan or Bangladesh. It appears that such a debt split could provide the U.S. Government with local currency normally purchased in Bangladesh with dollars.

Egypt

U.S. holdings of Egyptian pounds increased considerably when U.S. Government expenditures were reduced after relations were broken between the two countries in 1967. Although our holdings were increasing before 1967, since then they have increased more rapidly due to the reduction in annual

expenditures about one-half to approximately \$6 million versus continued annual receipts of about \$18 million.

An M/FM official said that the United States had made good use of the pounds, given the unfavorable political condition since 1967. Pounds were used for funding the reduced level of U.S. Government expenditures, grants to the American University in Cairo, and a part of U.S. contributions to international organizations. U.S. Government agencies' desire to use more pounds for their programs was not fully realized due to political conditions.

A significant factor in the potential for drawing down these pounds has been, is, and will be the state of relations between the two countries. Before 1967, the United States had never reached the practicable level of expenditure in Egypt that it had in some other countries. With the reestablishment of relations, the State Department expects expenditures to gradually increase as U.S. activities are expanded.

State Department officials told us that there had been no discussion of possibly granting our pound holdings back to the Egyptians similar to that done in the United States-Indian Rupee Settlement Agreement. However, some thought has been given to possibly granting the pound equivalent of from \$30 to \$50 million for an endowment fund for the American University in Cairo.

With the reestablishment of relations, however, a State Department official said that the possibility of granting pounds would be studied in the overall context of possible assistance to Egypt. Under this policy, the pound equivalent of \$3 million for local currency costs of the minesweeping and wreck-clearing operations of the Suez Canal and \$10 million for humanitarian relief operations have been granted. An allocation of the pound equivalent of \$30 million has been under consideration for the Overseas Private Investment Corporation to assist U.S. firms to invest in Egypt.

As in Pakistan, the circumstances of our reduced level of expenditures make it difficult to precisely state the future level of expenditures and period of U.S. pound holdings. Present M/FM estimates, based on expenditure rates under normal relations and inflation trends, are that the United States has at least a 25-year supply. Based on Treasury and AID documents showing expenditures of the

equivalent to \$6.4 million in fiscal year 1973, an equivalent onhand balance of about \$235.5 million, and projected receipts of the equivalent to about \$378 million through 1998, it appears the United States could have a 96-year currency supply.

We realize, however, that this is a maximum time period based on an expenditure rate that is artificially low. It is our opinion that restoring relations will result in increased use, as already evidenced by the recent grants made to Egypt; and, as required by the increased personnel staffing of the United States Embassy, increased SFCP authorizations by the Embassy, and other actions. These increased expenditures should greatly reduce the years of pound availability.

Poland

Excess currency holdings in Poland have a unique status due to the restrictive terms of the Public Law 480 agreements. Poland is one of the "super excess" currency countries, but U.S. holdings have been decreasing for most of the last decade. The 8 agreements signed between 1957 and 1964 were heavily influenced by the U.S. legislation and national attitudes regarding relations with Communist countries. To prevent any connotation of assistance to a Communist country, the agreements were very restrictive. The Polish agreements are the only agreements where all the local currency has full maintenance of value for the life of the holdings and where all the unused currency will be converted to dollars on a scheduled basis over the life of the agreements. The agreements do not provide for interest payments by Poland on U.S. holdings, nor do they allow for country use of the zloty receipts within the country.

Poland became an excess currency country almost immediately with the initial shipments of commodities due to the terms of the agreements. Under these agreements, the zloty equivalent of the dollar value of the commodities provided was deposited in a special zloty-denominated U.S. dollar account upon Poland's receipt of the commodities. The agreements provided for the Polish Government to purchase zlotys with dollars over the period 1967-95. The rate of exchange provided for in the purchase schedules is 24 zlotys to a \$1.

The relationship between the purchase schedules and U.S. expenditures, as negotiated in the agreements, is unique. The agreements provided for the United States to charge most of its appropriated uses to the zlotys on the 1995 end of the schedules and work backward toward 1967. The annuitants' program was to be charged to the purchase schedule years 1985 through 1987. The conversion of zlotys to dollars and U.S. Government travel expenditures were to be charged to the 1967 schedules and work toward 1995.

The annuitants' program is being reviewed. The rate of exchange for the annuitants is 60 zlotys to the \$1. Although this rate is greater than the conversion rate of 24 zlotys to the \$1, it was adopted because it is equal to the rate that the Polish Government would pay the annuitants for their dollar checks and the United States did not want to penalize the annuitants by the lower conversion rate. Thus, for each current dollar balance-of-payments benefit the United States realizes, there is a corresponding forfeit of about \$3 balance-of-payments benefit in the future.

Treasury officials said that it made sense several years ago to have a smaller balance-of-payments dollar benefit immediately rather than the larger dollar benefit in the future. This approach is no longer financially justified because of the increasing value of the zlotys used for this purpose that otherwise would be converted to dollars in the future. Thus, the Treasury is considering discontinuing annuitants' payments from zloty holdings. If this change is made, it is expected the annuitants will still receive the same amount of zlotys by cashing their dollar checks with the Polish Government. The United States, however, will gain about a \$3 future balance-of-payments benefit for each current dollar outflow.

Recently M/FM estimated that, on the basis of the fiscal year 1973 level of commitments in Poland, U.S. holdings of zlotys would be exhausted for obligations by the end of fiscal year 1980. This finding and the fact that the Treasury Department has also considered shifting Poland to near excess currency status for long-range balance-of-payments reasons prompted a program change, to reduce expenditures in Poland to obtain maximum balance-of-payments benefits. The conversion and appropriated-use programs will remain, but SFCP is to be gradually phased out over the next 5 years, as are other programs having no direct balance-of-payment benefits.

On the basis of the fiscal year 1973 expenditures of about \$22 million, we estimated from Treasury and AID documents that the United States would have zlotys for expenditure over the next 14 years.

Tunisia

As a result of the 1972 study of SFCPs in Tunisia and Yugoslavia, M/FM officials told AID and the SFCP agencies that the uncommitted balances were relatively low and are being committed faster than receipts were being generated. Once alerted to this problem regarding Tunisia, the agencies formed an ad hoc committee to determine the maximum amount that could be obligated annually without shifting Tunisia from excess currency status to near excess currency status. As a result, AID and the SFCP agencies have voluntarily limited their programs in Tunisia to allow for the annual carryover of an amount large enough to keep Tunisia an excess currency country in future years. M/FM officials said that the agencies' action, in addition to permitting the orderly flow and phasedown of these programs in Tunisia, would prevent Tunisia's dropping from the excess list prematurely only to be returned later as annual receipts above expenditures for regular programs build up holdings to excess level.

Under the present limited level of expenditures, the current U.S. holdings of dinars plus receipts of the dinar equivalent of \$137.4 million through fiscal year 1998 could extend the availability of the currency for expenditure to 28 years.

Yugoslavia

Yugoslavia was scheduled to shift from excess currency status to near excess currency status on July 1, 1974, after the 2-year phasedown plan for SFCPs developed by M/FM, agreed to by SFCP agencies, and approved by OMB and the Treasury. The 1972 study disclosed that the U.S. agencies had committed or planned to commit more local currency for Yugoslavian SFCPs than was available. The plan differs from the voluntary one for Tunisia in that it is a formal control plan to comply with an OMB request for a graduated phaseout of SFCPs in Yugoslavia. Additionally, to phase out the programs without abruptly disrupting the Yugoslavian research community, the United States and Yugoslavia are jointly funding these

projects. State Department officials believe that the concept of joint funding of SFCPs, as negotiated with Yugoslavia, could benefit the United States in other excess currency countries. Except for the establishment of the Binational Science Foundation in Israel on September 27, 1972, no other sharing arrangements of this nature have been made.

Treasury officials said that attempts had been made to use excess currencies for export procurement but that they had been of limited success. In Yugoslavia, the U.S. Government arranged to purchase Yugoslavian beef for the military forces in Germany by paying 20 percent of the price in dinars. Another potential for this use is the United States-Indian Rupee Settlement Agreement which provides the option for the U.S. Government to purchase Indian goods and services and to pay 25 percent of the price in rupees.

Burma

State Department officials said that the excess currency status of Burma was due to political conditions. Before the Burmese Government's inward turn, the United States made good use of the currency. Since then, U.S. Government programs have been curtailed, not from any effort to prevent the United States from using its holdings but from the desire of the Burmese Government to limit the activities of major powers in Burma. The last tranche for an AID-funded university project will go forward as part of the AID program in Burma.

On the basis of the present political conditions, we estimated from Treasury and AID documents that U.S. holdings of Burmese kyats would remain available for expenditure for about 37 years. M/FM officials noted that U.S. holdings were so small, about the kyat equivalent of \$11 million, that almost any increase in the U.S. Government program level would deplete it.

Guinea

The excess currency status of Guinea, like that of Burma, has been partially due to political conditions in the past which have limited U.S. Government programs. Additionally, there is only a limited potential for research, procurement, or other expenditure of local currency balances. Also U.S. holdings are increasing only marginally.

