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Legislative Changes Urged in Loan Program of the Agency for International Development. ID-76-80; B-133220. January 5, 1978. 26 pp. + 9 enclosures (28 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

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Organization Concerned: Agency for International Development.
Congressional Relevance: House Committee on International Relations; Senate Committee on Foreign Relations; Congress.
Authority: Foreign Assistance Act of 1961, as amended.

The Loan Program of the Agency for International Development (AID) consists of foreign economic assistance lending activities; AID has been making and administering loans to foreign countries since 1961. The loans are repayable over periods of up to 40 years, including 10-year grace periods before repayment, and have variable interest rates which are generally low--some less than 1%. Findings/Conclusions: Since 1971, AID has experienced increased problems in collecting both the principal and interest due on its loans. These problems have occurred [illegible]rily because borrower countries lack the ability to pay in [illegible]ance with their loan agreements. Collection problems h[illegible] [illegible]lly been resolved by adding uncollected interest to [illegible]alance and rescheduling principal due dates to defer[illegible]s. By June 30, 1975, borrowers in countries owing [illegible]illion in dollar-repayable loans had missed paymen[illegible]ans having unpaid balances totalling $5.4 billion. Four [illegible]es--India, Pakistan, Chile, and Egypt--required [illegible] relief on all their dollar-repayable loans. Since 1971, with the exception of India, AID has changed its lending pattern but has continued to lend to most countries having problem loans. Questions about the continued need for and [illegible]age of some loans prompted AID to initiate loan reviews and establish new loan implementation criteria. Recommendations: Congress should consider amending the Foreign Assistance Act of 1961 to: provide specific authorization for the use of any available loan to make debt relief loans; require AID to prescribe a systematic method of determining annual maximum levels for additional lending to borrowers receiving debt relief loans; and provide an alternative way to alleviate debt repayment problems and preserve a country's ability to obtain additional AID assistance. AID should cancel loans that have remained undisbursed for long periods and rejustify them as new loans when a valid need for the assistance still exists. (RRS)

04614

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Legislative Changes Urged In Loan Program Of The Agency For International Development

Increased problems in collecting loans have weakened the financial condition of the Agency for International Development's loan program.

Borrowers in countries owing $9.3 billion have missed payments on loans with unpaid balances of $5.4 billion. Four countries owing $4.9 billion required debt relief. During 1976 some countries were making payments in accordance with revised agreements, others were not.

GAO recommends legislative changes to provide for more realistic administration of foreign assistance lending as well as for more consultation with the Congress.

The Agency opposes these recommendations. It denies the existence of serious problems and says debt relief is necessary to achieve desired results.

ID-76-80

JANUARY 5, 1978

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LEGISLATIVE CHANGES URGED IN LOAN PROGRAM OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT

D I G E S T

Legislative changes are needed to provide for more realistic administration of foreign assistance lending by the Agency for International Development as well as for more consultation with the Congress.

GAO recommends that debt relief be subjected to the appropriation process. New lending should be subjected to closer scrutiny when borrowers are unable to repay prior loans. (See pp. 19 and 20.)

The Agency has been making and administering foreign economic assistance loans since 1961. GAO previously reviewed the program's financial aspects from 1962 through 1971. Primarily on the basis of foreign currency loss experience, GAO concluded that the realizable value of the loans could not be determined. (See ch. 1.)

Since 1971 the Agency has been experiencing increased loan collection problems, particularly with loans repayable in dollars. These collection problems have been resolved generally by adding uncollected interest to the loan balance and rescheduling principal due dates to defer payment.

By June 30, 1975, borrowers in countries owing $9.3 billion in dollar-repayable loans had missed making payments on loans having unpaid balances totaling $5.4 billion. Four of these countries, owing $4.9 billion, required debt relief on all their dollar-repayable loans. During fiscal year 1976 some of the countries were making payments in accordance with their revised agreements; others were not. (See ch. 2.)

Since 1971, with the exclusion of India, the Agency changed its lending pattern but continued to lend to most countries having problem loans. Some loans were made after the recipients had been provided relief from making payments on earlier loans. The changed lending pattern indicates that some relatively minor problem countries today could become major problems. (See ch. 3.)

