095543

2.56.01

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

72-0474

INTERNATIONAL DIVISION

B-159652

AUG 17 1971

LM095543

Dear Dr. Hannah:

During a recent follow-up review concerning costs of transporting food donated for distribution abroad, we observed several matters which, we believe, deserve your consideration.

We have found that the United States continues to pay considerable amounts of ocean freight costs under nonprofit agency food donation programs for recipient countries which appear to be financially able to bear all or part of such costs. Also we have found no evidence that the Agency for International Development (AID) has developed criteria to evaluate the financial capability of recipient countries to bear part or all of such costs, and no documentation is available to show that periodic efforts have been made to have recipient countries bear some or all of the shipping costs.

In response to a prior General Accounting Office (GAO) report, AID advised us of positive steps that it was taking to persuade financially capable recipient countries to absorb ocean transportation costs, to make these efforts on a continuing basis, and to document efforts made. We believe that significant progress has been made under Government-to-Government donation programs but that a further effort now is needed under the nonprofit agency programs.

These matters are discussed in more detail below.

BACKGROUND

In April 1967 GAO reported to the Congress on the potential savings that could be realized by AID's making efforts to obtain contributions toward shipping costs from recipient countries for donated food distributed abroad under nonprofit distributing agency programs.[1]

[1]"Potential Savings in Costs of Transporting Food Donated for Distribution Abroad" (B-159652, April 28, 1967).

BEST DOCUMENT AVAILABLE

095543

700735

At that time we stated that, of 107 countries receiving donated American foods, only four contributed toward the ocean freight costs. Food for Peace program legislation permits payment by the United States of ocean freight costs for food donated by the American people to non-profit distributing agencies to assist the needy in foreign countries. Regulations followed by AID, however, did not require an assessment of the recipient countries' financial means, or willingness, for defraying ocean shipping charges.

We found that the question of whether foreign countries could or should pay ocean freight costs had been considered only in isolated cases. We proposed that AID exert every reasonable effort to obtain contributions from recipient countries whose financial condition indicated that this would be a reasonable course of action. We suggested that these efforts be made a matter of record and be periodically reviewed in the light of changing economic and other conditions in each of the recipient countries.

AID agreed, in general, with the matters discussed in the report. AID advised GAO of positive steps which it was taking to persuade financially capable recipient countries to absorb ocean transportation costs, to make these efforts on a continuing basis, and to document the efforts made.

Responding to our draft report of this matter, the Assistant Administrator for Administration stated that:

> "We agree that these evaluations [of a country's financial ability to pay transportation costs] should continue and that AID should make periodic efforts to persuade financially capable recipient countries to absorb such ocean transportation costs. We have taken positive steps in this direction. Future determinations relating to a country's financial position, as well as the results of our efforts to obtain recipient country contributions, will be properly documented."

CURRENT REVIEW

We recently concluded a reassessment of the relative success of these efforts. In the 4 years since the issuance of our report, the United States has continued to pay significant amounts of ocean freight costs. AID officials advised us that at least four recipient countries

BEST DOCUMENT AVAILABLE

(Spain, Portugal, Poland, and Malta) continued to absorb some or all of the ocean freight costs during this period. Ocean freight costs of donated commodities, administered under nonprofit agency programs, borne by the United States during fiscal years 1968 to 1971 are presented below.

Fiscal year	Amount (note a) (millions)
1968	$39.2
1969	43.7
1970	38.1
1971	43.7[b]

[a]We have been advised by AID personnel that, when ocean carriers of recipient excess-currency countries are used for the nonprofit agency shipments, ocean freight costs are paid in U.S.-owned excess currencies, which results in balance-of-payments benefits. AID records in Washington indicate that ocean freight costs of about $8.2 million were paid during fiscal year 1970 for nonprofit agency shipments to India using U.S.-owned Indian rupees. Data was not available for payments made in U.S.-owned excess currency of other countries.