Current U.S. holdings of the syli equivalent of about \$6.4 million, annual U.S. operating expenditures of about \$500,000, and projected receipts through 1998 of the equivalent of about \$26 million indicate that Guinea currency could be available for expenditure for 65 years.

POSSIBLE NEW EXCESS CURRENCY COUNTRIES

M/FM and Treasury officials agree that under normal conditions no new excess currency countries will develop. However, these officials noted that it was possible for an excess currency country to develop due to some unusual and major change in our relations with the country or in the political nature of the country.

As an example of how an excess currency country could develop from a change in our relations, Treasury officials cited a hypothetical case. In one country, the United States has local currency receipts equivalent to about \$30 million annually. The U.S. Government spends this amount and purchases the equivalent of about \$15 million more to cover its local currency needs for our bases there. If there were some change in the political relations between the two countries whereby the United States removed its forces, the currency accumulated would be far greater than the expenditures for the remaining U.S. Government programs and it would probably become an excess currency country over time.

As an example of how a political change in a country could create an excess currency situation, Treasury officials commented on the hypothetical case of the division of an excess currency debt resulting from the partition of the excess currency country. Treasury officials said that, should this debt division occur and should the United States have over a 2-year supply of foreign currency in both countries, then they would probably declare both countries excess currency countries.

Currently there are five near excess currency countries: Israel, Morocco, Sudan, Sri Lanka, and Syria. It appears, from our discussions with M/FM and Treasury officials, that the historical status of near excess currencies' being above immediate requirements but less than a 2-year supply has changed with the increased management attention given to foreign currencies. For example, although there is over a 40-year supply of U.S.-owned currency on hand in Syria and

a 4-year supply on hand in Sudan, these currencies have been classified as near excess. Those classifications are due to the fact that the currency balances are inadequate to sustain excess designations without depleting supplies required for balance-of-payments benefits. The Treasury also considered shifting Poland, which has almost a 14-year supply, to the near excess currency list. This approach blends into the Treasury concept of balance-of-payments benefits and the complementary M/FM concept of planned use.

CONCLUSIONS

The Congress and the executive branch are committed to using United States-owned foreign currencies more effectively. In 4 countries, however, the use of U.S.-owned currencies has been limited by factors over which using agencies have little, if any, control. Currency use has been limited by political and economic factors in Egypt and Guinea, political factors in Burma and economic factors in Pakistan. Although these limits are real, officials are alert for new ways to use currencies in these countries more effectively. For example, the restoration of relations with Egypt is presenting new currency-use opportunities.

In three excess currency countries--Poland, Tunisia, and Yugoslavia--the practice of using currencies to the maximum extent has resulted in the need for controlled currency use and reduced expenditure levels. In fact, after June 30, 1974, Yugoslavia will not be an excess currency country. Consequently, in these countries emphasis now is on current and long-range balance-of-payments benefits as opposed to maximum use of SFCPs when both cannot be served.

We generally agree with the excess currency and near excess currency management concepts now being followed by the Departments of State and the Treasury. These concepts are directed toward maximizing balance-of-payments benefits, recognizing certain political and economic necessities and constraints. It appears to be in the best interest of the U.S. Government to follow this approach, which includes searching for new ways to spend excess currencies in such countries as Egypt; restraining and coordinating the use of excess currencies in such countries as Poland where balances are decreasing; and considering factors in addition to the projected years' supply of currency when classifying currency as excess, near excess, or nonexcess.

CHAPTER 4

AGENCY USES OF FOREIGN CURRENCIES

Treasury and State Department documents showed a balance-of-payments benefit of about \$5.5 billion during fiscal years 1955-72 through the use of nonpurchased foreign currencies. (See app. VI.) A more precise determination of the actual dollar savings accruing from these local currency expenditures would have to consider the facts that, in the absence of excess currencies, (1) the expenditure policy in some countries might have been less liberal and (2) certain State Department Office of Foreign Buildings and USIA functions provided for in SFCP would be carried out under the regular dollar appropriation. A determination of this nature would be difficult and therefore not completely practicable.

State Department's records show that efforts have been made for years, and particularly since 1961, to maximize the use of U.S.-owned foreign currencies in lieu of U.S. dollars. Basic policy requires that dollars not be spent for any purpose for which it is feasible to use excess or near excess currencies. This policy reflects the congressional mandate that maximum use be made of excess currencies.

State Department documents show excess and near excess currencies are being used as follows:

- "1. In-Country Official Expenses: All official obligations in excess and near-excess currency countries are made payable in local currencies wherever feasible. This includes operational expenses of Foreign Service posts and U.S. Missions, and expenses of all activities and operations of agencies of the Federal Government within these countries. It includes salaries of local employees, allowances for American employees, travel within the country, and contractual expenses.
- "2. In-Country Personal Expenses: All persons traveling for the U.S. Government, including employees, consultants and grantees, while in one of these countries are required to acquire their local currency expenditure requirements from the accommodation exchange

facility in the American Embassy, wherever possible. American employees assigned in these countries are required to avoid the expenditure of dollars, and to purchase local currency expenditure requirements from the Embassy accommodation exchange. American employees also have been encouraged to have a part of their salaries paid in local currencies.

- "3. International Transportation: Arrangements have been made for the use of U.S.-owned currencies of excess and near-excess countries for payments to international carriers for official travel. Use of these currencies for travel is required wherever feasible by persons traveling for the U.S. Government. An exception to the basic "fly-American" policy is authorized to permit the use of these currencies on foreign-flag carriers when American carriers cannot or will not accept them.
- "4. Procurement for Overseas Use: Procurement regulations governing the procurement of goods and services for overseas use require that, world-wide, first priority be given to procurement with excess foreign currencies when feasible.
- "5. Sales to U.S. Citizens: Arrangements have been made for the sale of excess currencies to traveling U.S. citizens including tourists and businessmen. The total volume of such sales in some countries is limited by the terms of agreements with the governments of these countries.
- "6. Payments to U.S. Annuitants: Persons resident in excess and near-excess currency countries who receive annuities from U.S. Government agencies are paid in U.S.-owned local currencies wherever feasible.
- "7. Contributions to International Organizations: Under a program initiated in 1964, international organizations have accepted several

millions in U.S.-owned foreign currencies in lieu of dollars in payment on contributions assessed against the U.S. and many millions have been paid in lieu of dollars as voluntary contributions to international organizations."

An example of the effective use of excess currencies may be found in the activities of the State Department's Bureau of International Organization Affairs. Foreign currency needs in this Bureau are not budgeted in advance because requirements cannot be predetermined. The United Nations organizations request contributions or the payment of assessments, and the Bureau then determines funds availability. In 1974 approximately \$4 million of the total U.S. contributions of \$86 million to the United Nations Development Program fund will be in excess currencies. As of March 1974, \$1.7 million had been disbursed to the development program for fiscal year 1974 for program activity in Morocco, Tunisia, Pakistan, and India. The total amount of excess currency spent on U.S. programs since fiscal year 1961 is the equivalent of \$93 million, more than half of which was spent on United Nations refugee assistance activities.

SFCP

SFCP was introduced at the beginning of fiscal year 1961 as a vehicle to maximize the use and benefits of excess foreign currencies. SFCP expenditures for fiscal year 1973 and estimated expenditures for fiscal year 1974 are shown in the following schedule.

| | Number of program countries | Fiscal year 1973 expenditures | Fiscal year 1974 estimated expenditures |
|--|-----------------------------------|-------------------------------------|--|
| (dollar equivalent in thousands) | | | |
| Library of Congress | 7 | \$ 3,022 | \$ 2,021 |
| Department of Agriculture | 7 | 5,893 | 9,500 |
| Department of Commerce | 6 | 882 | 2,342 |
| Department of Defense | 5 | 4,374 | 7,000 |
| Department of Health, Education, and Welfare | 8 | 15,880 | 16,850 |
| Department of the Interior | 2 | 356 | 750 |
| Department of Labor | 1 | 19 | 181 |
| Department of State | 9 | 7,119 | 12,977 |
| Department of Transportation | 2 | 14 | 485 |
| Environmental Protection Agency | 6 | 2,860 | 4,550 |
| National Science Foundation | 8 | 3,519 | 3,500 |
| Smithsonian Institution | 8 | 2,725 | 3,489 |
| United States Information Agency | 9 | 11,577 | 9,549 |
| Total | | \$58,240 | \$73,194 |

We visited 5 organizations to determine the nature and extent of SFCP expenditures.