The Agency opposes the principal recommendations in this report. It believes the report exaggerates and characterizes incorrectly the nature of its collection problems and that relationships between assistance and debt relief are far more complex than presented. (See app. I.)

The Agency reduced the age of its undisbursed loans but has continued to extend the time allotted for disbursing some old loans. It should always cancel undisbursed loans that have been outstanding for long periods and rejustify them as new loans when a valid need for the assistance still exists. (See ch. 4.)

GAO has included the Agency's financial statements in this report, but the scope of its work was not designed for expressing an opinion on their fairness. (See ch. 5.) GAO believes, however, that the realizable value of the Agency's loans is less than their recorded value.

GAO is preparing specific legislative language for implementation of its recommendations to the Congress and will furnish such language to appropriate committees upon request.

Contents

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

B-133220

To the President of the Senate and the
Speaker of the House of Representatives

This report contains financial and related information regarding foreign economic assistance loans made and administered by the Agency for International Development. It presents the results of work performed pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C. 67); and section 635(g)(5) of the Foreign Assistance Act of 1961 (22 U.S.C. 2395).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; the Secretary of State; and the Administrator, Agency for International Development.

Elmer B. Staats

Comptroller General
of the United States

CHAPTER 1

INTRODUCTION

The Loan Program of the Agency for International Development (AID) consists of foreign economic assistance lending activities initiated after World War II. AID has been making and administering the loans since 1961. It has also administered some loans made earlier by predecessor foreign assistance agencies. The loans are repayable over periods of up to 40 years, including 10-year grace periods before starting repayments, and they have variable interest rates which are generally low--some less than 1 percent

The principal legislative authority for AID loans is the Foreign Assistance Act of 1961, as amended. This act emphasizes the need for making financially sound loans. For example, it requires that development loans--the bulk of all loans made after 1961--be made only upon determining that there is a reasonable prospect of repayment and that the loans must be repaid in dollars rather than in the currency of the borrower.

We previously issued three reports on the financial aspects of AID's loan program 1/ which collectively covered activities occurring in fiscal years 1962 through 1971. These reports emphasized a need for accounting improvements and analyzed lending trends during those 10 years.

Although AID's new lending during that period started a shift from loans repayable in foreign currencies to loans repayable in dollars, most of the loan collections continued to be from the earlier lending which had favored repayment in foreign currencies.

Our previous reports concentrated on AID's experience with foreign currency loans and stressed, primarily on the basis of foreign currency loss experience, that the realizable value of AID's loans was indeterminable.

Since 1971 the shift to dollar-repayable loans has continued. By June 30, 1976, the composition of all the loans, in billions of dollars, was:

1/The three reports were dated March 1966, September 11, 1969, and May 18, 1973, respectively.