During fiscal year 1970 about 22 recipient countries were required to pay about 10 percent of the ocean freight charges--representing the recipient-country port costs. Because this policy became unworkable, AID discontinued it. AID personnel informed us, however, that, when shipments were made on U.S. or third-country carriers to excess-currency-country destinations, foreign port charges on nonprofit agency shipments were paid using U.S.-owned excess currency. We were advised that the U.S. dollar outflow in fiscal year 1970 was reduced by about $1.2 million by following this practice.

[b]Estimated at May 1971.

In addition to the freight costs paid by the U.S. Government on nonprofit agency programs (under authority of title II of Public Law 480, as amended--formerly title III of this law), AID administers other donation programs wherein ocean freight costs are incurred. These programs include donations made pursuant to Government-to-Government agreements and through the World Food Program, a United Nations undertaking, under the authority of title II. In fiscal year 1970 the ocean transportation costs for these two programs totaled about $22.6 million and $12.2 million, respectively.

BEST DOCUMENT AVAILABLE

Under the nonprofit agency programs, the United States usually bears 100 percent of the ocean freight costs; whereas, in Government-to-Government programs, the United States contributes about 90 percent of these shipping charges for donated commodities. The remaining 10 percent--which represents estimated foreign port charges composed of unloading, handling, and warehousing costs--are borne by the recipient countries.

Financial criteria

Agency officials could not furnish us with documentation showing action taken by AID to develop criteria measuring a country's financial ability to pay transportation costs. There was no evidence that periodic efforts were made to persuade recipient countries to bear some or all of such costs.

In our 1967 report we obtained information used by the Department of Agriculture (USDA) as a guide in evaluating the financial condition of recipient countries to absorb ocean freight costs. We selected the USDA standard because AID had not published a list that grouped foreign countries by their relative financial condition. Recently, in a further attempt to estimate the potential for savings, we expanded on this gauge by obtaining economic indicators used by the Export-Import Bank, the Treasury Department, and the International Monetary Fund. Using the four criteria, we attempted to determine the estimated range of potential savings for the United States.

We recognize that the criteria that we used are only a starting point in determining specific countries' capability to pay; however, as shown in the following table, the potential annual savings under the voluntary agency programs are substantial and range from about \$1.5 million to approximately \$6.5 million, depending on the standard used.

BEST DOCUMENT AVAILABLE

Total Potential Annual Savings Based on
GAO Estimates of Fiscal Year 1970 Shipping Costs Which
Might Have Been Paid by Recipient Countries

Country	Political-economic risk criteria	External financial position criteria	Reserves-to-import criteria	Gross national product per capita criteria
A	$2,400,000	$2,400,000	$2,400,000	$ -
B	-	494,000	-	494,000
C	1,400,000	-	1,400,000	-
D	-	154,000	-	-
E	759,000	759,000	759,000	759,000
F	65,000	65,000	65,000	65,000
G	-	79,000	79,000	-
H	-	226,000	552,000	-
I	-	1,002,000	-	-
J	-	232,000	232,000	232,000
K	-	492,000	985,000	-
L	-	68,000	-	-
M	-	259,000	-	-
Total potential annual savings	$4,624,000	$6,230,000	$6,472,000	$1,550,000

Recent developments

Because of budget reductions, on June 7, 1971, AID issued regulations requiring that, on a selective basis, recipient countries pay 50 percent of ocean transportation costs of fiscal year 1972 shipments under Public Law 480, title II donations. At the time of our review in June 1971, AID already had informed Brazil, Korea, Morocco, and Tunisia that they would have to pay 50 percent of the transportation costs of commodities shipped under the Government-to-Government donation programs of title II. We were advised that some or all of the ocean freight charges were paid by the recipient countries of Jordan, Indonesia, and Romania under other bilateral agreements.

AID considered asking additional countries to similarly contribute toward transportation costs of Government-to-Government shipments. The initial determinations considered the size of the programs, the economic

BEST DOCUMENT AVAILABLE

growth rate and the relative foreign exchange reserve balances of the respective countries, and/or the limited availability of AID funds. We have been advised, however, that, notwithstanding these economic determinations, recipient countries will not be asked to share in the cost of transporting commodities donated under the voluntary agency programs of title II.