Department of State

Office of Foreign Buildings (FBO)

The fundamental purpose of FBO is to "buy, build, operate, maintain, and furnish" real property required by the U.S. Government, worldwide, in conducting its duties abroad. FBO receives a dollar appropriation and an SFCP appropriation for use in excess currency countries. Following is a comparison of these budgets.

| | <u>Regular dollar budget</u> | <u>SFCP budget</u> |
|----------------------|----------------------------------|------------------------|
| | (millions) | |
| 1972 (appropriation) | \$19 | \$6.9 |
| 1973 (") | 27 | 6.5 |
| 1974 (estimate) | 21 | 5.0 |

FBO's annual SFCP is developed to fit within the excess currency availability. Thus, even though the SFCP level has been decreasing in recent years because of the decline in the number of excess countries, the SFCP budget is seldom cut.

FBO officials said that they funded everything possible in the SFCP budget, including capital acquisitions, operations and maintenance, and local employee salaries. Some things, such as air-conditioners, however, cannot be bought on the local economy.

FBO officials said that it was difficult to characterize the capital acquisition part of the budget in terms of dollar savings. The operations budget, however, is a 100-percent savings since these costs shift automatically to the dollar budget when foreign currencies run short. If capital projects now in SFCP budget requests were included in the regular dollar budget, they would compete for funding with all the projects already being considered for dollars. Some SFCP projects would have high priorities and others might drop to such a low priority that they would not be approved for funding.

FBO officials feel that they are maximizing use of foreign currencies and do not foresee significant changes in procedures and practices.

USIA

USIA officials said that most of their excess currency expenditures were for salaries and expenses for producing and distributing periodicals. A small amount of foreign currency has been used for the international exhibitions activities in Poland and Yugoslavia, but this currency use is expected to end in 1975.

It is USIA policy to use excess currencies instead of dollars for local costs to the extent possible. SFCPs are not low priority and would be funded with dollars if excess currencies were not available. Although the amount of foreign currencies available has decreased and will further decrease, USIA feels that it and FBO will have priority for these funds because of the nature of their programs.

Department of Agriculture

Agricultural Research Service (ARS)

ARS considers SFCP research grant proposals in several broad fields of agricultural research. From 1961 through 1973, ARS completed research grants in 31 countries that totaled the equivalent of about \$61.2 million. Early in 1974 active grants amounted to about \$34.8 million.

Project initiations usually result from submissions by a host country scientist through his government or by other agency, government, or individual contacts. For example, on occasions ARS solicits specific grant proposals when the research may involve plants and animals not native to or available in the United States. ARS accepts approximately 50 percent of the projects submitted, but the percentage decreases as funds decrease.

After a grant is approved, ARS makes an advance payment and thereafter spends the grant funds in semiannual allotments. It receives, in turn, a semiannual technical report and an annual fiscal report. ARS tries to fund at least one trip to the host country to observe progress on the project.

The host country scientist usually is scheduled to make one visit to the United States for consultation and information sharing. ARS obligates funds for the maximum grant period (up to 5 years) at the time of the grant.

Four examples of projects in separate, current, or former excess currency countries follow.

Israel. "Fundamental investigations of the glycoproteins of soybean meal, to provide information basic to increasing the utilization of soybean food and feed products." The pound equivalent of \$171,516 was obligated to the Weizman Institute of Science, Rehovoth. The project was completed January 7, 1972.

Yugoslavia. "An investigation of the effect of fermentation processes on the quality, taste, and aroma of Oriental tobacco, to obtain information for use in improving the quality of American cigarettes." The dinar equivalent of \$36,078 was obligated to the Tobacco Institute, Belgrade. The project was completed April 30, 1972.

Pakistan. "Investigations on the natural enemies of marijuana, Cannabis Sativa, and opium poppy, Papaver Somniferum." The rupee equivalent of \$27,112 was obligated to the Commonwealth Institute of Biological Control, Rawalpindi. This 3-year grant is still active.

Poland. "Studies on the long-term storage of acorns." The zloty equivalent of \$69,111 was obligated to the Institute of Dendrology and Kornic Arboretum, Kornik. This 5-year grant is still active.

When Bangladesh broke away from Pakistan after the civil war, several projects in Bangladesh were affected. Five grants were in progress and had to be stopped, and others were in the planning stages and had to be dropped because Bangladesh was not an excess currency country.

ARS officials expressed the opinion that they could significantly raise the level of expenditures in Egypt without exhausting the number of high-priority projects or the available expertise. Now that political relations have improved, it may be able to start some of these projects.

Department of Health, Education, and Welfare

National Institutes of Health (NIH)

In 1964 NIH established the Coordinators Office for SFCP. The office serves as a standard policy clearance point for the six agencies within the Department of Health, Education, and Welfare (HEW) using foreign currencies. It allocates the foreign currency made available to NIH.

The Coordinator said that, if a proposed research study did not apply to events or phenomena occurring in the United States, it would not be funded. The Coordinator also noted that the value of health services research was hard to pinpoint. Projects were frequently lengthy and the results were not always obvious. For example, a scientists exchange program is beginning with Poland involving 20 scientists in the field of urological diseases research. The impact of the program will not be measurable for years and may never be fully quantifiable.

An evaluation study for NIH of SFCP in Yugoslavia was published in 1973. The Yugoslavian element of the evaluation team noted that the scientific collaboration was beneficial to Yugoslavia for introducing new methods of scientific research, establishing good contacts and relations with scientists from other countries, and preventing "brain drain" of Yugoslavian scientists. The U.S. element of the evaluation team made several recommendations for program improvement and followup. Two recommendations of particular interest were (1) that HEW's Office of International Health (OIH) examine cases "in which the requirement that projects be beneficial to both countries is not met and impede the funding of new projects that ignore the health needs of the United States" and (2) that OIH "make appropriate changes in the process by which the relative shares of the several agencies are determined in order to remove the incentive for each agency to continue to support existing projects which should be terminated."

Four examples of HEW program grants in separate excess countries follow.

Egypt. "Epidemiology of streptococcal infections, rheumatic heart disease, and primary prophylaxis of rheumatic fever in rural school population." The pound equivalent of \$1,741,000 over 10 years was obligated for the Ministry of Health Field Research Administration, Cairo University.

India. "Feasibility studies on the genetic control of mosquitoes in India." The rupee equivalent of \$1,920,000 over 6 years was obligated for the Southeast Asia regional office, World Health Organization, New Delhi.

Poland. "Investigation of functional organization of the brain." The zloty equivalent of \$1,231,000 over 12 years was obligated for the Department of Neurophysiology, Nencki Institute of Experimental Biology, Warsaw.

Yugoslavia. "Completion of the New Belgrade Mother and Children's Hospital." The dinar equivalent of \$1,203,000 over 3 years was obligated for the Institute for Health Protection for Mothers and Children, Belgrade. This project has been completed.

Smithsonian Institution

SFCP funds in excess currency countries support grants to U.S. research institutions for work in the areas of archeology and related disciplines, systematic and environmental biology, astrophysics and earth science, and museum programs. A small amount of these funds is used for grant administration.

Applications for grants are subject to standard request evaluation techniques, including consideration by an academic advisory council. The foreign currency grants are made on merits of the individual proposals. Most projects are funded yearly. The Smithsonian does not sponsor a project, officials said, unless the United States will benefit from it. SFCP obligations for fiscal year 1973 totaled \$3.7 million; for fiscal year 1974, the budget request was \$9 million, but only \$4.5 million was authorized. Of that amount, \$3.5 million was for research activities and \$1 million for the final U.S. contribution to the United Nations Educational, Scientific, and Cultural Organization to salvage the temples at Philae, Egypt.

Some examples of Smithsonian grant projects follow.

Egypt. "The stellar alignment of the Egyptian Temples at Karnak." The pound equivalent of \$7,000 (fiscal year 1974 estimate) was obligated for the Smithsonian Astrophysical Observatory, Cambridge, Massachusetts.

India. "Endocrine basis of bird migration." The rupee equivalent of \$5,000 (fiscal year 1974 estimate) was obligated for the University of Washington, Seattle, Washington.

Pakistan. "An exhibition of Pakistani ethnographic materials and accompanying scholarly catalogue." The rupee equivalent of \$20,000 (fiscal year 1974 estimate) was obligated for the Smithsonian Institution Traveling Exhibition Service, Washington, D.C.

Poland. "Contributions to the International Satellite Geodesy Experiment." The zloty equivalent of \$72,000 (fiscal year 1974) was obligated for the Smithsonian Astrophysical Observatory, Cambridge, Massachusetts.

The Smithsonian Office of Audits, in a report issued in October 1971, noted "weaknesses in identifying, obtaining acknowledgment for, and disseminating program research results; obtaining accountability for funds advanced to grantees; accounting and reporting on the status of the program; and performing cost analyses on grant proposals." The Director of the Foreign Currency Program stated that the Smithsonian had made vigorous efforts to take corrective actions and showed us documentation indicating that the recommendations had been substantially complied with.

Conclusion

The U.S. agencies involved in SFCPs are trying to obtain maximum use of the U.S.-owned local currencies. The SFCP evaluation study for NIH, however, indicated that funded projects might not meet the health needs of the United States or otherwise merit continuing support. This matter is of particular interest since the amounts of foreign currency are becoming increasingly limited. We believe these matters will be of interest to the Committee and the Congress as the special foreign currency program appropriation requests are examined in the context of the decreasing supply of foreign currencies.