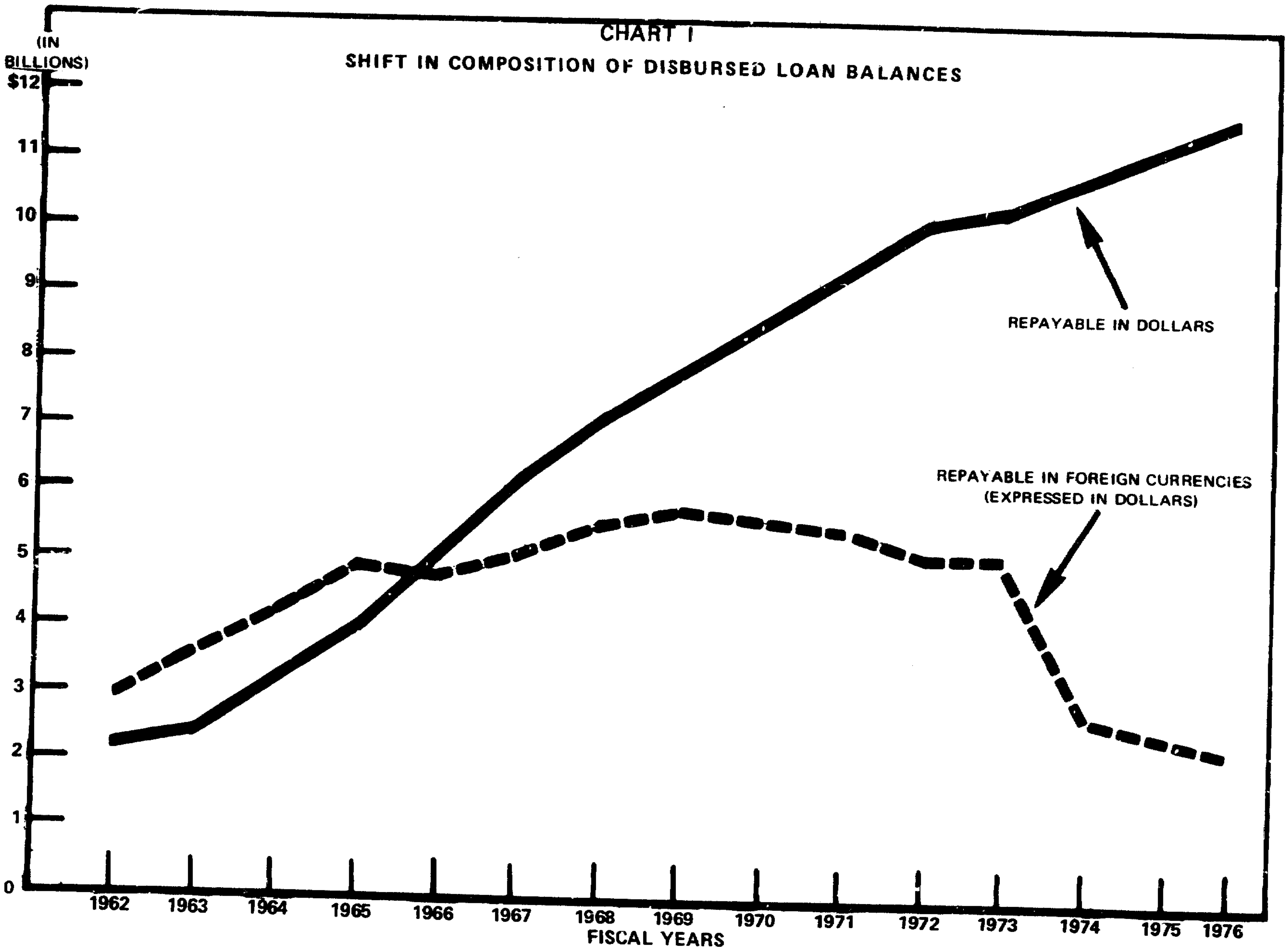
	(billions)
Repayable in dollars	$11.7
Repayable in foreign currencies	2.3
Total	$14.0

AID reviewed and commented on this report. We have incorporated its views in the report where appropriate and have included its entire comments as appendix I.

We have reported separately to AID on accounting matters and actions taken in response to our previous reports. This separate report, and AID's response to it, are included as appendixes II and III, respectively.