An agency official stated that he personally was hesitant to apply provisions of the AID June 7, 1971, regulation to the voluntary agency donation programs because he considered this step to be overly harsh; he also felt that it would be inconsistent with the objectives of the donation program which is to assist needy countries which have limited budgetary resources. He further felt that this position was consistent with the World Food Program wherein donor nations would pay for transportation of commodities.

In justifying their reluctance to seek additional contributions, AID personnel with whom we discussed the matter told us that recipient countries already were making contributions toward the inland distribution (transportation, warehousing, and administrative) costs for commodities and, in certain instances, matched U.S. contributions with local commodities. They felt that the imposition of additional costs upon these countries might become onerous. They informed us that certain voluntary agency donation programs might have to be reduced or discontinued if the U.S. Government insisted on recouping these costs and that such a situation might result in domestic and international political repercussions.

CONCLUSIONS AND RECOMMENDATIONS

It is possible that certain countries may not be able to afford or may choose not to pay the ocean freight costs of receiving donated commodities. It is also possible that some of the programs might be reduced or discontinued if recipient countries are asked to share more of the program costs. We continue to believe, however, that further direct efforts should be made to obtain contributions from financially able recipient countries for ocean transportation costs. Their willingness to pay would provide an indication of the worthiness of the program to those countries who are financially able to bear a share of program costs.

The continuing deterioration in the U.S. balance-of-payments position and other national priority needs, we believe, should provide further impetus for AID to take initiatives to obtain contributions toward ocean transportation costs where appropriate. In

BEST DOCUMENT AVAILABLE

any event, AID reserves the option to pay ocean transportation costs if it is satisfied that the recipient country is unable to contribute to these costs and that payment by the United States is necessary to carry out the objectives of the donation programs.

In line with AID's self-help philosophy, we believe that it is incumbent upon the recipient countries to absorb, to the extent possible, the transportation costs involved in the nonprofit distributing agency programs. This approach would ensure an orderly transition to the eventual assumption of all program costs by financially capable recipient countries and the phasing out of U.S. support--a basic tenet of aid for development.

Because of changes in the size of the yearly donation programs, fluctuations in the financial position of recipient countries, and the possible unwillingness of some countries to take on the additional costs of ocean transportation, it is difficult to calculate precisely the potential annual savings to the U.S. Government. It seems reasonable to us, however, that a concerted effort on AID's part could yield significant further budgetary and balance-of-payments savings.

In view of the considerable potential savings to be realized, we again recommend that:

--AID exert every reasonable effort, on a continuing basis, to obtain contributions from financially capable recipient countries to defray ocean transportation costs on all donated commodity programs. To measure a country's economic viability, we recommend that AID develop and apply appropriate financial criteria and that the periodic evaluations be documented.

--The payment of ocean freight charges by the United States be authorized only after appropriate certification that reasonable efforts have been made to obtain recipient-country contributions.

This report contains recommendations for your consideration. Your attention is directed to section 236 of the Legislative Reorganization Act of 1970, which requires submission of written statements of the action taken with respect to the recommendations. The statements are to be sent to the House and Senate Committees on Government Operations and to the House and Senate Committees on Appropriations.

Cl-4 L150 300

BEST DOCUMENT AVAILABLE

B-159652

We shall appreciate it if you will send copies of the statements furnished to the congressional committees to the Office of the Director, International Division, GAO.

Copies of this report are being sent to the Director, Office of Management and Budget; the House and Senate Committees on Government Operations; the House Foreign Operations and Government Information Subcommittee; the House and Senate Appropriations Committees; the House Foreign Affairs Committee; and the Senate Foreign Relations Committee.

Sincerely yours,

Charles D. Hylander
for
Oye V. Stovall
Director

The Honorable John A. Hannah
Administrator, Agency for
International Development

BEST DOCUMENT AVAILABLE