CHAPTER 5

SCOPE OF STUDY

We made our study in Washington, D.C., at the Agency for International Development, the Department of State, and to a limited extent, the Department of the Treasury; the Office of Management and Budget; the Department of Agriculture; United States Information Agency; Smithsonian Institution; and the Department of Health, Education, and Welfare.

We interviewed officials as appropriate, particularly at AID and at the Department of State. We reviewed agency files, records, and financial reports. We did not, however, verify the financial data which was obtained primarily from AID and Treasury reports. We also availed ourselves of the large body of literature on the subject of U.S.-owned foreign currencies, including special studies of ways to increase the use of such currency.

We have identified country-owned or counterpart funds generated under commodity import programs. We have not, however, discussed these funds in detail nor have we addressed, in any way, dollar debts owed to the United States by developing countries. The latter was the subject of our report, "Developing Countries' External Debt and U.S. Foreign Assistance: A Case Study," (B-177888, May 11, 1973).

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United States Senate

COMMITTEE ON FOREIGN RELATIONS
 WASHINGTON, D.C. 20510

CARL MARCY, CHIEF OF STAFF
 ARTHUR M. KUHL, CHIEF CLERK

November 19, 1973

The Honorable Elmer B. Staats
 Comptroller General
 of the United States
 Washington, D.C. 20548

Dear Mr. Staats:

The Committee on Foreign Relations has agreed to request the General Accounting Office to make a study of U.S.-owned foreign currencies with the aim of finding possible ways to put them to more effective use. This is a follow-up of a question posed to AID Administrator Daniel Parker at the time of his confirmation hearing before this Committee. A copy of his reply is enclosed for your information.

The Committee is especially interested in developing additional information on the following:

1. The nature and extent of current U.S. foreign currency holdings, debts owed to the U.S. payable in foreign currencies, and estimates of future currency holdings.
2. The nature and extent of other foreign currency over which the U.S. exercises sole or partial control.
3. Current and prospective U.S. uses of U.S.-owned foreign currencies, by agency, and estimates of current dollar savings from use of these currencies.
4. Details regarding applicable provisions of law concerning the use of foreign currencies for U.S. official uses.

APPENDIX I

5. Provisions of law applicable to the forgiveness of foreign debts repayable in foreign currencies or disposition of foreign currencies for other than U.S. use.

6. Recommendations for making more effective use of current and prospective U.S. holdings of foreign currencies and any legislation considered necessary to carry out those recommendations.

The Committee is, of course, familiar with your two studies on this subject dealing with India, but needs information and recommendations for all countries.

The staff of the Committee will cooperate with your staff in any way possible on the study. I appreciate your help on this matter.

Sincerely yours,


J. W. Fulbright
Chairman

cc: Mr. Daniel Parker
Enclosure

APPENDIX II

COMPUTATION OF ESTIMATED YEARS' SUPPLY OF
FOREIGN CURRENCY IN THE EXCESS CURRENCY COUNTRIES
AVAILABLE FOR U.S. USE
AS OF JUNE 30, 1973

| Country | Balance of U.S. use foreign currency June 30, 1973 | Projected receipts July 1, 1973, to June 30, 1998 (note a) | Total available for U.S. use | U.S. use foreign currency expenditures FY 1973 | Estimated years' supply (note b) |
|----------------------------------|--|--|---------------------------------------|--|---|
| (equivalent dollars in millions) | | | | | |
| Burma | \$ 10.6 | \$ 70.9 | \$ 81.5 | ^c \$2.2 | 37 |
| Egypt | 235.5 | 378.3 | 613.8 | 6.4 | 96 |
| Guinea | 6.4 | 26.0 | 32.4 | .5 | 65 |
| India | 911.4 | ^d 169.1 | 1,080.5 | - | ^e 14 to 24 |
| Israel | - | - | - | - | - |
| (note f) | - | - | - | - | - |
| Pakistan | 138.3 | 594.1 | 732.4 | 14.7 | 49 |
| Poland | 318.5 | (g) | 318.5 | 22.1 | 14 |
| Tunisia | 18.8 | 137.4 | 156.2 | 5.4 | 28 |
| Yugoslavia | - | - | - | - | - |
| (note h) | <u>33.0</u> | <u>275.6</u> | <u>308.6</u> | - | - |
| Total | ⁱ <u>\$1,672.5</u> | <u>\$1,651.4</u> | <u>\$3,323.9</u> | | |

^a Computerized schedules are available through FY 1998 only.

^b Except for Burma (note c), the estimated years' supply does not take into account use by allocation from U.S. use to country use.

^c Includes \$1.2 million country-use expenditures which generally consist of U.S. use apportionments to country-use programs.

^d Cooley loans only. All other U.S. rupee loans were prepaid in accordance with the February 18, 1974, United States-Indian Rupee Settlement Agreement.

^e Based on debt settlement agreement mentioned in note d.

^f Removed from the excess list on July 1, 1973.

^g See page 26. Essentially no concessions were made to Poland as a result of Public Law 480 sales.

^h To become near excess July 1, 1974.

ⁱ Includes \$18.6 million restricted by the terms of international agreements or by administrative determination to specific programs.

APPENDIX III

NONPURCHASED FOREIGN CURRENCIES

HELD IN TREASURY ACCOUNTS

JUNE 30, 1973 (note a)

Part I

Summary

| <u>Country or category</u> | <u>Public Law 480 generated</u> | <u>Other sources</u> | <u>Total</u> |
|---|---|--------------------------|------------------|
| | (equivalent dollars in millions) | | |
| FUNDS AVAILABLE FOR U.S. USE | | | |
| (part II): | | | |
| Excess currencies | \$810.4 | \$843.6 | \$1,654.0 |
| Near excess and nonexcess currencies | 27.5 | 6.3 | 33.8 |
| FUNDS DESIGNATED FOR SPECIFIC U.S. OR COUNTRY USES | | | |
| (part III): | | | |
| Excess currencies | 133.4 | 21.6 | 155.0 |
| Near excess and nonexcess currencies | <u>13.4</u> | <u>35.7</u> | <u>49.1</u> |
| Total | <u>\$984.7</u> | <u>\$907.2</u> | <u>\$1,891.9</u> |

^aFigures exclude onhand balances equivalent to \$120 million because of accounting practices which make it difficult to identify the source of the amount to Treasury holdings or commercial purchases. We noted, however, that only an insignificant amount of foreign currency was purchased from commercial sources in the excess currency countries during FY 1973 and that only the equivalent of about \$3.2 million of the \$120 million was on hand in excess currency countries.

APPENDIX III

PART II

NONRESTRICTED FUNDS AVAILABLE FOR U.S. USE

AS OF JUNE 30, 1973

| <u>Country or category</u> | <u>Public Law 480 generated</u> | <u>Other sources</u> | <u>Total</u> |
|-------------------------------------|---|--------------------------|------------------|
| (equivalent dollars in millions) | | | |
| EXCESS CURRENCY COUNTRIES | | | |
| (note a): | | | |
| Burma | \$ 2.1 | \$ 8.5 | \$ 10.6 |
| Egypt | 217.8 | 17.7 | 235.5 |
| Guinea | 6.2 | .2 | 6.4 |
| India | 202.4 | 699.6 | 902.1 |
| Pakistan | 58.7 | 76.8 | 135.4 |
| Poland | 312.4 | - | 312.4 |
| Tunisia | 10.4 | 8.4 | 18.8 |
| Yugoslavia | .4 | 32.4 | 32.8 |
| Total | 810.4 | 843.6 | 1,654.0 |
| NEAR EXCESS CURRENCY COUN- | | | |
| TRIES (note a): | | | |
| Morocco | 10.2 | - | 10.2 |
| Sri Lanka | - | - | (b) |
| Sudan | 3.8 | - | 3.8 |
| Total | 14.0 | - | 14.0 |
| NONEXCESS CURRENCY COUNTRIES | 13.5 | 6.3 | 19.8 |
| Total | 27.5 | 6.3 | 33.8 |
| TOTAL | \$837.9 | \$849.9 | \$1,687.8 |

^aAs of July 1, 1973, Israel an excess currency country was redesignated a near excess currency country and Syria was designated a near excess currency country. Israeli funds available for U.S. use at June 30, 1973, were insignificant, however, about \$5.3 million Syrian pounds were available at that time.

^bThe onhand balance was not designated in this category. (See part III.)