CHART I

SHIFT IN COMPOSITION OF DISBURSED LOAN BALANCES



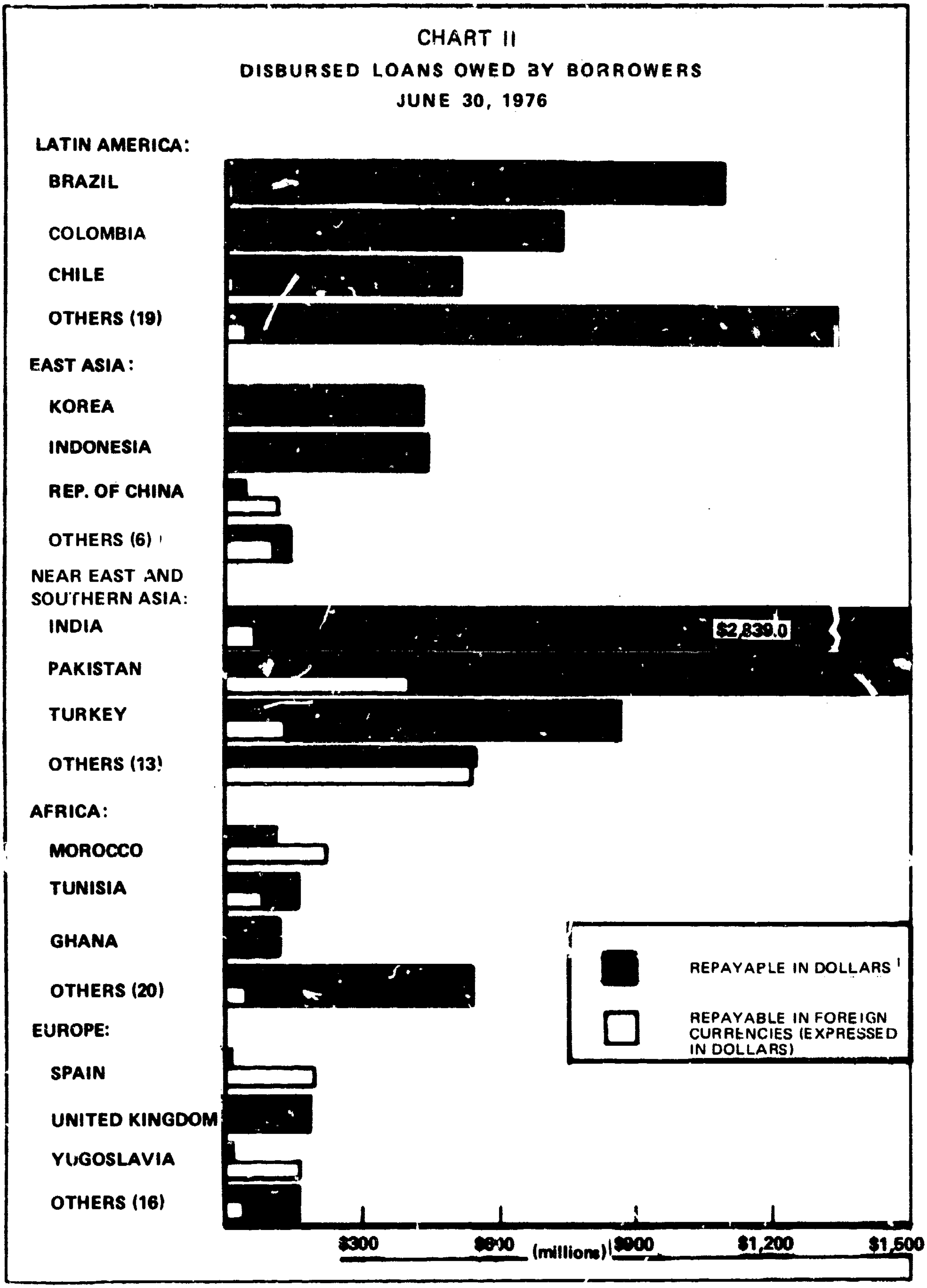


CHART II
DISBURSED LOANS OWED BY BORROWERS
JUNE 30, 1976
LATIN AMERICA:
BRAZIL
COLOMBIA
CHILE
OTHERS (19)
EAST ASIA:
KOREA
INDONESIA
REP. OF CHINA
OTHERS (6)
NEAR EAST AND SOUTHERN ASIA:
INDIA
$2,839.0
PAKISTAN
TURKEY
OTHERS (13)
AFRICA:
MOROCCO
TUNISIA
GHANA
OTHERS (20)
EUROPE:
SPAIN
UNITED KINGDOM
YUGOSLAVIA
OTHERS (16)
REPAYABLE IN DOLLARS
REPAYABLE IN FOREIGN CURRENCIES (EXPRESSED IN DOLLARS)
$300
$900
$1,200
$1,500
(millions)

CHAPTER 2

LOAN COLLECTION PROBLEMS

AID has experienced increased problems since 1971 in collecting both the principal and the interest due on its loans. These problems have occurred primarily because borrower countries, although generally willing to pay, lacked the ability to pay in accordance with their loan agreements. The general practice has been to resolve such problems by adding uncollected interest to loan balances and by revising repayment schedules to defer due dates, but some of the countries receiving prior debt relief continued to be delinquent in fiscal year 1976.

Collection problems have been particularly severe in the case of dollar-repayable loans, payment of which requires sufficient foreign exchange earnings by the borrower countries. By June 30, 1975, borrowers in countries owing $9.3 billion in dollar-repayable loans had missed making payments on loans having unpaid balances totaling $5.4 billion. Table I shows the types of collection problems and identifies the debt relief that had been provided as well as the loan payments that were due but delinquent at that time.