APPENDIX III

PART III

FUNDS DESIGNATED FOR SPECIFIC

U.S. OR COUNTRY USES

AS OF JUNE 30, 1973

| | Public Law 480 <u>generated</u> | Other <u>sources</u> | <u>Total</u> |
|--|---------------------------------------|-------------------------|--------------|
|--|---------------------------------------|-------------------------|--------------|

(Equivalent dollars in millions)

EXCESS CURRENCY COUNTRIES:

Burma:

| | | | |
|---|------------|-------|------------|
| Department of State | \$ - | \$(a) | \$ (a) |
| Agency for International Development | <u>4.1</u> | - | <u>4.1</u> |
| Total | <u>4.1</u> | | <u>4.1</u> |

Egypt:

| | | | |
|---|-------------|-----|-------------|
| Department of State | - | (a) | (a) |
| Agency for International Development | <u>35.9</u> | - | <u>35.9</u> |
| Total | <u>35.9</u> | | <u>35.9</u> |

Guinea:

| | | | |
|---|------------|-----|------------|
| Department of State | - | (a) | (a) |
| Agency for International Development | <u>6.1</u> | - | <u>6.1</u> |
| Total | <u>6.1</u> | | <u>6.1</u> |

India:

| | | | |
|--|-------------|-------------|-------------|
| Department of State | - | (a) | (a) |
| Agency for International Development | 70.7 | 3.9 | 74.6 |
| Overseas Private Invest- ment Corporation | - | 10.4 | 10.4 |
| Treasury Department | <u>(a)</u> | <u>-</u> | <u>(a)</u> |
| Total | <u>70.7</u> | <u>14.3</u> | <u>85.0</u> |

APPENDIX III

| | <u>Public Law 480 generated</u> | <u>Other sources</u> | <u>Total</u> |
|---|---|--------------------------|--------------|
| EXCESS CURRENCY COUNTRIES | | | |
| (continued): | | | |
| Israel: | | | |
| Department of State | \$ - | \$(a) | \$ (a) |
| Agency for International Development | - | <u>0.8</u> | <u>0.8</u> |
| Total | | <u>0.8</u> | <u>0.8</u> |
| Pakistan: | | | |
| Department of State | - | 1.0 | 1.0 |
| Agency for International Development | 4.7 | 1.4 | 6.1 |
| Department of Defense | <u>(a)</u> | - | <u>(a)</u> |
| Total | <u>4.7</u> | <u>2.4</u> | <u>7.1</u> |
| Poland: | | | |
| Department of State | 5.5 | - | 5.5 |
| Agency for International Development | - | <u>0.7</u> | <u>0.7</u> |
| Total | <u>5.5</u> | <u>0.7</u> | <u>6.2</u> |
| Tunisia: | | | |
| Department of State | - | (a) | (a) |
| Agency for International Development | 6.2 | 0.8 | 7.0 |
| ACTION | - | <u>.1</u> | <u>.1</u> |
| Total | <u>6.2</u> | <u>.9</u> | <u>7.1</u> |
| Yugoslavia: | | | |
| Department of State | - | (a) | (a) |
| Agency for International Development | 0.2 | 2.5 | 2.7 |
| Department of Health, Edu- cation, and Welfare | <u>(a)</u> | - | <u>(a)</u> |
| Total | <u>.2</u> | <u>2.5</u> | <u>2.7</u> |
| Total excess currency countries | <u>133.4</u> | <u>21.6</u> | <u>155.0</u> |

APPENDIX III

| | <u>Public Law 480 generated</u> | <u>Other sources</u> | <u>Total</u> |
|--|---|--------------------------|--------------------------|
| NEAR EXCESS CURRENCY COUNTRIES: | | | |
| Morocco: | | | |
| Department of State Agency for International Development ACTION | \$ - 0.4 <u>-</u> | \$(a) 0.1 <u>-</u> | \$(a) 0.5 <u>-</u> |
| Total | <u>.4</u> | <u>.1</u> | <u>.5</u> |
| Sri Lanka: | | | |
| Department of State Agency for International Development | - 0.1 <u>-</u> | (a) - <u>-</u> | (a) 0.1 <u>-</u> |
| Total | <u>.1</u> | | <u>.1</u> |
| Sudan: | | | |
| Department of State Agency for International Development | - 1.3 <u>-</u> | (a) - <u>-</u> | (a) 1.3 <u>-</u> |
| Total | <u>1.3</u> | <u>-</u> | <u>1.3</u> |
| Total Near Excess Currency Countries | <u>1.8</u> | <u>.1</u> | <u>1.9</u> |
| FUNDS HELD IN NONEXCESS CURRENCY COUNTRIES: | | | |
| Department of State Agency for International Development | - 9.9 <u>-</u> | 20.2 8.6 <u>-</u> | 20.2 18.5 <u>-</u> |
| Treasury Department ACTION | 1.7 - <u>-</u> | 1.2 .5 <u>-</u> | 2.9 .5 <u>-</u> |
| Interior Department | - | 2.2 | 2.2 |

APPENDIX III

| | Public Law 480 <u>generated</u> | Other sources | <u>Total</u> |
|---|---------------------------------------|-------------------|--------------------|
| FUNDS HELD IN | | | |
| NONEXCESS CURRENCY COUNTRIES: | | | |
| U.S. Information Agency | \$ - | \$(a) | \$ (a) |
| Executive Office of the President | - | .1 | .1 |
| Department of Defense | - | .1 | .1 |
| Department of the Navy | - | <u>2.7</u> | <u>2.7</u> |
| Total Nonexcess Currency Countries | <u>11.6</u> | <u>35.6</u> | <u>47.2</u> |
| TOTAL | <u>\$149.3</u> | <u>\$54.8</u> | <u>\$204.1</u> |

^aLess than \$30,000.

APPENDIX IV

AID-ADMINISTERED LOANS
 REPAYABLE IN FOREIGN CURRENCIES

AS OF DECEMBER 31, 1973

(notes a and b)

| | | <u>Equivalent dollars in thousands</u> |
|---|------------------|--|
| <u>SUMMARY</u> | | |
| Worldwide grand total | | <u>\$4,939,884</u> |
| Public Law 480 portion | \$3,551,597 | |
| AID and predecessor agencies portion | <u>1,388,287</u> | <u>\$4,939,884</u> |
| Portion with mainte- nance of value | \$2,053,385 | |
| Portion without main- tenance of value | <u>2,886,499</u> | <u>\$4,939,884</u> |
| <u>BALANCE BY REGION AND COUNTRY</u> | | |
| LATIN AMERICA: | | |
| Argentina | | \$ 276 |
| Bolivia | | 16,571 |
| Brazil | | 24,105 |
| Chile | | 27,975 |
| Colombia | | 6,915 |
| Costa Rica | | 6,606 |
| Ecuador | | 3,329 |
| El Salvador | | 873 |
| Guatemala | | 1,796 |
| Haiti | | 5,171 |
| Honduras | | 013 |
| Nicaragua | | 3,221 |
| Paraguay | | 8,211 |
| Peru | | 19,959 |
| Uruguay | | <u>286</u> |
| Total | | <u>130,385</u> |

APPENDIX IV

| | <u>Equivalent dollars in thousands</u> |
|--------------------|--|
| ASIA: | |
| Afghanistan | \$ 1,756 |
| Burma | 42,495 |
| China, Republic of | 131,686 |
| Cyprus | 734 |
| Egypt | 342,955 |
| Greece | 102,884 |
| India | 2,284,052 |
| Indonesia | 10,447 |
| Iran | 27,566 |
| Korea | 7,589 |
| Nepal | 3,174 |
| Pakistan | 440,972 |
| Philippines | 31,809 |
| Sri Lanka | 15,201 |
| Syria | 12,344 |
| Turkey | <u>270,165</u> |
| Total | <u>3,725,829</u> |
| AFRICA: | |
| Ethiopia | 14,019 |
| Ghana | 19,583 |
| Guinea | 18,299 |
| Ivory Coast | 1,414 |
| Mali | 216 |
| Morocco | 234,048 |
| Nigeria | 471 |
| Senegal | 1,142 |
| Somalia | 1,499 |
| Sudan | 5,574 |
| Tunisia | 97,569 |
| Zaire | <u>6,741</u> |
| Total | <u>400,575</u> |

APPENDIX IV

| | <u>Equivalent dollars in thousands</u> |
|------------------------------|--|
| EUROPE: | |
| Austria | \$ 22,260 |
| Finland | 4,584 |
| Iceland | 6,978 |
| Portugal | 2,235 |
| Yugoslavia | <u>222,892</u> |
| Total | <u>258,949</u> |
| NONREGIONAL (note c): | |
| France | 2,447 |
| United Kingdom | <u>3,532</u> |
| Total | <u>5,979</u> |
| <u>SUPPORTING ASSISTANCE</u> | |
| Israel | 151,136 |
| Jordan | 3,837 |
| Spain | 206,436 |
| Thailand | 36,590 |
| Vietnam | <u>20,168</u> |
| Total | <u>418,167</u> |
| TOTAL | <u>\$4,939,884</u> |

APPENDIX IV

^a Includes only those loans repayable in foreign currencies that were made under the provisions of the foreign assistance legislation and the Agricultural Trade Development and Assistance Act. Substantially all foreign currency balances outstanding are due under these acts. See the Secretary of the Treasury's June 30, 1973, Annual Report and Statistical Appendix on the State of the Finances and the related Foreign Credits Report for detailed data on the dollar and local currency indebtedness of foreign governments and other activities to the United States.

^b Loans administered by AID and repayable in dollars amounted to about \$10.8 billion. These loans, however, are not discussed in this report. GAO report "Audit of Loan Program Financial Statements for Fiscal Years 1971, 1970 and 1969" (B-133220, May 18, 1973), to the Administrator, AID, addresses both dollar and local currency loans.

^c Loans to former dependencies of identified countries.

APPENDIX V

SCHEDULE OF ONHAND COUNTRY-OWNED (COUNTERPART).

FOREIGN CURRENCIES AS OF SEPTEMBER 30, 1973

| <u>COUNTRY</u> | <u>Equivalent dollars in millions</u> |
|-----------------------|---|
| LATIN AMERICA: | |
| Bolivia | \$ 3.547 |
| Brazil | 8.922 |
| Chile | .488 |
| Columbia | 1.678 |
| Costa Rica | .096 |
| Dominican Republic | .587 |
| Ecuador | 5.947 |
| Guyana | .187 |
| Paraguay | .644 |
| Uruguay | <u>7.519</u> |
| Total | <u>29.615</u> |
| EAST ASIA: | |
| Burma | 0.932 |
| Indonesia | 33.571 |
| Khmer Republic | 4.188 |
| Korea | 6.156 |
| Laos | .051 |
| Philippines | 16.671 |
| Thailand | 14.356 |
| Vietnam | <u>114.238</u> |
| Total | <u>190.163</u> |
| NEAR EAST-SOUTH ASIA: | |
| Afghanistan | 0.070 |
| Cyprus | .044 |
| Greece | .059 |
| Israel | 33.473 |
| Nepal | .253 |
| Pakistan | 8.882 |
| Turkey | <u>25.395</u> |
| Total | <u>68.176</u> |

APPENDIX V

| <u>COUNTRY</u> | <u>Equivalent dollars in millions</u> |
|---|---|
| AFRICA: | |
| Cameroon | \$ 0.181 |
| Ghana | 3.308 |
| Guinea | 19.896 |
| Kenya | .002 |
| Liberia | .473 |
| Mali | .951 |
| Morocco | 8.259 |
| Nigeria | .144 |
| Senegal | 1.320 |
| Sierra Leone | .385 |
| Somali | .001 |
| Sudan | .143 |
| Tunisia | 6.017 |
| Uganda | .442 |
| Upper Volta | .544 |
| Zaire Republic | <u>3.072</u> |
| Total | <u>45.138</u> |
| EUROPE: | |
| Iceland | 1.103 |
| Ireland | <u>.155</u> |
| Total | <u>1.258</u> |
| TOTAL FOR ALL REGIONS | ^a <u>\$334.350</u> |
| Source of balances: | |
| AID or predecessor agencies dollar disbursements for grant aid | \$179.338 |
| AID dollar loans or grants | 19.466 |
| Public Law 480 title I disaster relief | 3.151 |
| Public Law 480 title I sales | <u>132.395</u> |
| | <u>\$334.350</u> |

^aExcludes trust fund balances amounting to \$15.367 million.

APPENDIX VI

BALANCE-OF-PAYMENTS BENEFIT FROM USE OF
NONPURCHASED FOREIGN CURRENCY
FISCAL YEARS 1955 TO 1972

| | <u>Equivalent dollars in millions</u> |
|--|---|
| Foreign currency used under appropriations for U.S. programs (note a) | \$5,709.3 |
| Foreign currency used not requiring appropriations for U.S. programs | <u>279.6</u> |
| Total | 5,988.9 |
| Less currency used under special foreign currency appropriations | <u>505.5</u> |
| Balance-of-payments benefit derived from foreign currency use (note b) | <u>\$5,483.4</u> |

^aIncludes sales of foreign currency to U.S. personnel.

^bThis assumes that programs other than those authorized by special foreign currency appropriations would have been carried on at the same level had there been no U.S. foreign currency holdings.

APPENDIX VII



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

B-146749

February 26, 1974

The Honorable Lee H. Hamilton, Chairman
Subcommittee on the Near East and South Asia
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

By letter dated February 8, 1974, as well as in prior informal contacts, you requested the Secretary of State to obtain the opinion of this Office as to whether the Agency for International Development (AID) may enter into a proposed excess rupee agreement with the Government of India pursuant to the authority of the first proviso of section 104 of Public Law 480, 83rd Congress, 7 U.S.C. 1904, or whether AID is required to use the authority contained in the second (or so-called Mondale-Poage) proviso of that section.

The General Counsel of AID requested our decision in the matter by letter dated February 11, 1974. Enclosed for your information is our decision of today to the Secretary of State in which we state that while the matter is not entirely free from doubt, this Office would interpose no objection to AID's entering into the subject agreement under the authority of the penultimate proviso, but that that agency should obtain congressional clarification of the intent of the two subject provisos prior to entering into any similar agreements.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stets".

Comptroller General
of the United States

Enclosure

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APPENDIX VII

DECISION



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

FILE: B-146749

DATE: February 26, 1974

MATTER OF: Excess rupee agreement with India

DIGEST: AID may enter into excess rupee agreement with India (excess currency country) pursuant to first proviso of section 104, Public Law 480, even though literal reading of second (so-called Mondale-Poage) proviso makes procedure of first proviso inapplicable to excess currency nations, since matter is not free from doubt and intent of second proviso was apparently to remove excess currency from restrictions of first proviso and not to eliminate applicability of alternate procedure.

This decision to the Secretary of State is in response to the request by the General Counsel of the Agency for International Development (AID), Department of State. He requested our views concerning the legal basis for a proposed settlement agreement between the United States and India concerning the large rupee balances held by the United States in India.

The question arises under the first and second provisos of section 104 of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), 7 U.S.C. 1704. These provisos which immediately follow subsection 104(k) were added by section 2(B) of the Food for Peace Act of 1966, Public Law 89-808, November 11, 1966.

The first proviso is, in effect, a restatement of prior law. The second paragraph thereof authorizes grants of Public Law 480 foreign currencies for economic development purposes under section 104(f) of that law without the need for specific appropriations, if the President determines that it would be inappropriate or inconsistent with the purposes of Title I of Public Law 480 (7 U.S.C. 1701 et. seq.) to require appropriation. The

B-146749

third paragraph thereof provides that no agreement or proposal to grant any foreign currencies or to use any principal or interest from loan repayments shall be entered into or carried out until the expiration of thirty days (or sixty days when Congress is not in session) following the date on which such agreement or proposal is transmitted to the Senate Committee on Agriculture and Forestry and the House Committee on Agriculture.

The second or ultimate proviso, also known as the Mondale-Poage proviso, provides--

"Provided, further, That paragraphs (2), (3), and (4) of the foregoing proviso shall not apply in the case of any nation where the foreign currencies or credits owned by the United States and available for use by it in such nation are determined by the Secretary of the Treasury to be in excess of the normal requirements of the departments and agencies of the United States for expenditures in such nations for the two fiscal years following the fiscal year in which such determination is made. The amount of any such excess shall be devoted to the extent practicable and without regard to paragraph (1) of the foregoing proviso, to the acquisition of sites, buildings, and grounds under paragraph (4) of subsection (b) of this section and to assist such nation in undertaking self-help measures to increase its production of agricultural commodities and its facilities for storage and distribution of such commodities. Assistance under the foregoing provision shall be limited to self-help measures additional to those which would be undertaken without such assistance. Upon the determination by the Secretary of the Treasury that such an excess exists with respect to any nation, the President shall advise the Senate Committee on Agriculture and Forestry and the House Committee on Agriculture of such determination; and shall thereafter report to each such committee as often as may be necessary to keep such Committee advised as to the extent of such excess, the purposes for which it is used or proposed to be used, and the effects of such use."
(Emphasis supplied.)

APPENDIX VII

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The proposed settlement provides, in part, for India to prepay all outstanding rupee obligations, including principal and interest, up to the date of settlement. Outstanding principal and interest would not be prepaid for commercial loans except for some of the Public Law 480 Cooley loans. The United States will then grant the major part of the Public Law 480 generated rupees--equivalent to about \$2.2 billion--to the Indian Government for projects as specified in the settlement. The projects, which are to be chosen by the Government of India, are in the areas of agriculture, housing, family planning, health, technical education, power development, and rural electrification. AID proposes to enter into the subject agreement with India under the authority of the first proviso of section 104 of Public Law 480.

The issue presented for decision as to whether assistance under the authority of the first proviso may be furnished, arises by virtue of language in the Mondale-Poage proviso stating, in pertinent part, that paragraphs (2), (3), and (4) of the first proviso "shall not apply" to the expenditure of foreign currencies or credits in excess currency nations. A literal reading of the statutory language makes the first proviso unavailable as authority for the entering into the subject or similar agreements which involve the grant of excess currency (here, rupees) to an excess currency nation (here, India). There is some support in the legislative history for this literal interpretation and for the proposition that the Congress wished to exercise a degree of control--such as that contained in the Mondale-Poage proviso--over the uses made of United States-owned excess currency by recipient countries.

However, reading the legislative scheme as a whole and recognizing that a primary purpose of the Mondale-Poage proviso was to furnish added means for dealing with the use of large reserves of excess currencies, it would seem somewhat anomalous to conclude that Congress intended to make unavailable previous authorities and procedures under which grants could be made without using appropriated funds. It seems more reasonable to conclude when Congress provided that paragraphs (2), (3), and (4) of the first proviso were to be inapplicable to excess currency countries, that it intended only that the restrictive provisions of those paragraphs not apply, leaving the agency free to make grants of excess currency without the requirement for Presidential waiver of the appropriation requirement of 31 U.S.C. 724 and the presentation of the proposal to the appropriate committees of Congress, if the recipient nation agrees to utilize, to the extent practicable, the funds for agricultural self-help projects as defined by section 109 of Public Law 480.

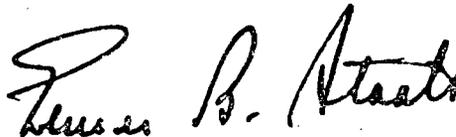
Although the provisions and procedures of the first proviso are more restrictive and more difficult to comply with than those of the

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Mondale-Poage proviso, the executive branch has decided to enter into the instant agreement pursuant to the authority of the first proviso. In the instant situation, the President has determined that the appropriation of these funds would be inappropriate or inconsistent with the purposes of Public Law 480 as required by paragraph (2) and the agreement has been submitted to the Senate Committee on Agriculture and Forestry and the House Committee on Agriculture as required by paragraph (3) of the penultimate proviso without, insofar as we are aware, any objection to the agreement being raised. Moreover, the Department of State advises that it has met and consulted, both formally and informally, with the Near East and South Asia Subcommittee of the House Foreign Affairs Committee, the Senate Foreign Relations Committee, the House Agriculture Committee and the Senate Agriculture and Forestry Committee, as well as with other interested members of Congress, with respect to the full scope of the proposed agreement.

Accordingly, and while the matter is not entirely free from doubt, inasmuch as the provisions and procedures set forth in the first proviso have been fully complied with, this Office will not object to AID's entering into the proposed agreement under the authority of the second and third paragraphs of such proviso, rather than the Mondale-Poage proviso, if the cognizant congressional committees interpose no objection thereto. However, due to the uncertainty caused by the language of the Mondale-Poage proviso that the subject paragraphs of the penultimate proviso "shall not apply" in excess currency nations, we believe congressional clarification as to the intent of the Mondale-Poage proviso should be obtained before AID enters into any similar agreements.



Comptroller General
of the United States

APPENDIX VIII



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

3-146749

JAN 28 1974

The Honorable Lee H. Hamilton
Chairman, Subcommittee on the
Near East and South Asia
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

This letter is in response to your request concerning the proposed agreement on Public Law 480 and other funds between the Governments of India and the United States.

The President approved the proposed agreement on December 18, 1973, and, pursuant to section 104 of Public Law 480, he transmitted it on December 20, 1973, to the Senate Committee on Agriculture and Forestry and the House Committee on Agriculture. It was also sent to the Senate Foreign Relations Committee and the House Foreign Affairs Committee on the same date. In the absence of any action to hold up consummation of the agreement by the Congress, the State Department plans to formalize it on or about February 19, 1974.

The amount of Indian rupees covered by this agreement cannot be accurately stated. Enclosed is a projected estimate as of February 28, 1974, showing that the U.S. dollar equivalent of \$3.3 billion is involved. This amount was generated primarily from (1) commodity sales and loans of sales proceeds, under the Agricultural Trade Development and Assistance Act (Public Law 480) and (2) making rupee repayable dollar loans to India under the Mutual Security Acts for 1951, 1954, and 1957.

U.S. accumulation of tremendous holdings of Indian rupees became a matter of great concern which, according to the Department of State, adversely affected our relations with India. Relations between the United States and India reached a low point because of U.S. policy during the India-Pakistan war of 1971. Subsequently, India continued to place increasing restrictions on the use of U.S.-owned rupees. The Department of State, recognizing that the rupee debt had become a serious political irritant which needed to be settled, decided to act. The Secretary of State instructed the U.S. Ambassador to India on July 10, 1973, to initiate settlement negotiations. Following 5 months of negotiations, the negotiators agreed to the proposed settlement on December 13, 1973.

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The proposed settlement provides for India to prepay all outstanding rupee obligations, including principal and interest, up to the date of settlement. Outstanding principal and interest would not be prepaid for commercial loans except for some of the Public Law 480 Cooley loans. The United States will then grant the major part of the Public Law 480 generated rupees to the Indian Government for economic development projects as specified in the settlement. The State Department considers the mechanics of the prepayment and subsequent granting of the rupees necessary to conform to legislative restrictions, since only the Public Law 480 local currencies can be granted under current legislation.

Following is a brief summary of the more important provisions of the proposed agreement.

1. Public Law 480 rupees, equivalent to \$2.2 billion, will be granted to the Indian Government for economic development projects as specified in the agreement.
2. The United States will retain the rupee equivalent of \$1.1 billion, mostly non-Public Law 480 generated, for its use in India and Nepal. It is anticipated that these funds will be expended over 14 to 24 years. Some of these funds can be used for economic assistance programs in Nepal for 3 years.
3. An accelerated and increased repayment in dollars. India will convert \$64 million in rupees to dollars by transferring \$6.4 million annually to the United States over the next 10 years instead of a lesser amount over 40 years.
4. The Government of India will provide maintenance of value for a \$500 million equivalent, or about one-half of the retained U.S. use rupees, over 10 years.
5. The level of annual U.S. rupee expenditures is limited. Annual expenditures cannot be more than the average of those for the 3-year period prior to June 1972. Department of State estimates this amount to be about \$59 million. The amount would be increased to reflect price inflation in India by agreement between the two Governments.
6. The United States is provided an option to purchase within 5 years \$100 million worth of mutually agreed upon Indian goods and services, for which 25 percent of the price may be paid for in rupees.

Our report, "Opportunities for Better Use of United States-Owned Excess Foreign Currency in India" (B-146749, Jan. 29, 1971), factually presents the excess-rupee situation, along with the principal arguments for and against using these currencies. Enclosed is a copy of the digest from that report. One of our conclusions in the report which is related to the subject agreement reads as follows:

GAO note: Enclosure not included with this appendix.

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"It appears that the large U.S. rupee balance in India is causing some problems in Indo-United States relations because of (1) Indian anxiety over potential difficulties that may arise as a result of misunderstandings regarding the nature of U.S. holdings and (2) representations by Indian politicians who wish to embarrass the United States by claiming that the United States through its rupee holdings is somehow largely controlling the Indian economy.

"In our opinion, the decision to reduce substantially outstanding balances of U.S.-owned rupees in return for improved foreign relations is a policy matter deserving congressional attention.

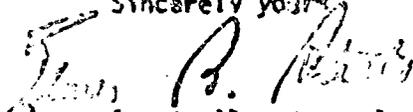
"If the decision is made to do so, one way would be to attribute planned Indian Government economic development expenditures to U.S.-grant rupee financing. Through a judicious selection of projects with which our Government would like to be associated, the United States could receive credit for having helped finance worthwhile endeavors while allaying Indian fears that our rupee balances somehow would be misused.

"The Mondale-Poage amendment to Public Law 480 provides authority to grant Public Law 480 rupees for economic development purposes without obtaining specific appropriations.

"For U.S.-owned rupees accumulated other than through the Public Law 480 program, the executive branch believes that it lacks the authority to grant its rupees for economic development projects without appropriations."

We believe that the proposed agreement will eliminate one of the more important and sensitive issues that have hampered U.S.-India relations and provides a vehicle to make constructive and effective use of the Indian rupees which would otherwise continue to accumulate along with related problems. It must be recognized, however, that this agreement may very well prompt other governments that are heavily in debt to the United States to push for similar settlements. Furthermore, the implementation of this agreement may raise many issues which will concern both the Congress and the executive branch. Therefore, we plan to make a more detailed review of this matter, including the plans and progress of the executive branch which will be required to implement the agreement. We will report to the Congress on the results of our review.

Sincerely yours,


Comptroller General
of the United States

Enclosures - 2

APPENDIX VIII

ENCLOSURE I

CATEGORIES OF
U.S. GOVT. INDIAN
CURRENCY

PROJECTED STATUS FOR FEBRUARY 28, 1974

| <u>CATEGORY</u> | <u>RUPEE DOLLAR EQUIVALENTS (note a)</u> <u>(in millions)</u> |
|--|--|
| Rupees generated by Public Law 400 sales agreements (note b) | 12,883.1 |
| Interest from loans to the Government of India made from Public Law 400 sales proceeds | 15.8 |
| Interest from Conley loans made from Public Law 400 sales | 27.9 |
| National Security Act loans to the Government of India (Development Loan Agreements) | 768.8 |
| National Security Act loans to private borrowers in India | 16.5 |
| U.S. Government owned rupee balances with banks in India | <u>97.2</u> |
| Total of U.S. Government Owned Rupees | <u>13,708.6</u> |

- a) Converted at the rate of \$1.00 to 7.78 rupees.
b) Including those rupees loaned from the proceeds of the original agreements. To count these separately, a duplication would result.

Source: Annexes to the Indian debt settlement proposal.

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APPENDIX IX

PORTION OF GAO'S REPORT ON "DEVELOPING
COUNTRIES EXTERNAL DEBT AND U.S. FOREIGN
ASSISTANCE: A CASE STUDY"
(B-1/7988, May 11, 1973)

CHAPTER 5

EXECUTIVE AND LEGISLATIVE PARTICIPATION

IN DEBT RENEGOTIATIONS

According to the Attorney General of the United States, the executive branch has authority to renegotiate terms of loans to countries without congressional review or approval. This is in contrast to the restrictions on executive branch authority to negotiate new loans, including statutory limitations on minimum lending terms, sources of procurement, and loans to countries in default.

EXECUTIVE AUTHORITY

The President's authority to renegotiate the terms of loans and credits to foreign governments varies with the enabling legislation. The principal ongoing programs under which foreign debts to the United States are concentrated include:¹

1. Loans to countries under the Foreign Assistance Act of 1961, as amended.
2. Long-term dollar sales of agricultural commodities under Public Law 480.
3. Export credits under the Export-Import Bank Act of 1945, as amended.

In 1970 the United States participated with other creditors in a massive rescheduling of Indonesia's external debt. In response to a request from the Secretary of the Treasury, the Attorney General issued an opinion on December 24, 1970, stating that the executive branch had the authority to renegotiate the terms of loans and credits under the above programs.

¹Debt renegotiations may also include debts incurred under current or defunct programs; hence this list is not intended to be exhaustive.

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For loans to countries made under the Foreign Assistance Act of 1961, as amended, this authority is provided under section 635(g)(2), which states that "in making loans under this Act, the President * * * may collect or compromise any obligations assigned to, or held by * * * him." The authority to compromise is limited by section 620(r) of the same act, which provides that:

No recipient of a loan made under the authority of this Act, any part of which is outstanding on or after the date of enactment of this subsection [Sept. 19, 1966], shall be relieved of liability for the repayment of any part of the principal or interest on such loan.

The purpose of this restriction, known as the Dirksen Amendment, was to prevent the conversion of loans into grants by subsequently relieving the recipient country of its liability for repayment of interest or principal.

Similarly, in his opinion on the Indonesian debt rescheduling, the Attorney General found adequate legal authority for rescheduling Public Law 480 debt and Export-Import Bank credits under the circumstances presented there.

Within the executive branch, foreign loan and credit programs are administered by several agencies, such as AID and the Export-Import Bank. These agencies are responsible for the granting of loans and credits and the actual negotiations involved in making collections.

General coordination of U.S. loan policy is a function of the National Advisory Council on International Monetary and Financial Policies. This interagency council, chaired by the Secretary of the Treasury, considers the overall debt burden in a recipient country as part of its consideration of proposed loans. The Council also considers debt renegotiations in its meetings.

Renegotiation of loan terms can release a developing country's foreign exchange which may then be used for development imports. In some instances, however, renegotiation may reduce or defer a lending nation's available resources until repayment is made. Under the AID-administered development loan program, for example, interest and principal collections

APPENDIX IX

are recycled into the program. Recycling of collections also reduces AID's new funding requirements in its budgetary requests to the Congress.

CONGRESSIONAL INTEREST

Although legislative restrictions on executive branch authority to renegotiate loans are few, the Congress has shown considerable interest in the ability of developing countries to repay existing debts to the United States. The Congress also has shown interest in debt relief. In the specific case of the 1970 Indonesian debt rescheduling, the executive branch informally discussed the matter with several congressional committees and later submitted a special report to them. The Congress was also consulted in the case of the Egyptian debt rescheduling in 1971.

The importance of keeping the Congress well informed with respect to debt relief matters cannot be overemphasized. The United States is the largest single creditor to the developing countries and--together with other creditor nations--is under increasing pressure to reschedule, refinance, or cancel outstanding debt. Any form of debt relief provided is comparable to new aid. And as the need for relief becomes more frequent, debt relief is increasingly an important form of economic assistance.

In our opinion, debt rescheduling--as an example of debt relief--provides additional resources to assisted countries because the foreign exchange that would have been used to repay their debts remains available to pay for needed imports.

The assistance which the United States provides developing countries through debt relief is not now included in the President's proposals to the Congress for new economic assistance. Nor is it shown in a meaningful manner in subsequent reports summarizing the actual assistance provided. We believe this assistance should be systematically and comprehensively reported to the Congress with the President's annual proposals for foreign assistance.

CONCLUSION

Although the problem of external debt varies significantly among developing countries, it is generally agreed that there is an increasing need for debt relief. Historically, debt relief has been granted most commonly in cases of default, to maximize the repayment potential of the debtor country. Most instances of consultation with the Congress have, in fact, involved cases of default where the repayment objective was paramount. Also, where debt relief has been used in nondefault cases, such as India, the Congress has generally been informed during the hearings on the AID program, although not as a part of the formal presentation.

The Congress may wish to consider the desirability of requiring the executive branch to submit more specific information on the funds released to debtor countries via debt relief, as compared to proposed development lending, grants, and other forms of economic assistance.

RECOMMENDATIONS

Because of the growing importance of the developing countries' debt burden and the increasing frequency of debt relief exercises, the executive agencies should insure that the Congress is well informed with respect to the relationship of debt-servicing problems, debt relief, and economic assistance.

Although the executive agencies furnish the Congress with certain information on U.S.-provided debt relief, we recommend that the Secretary of State report systematically and comprehensively to the Congress concerning:

- Individual countries' debt-servicing problems.
- The rescheduling of loans, which affects the availability of development loan repayment proceeds for recycling.
- Total U.S. resource transfers, including debt relief, together with analyses clearly presenting net aid flows to developing countries. The analyses should include all types and forms of debt relief--whether

APPENDIX IX

for development assistance or for maximizing the repayment potential--granted by the United States.

AGENCY COMMENTS

In a joint letter dated December 6, 1972, which commented on our report, the Department of State and AID said:

The research reflected in this document is impressive both in scope and balance. The debt service problems facing the Indian Government and the process followed by its Western creditors to assist in solving these problems are accurately reported.

Both the Department of State and AID agreed generally with the recommendations presented for their review and comment. With respect to our recommendation that the Congress be informed concerning the rescheduling of loans, they commented that:

While these [rescheduling] negotiations are conducted by executive agencies, in all cases the Congress was fully informed. In a number of significant negotiations--notably the Indonesian and Egyptian cases in 1970 and 1971--the guidance of key Congressional Committees was sought before concluding agreements.

Concerning our recommendation that executive agencies' economic assistance programs presented to the Congress identify net aid flows, the agencies said:

A.I.D. has in the past, for those countries in which net aid flows were of major importance, presented to the Congress information on net aid, debt, and related balance of payments problems. This practice will be continued. With the onset of significant repayments on long-term development loans, as in the case of India, net aid flows will become an increasingly important measure of the usefulness of development assistance programs.

GAO COMMENTS ON THE
AGENCY LETTER

AID and the Department of State agreed, in general, with our recommendations.

We still feel, however, that the Congress should be more fully and systematically informed about all debt reschedulings--in nondefault as well as crisis situations, whether the reschedulings are highly significant or relatively routine in the eyes of the executive agencies. Although reschedulings and related negotiations have generally been identified during congressional hearings on foreign assistance programs or during formal presentations, we found no indication that the Congress or its committees were subsequently and fully informed with respect to all rescheduling agreements ultimately reached, especially in routine and nondefault cases. In view of the growing importance of developing countries' debt problems to the U.S. global economic policy, all agency efforts and agreements reached to relieve debt service burdens should be communicated to the Congress.

We also believe that the importance of net aid to the developing countries cannot be overemphasized in information furnished to the Congress. The net aid concept is a useful and meaningful indicator of the real level of available resources provided by U.S. assistance programs.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Debt relief will be of growing importance in the immediate future, as developing countries experience difficulties maintaining their development programs under conditions of large and rising external debt burdens. The Congress, therefore, may wish to:

- Consider the need for it to play a larger role in determining U.S. policy concerning debt relief to developing nations and in related program oversight concerning the terms and conditions under which assistance in the form of debt relief may be granted.
- As a prerequisite in order to have essential information, consider legislation to require comprehensive annual reporting by the Secretary of State,

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to be submitted in January of each year and thus be available to the committees of the Congress in their considerations of authorization and appropriation proposals. Such reporting might make available for the Congress current summary perspectives of the worldwide dimensions of the debt burden problem, as well as the specifics of debt relief granted or proposed.