The four countries shown in table I as having all their dollar repayable loans in the problem category accounted for a large part of the overall problem, owing a total of about $4.9 billion. These problem loans have special significance because many of them were still in their grace periods--a period, usually the first 10 years of a loan, in which no principal and only nominal interest amounts are payable. For example, India and Pakistan have about $3 billion in loans still in their grace periods. These two countries have required extensive debt relief, including that from the payment of interest on loans in their grace periods.

TABLE 1

COLLECTION PROBLEMS WITH DOLLAR-REPAYABLE LOANS JUNE 30, 1975

	Total dollar repayable loans	Problem loan balances (note a)	Debt relief provided (note b)	Delinquent payments (note c)
	(millions)			
Countries requiring debt relief on all their loans (note d):				
India	$2,874.3	$ 2,874.3	$ 193.2	$ 0.1
Pakistan (note e)	1,477.0	1,477.0	44.1	67.6
Chile	508.5	508.5	37.8	0.1
Egypt	60.3	60.3	24.6	2.0
Total	$4,920.1	$ 4,920.1	$ 299.7	$ 69.8
Eight countries in which some loans required rescheduling (note d)	1,642.8	171.7	108.3	5.6
Nine countries in which relief was limited to capitalized interest	1,649.7	202.4	23.6	1.0
Eleven countries whose problem was limited to delinquencies	1,059.2	104.9	-	4.2
Total	$9,271.8	$5,399.1	$431.6	$80.6

a/Problem loans are loans (1) for which debt relief had been provided by June 30, 1975, (2) classified by AID as having delinquent payments on June 30, 1975, or (3) which had been partially written off by June 30, 1975.

b/Debt relief consists of either loan principal payments that had been originally due but subsequently rescheduled to defer due dates or uncollected interest that had been capitalized by adding it to the loan balance.

c/Delinquent payments are the principal and interest payments classified by AID as delinquent on June 30, 1975, because they had been due but uncollected for 30 days or more. Such delinquencies are frequently temporary and do not necessarily indicate that serious collection problems exists. The bulk of the delinquencies, however, pertain to loans having a past record of serious collection problems.

d/Some of the debt relief provided on these loans consisted of capitalized interest.

e/The total dollar-repayable loan amount excludes $13.3 million in disbursements made on current loans for which due dates had not yet arrived.

India's inability to pay can be attributed to its incapability to recover from chronic economic problems existing during much of the 1960s, which was also the period when AID provided most of the assistance. 1/ Its problems were evidenced by setbacks in agricultural and industrial production, a growing level of external debt obligations, a sharply increasing rate of inflation, and recurring shortages of raw materials, petroleum, fertilizer, and food grains. Recognizing these continuing problems, AID began to provide debt relief to India in 1968 and has continued to provide it each subsequent year through fiscal year 1975. India's payment record on the loans during that period was:

	Paid by India	Deferred by AID
	(millions)	
Interest	$ 57.6	$103.3
Principal	51.4	89.9
Total	$109.0	$193.2

Pakistan's inability to pay can be attributed to (1) its war with East Pakistan, and the subsequent separation of the eastern area into what is now Bangladesh and (2) economic conditions existing in 1970-71. 2/ Conditions continued to deteriorate in subsequent years because of the war, damage to its cotton crop caused by floods, and increasing prices for petroleum products, fertilizer, and food grains. In April 1971, Pakistan unilaterally refused to pay its external debt obligations, and since that time has claimed that Bangladesh should pay all debts incurred for programs beneficial to that country. Bangladesh refused to assume all those debts but did agree in October 1973 to be liable for the debt arising from all projects visibly located in Bangladesh. AID provided relief for Pakistan debt obligations payable from May 1, 1971, to June 30, 1973, and later provided additional relief for its 1974 and 1975 debt. Pakistan's payment record on the loans during this 4-year period was:

1/See GAO report dated May 11, 1973, entitled "Developing Countries' External Debt and U.S. Foreign Assistance -- a Case Study" (B-177988).

2/See GAO report dated February 6, 1976, entitled "U.S. Assistance to Pakistan Should be Reassessed" (ID-76-36).

	Paid by Pakistan	Deferred by AID
	(millions)	
Interest	$ 0.3	$ 32.8
Principal	0.5	11.3
Total	$ 0.8	$44.1

The other two countries identified in table I--Chile and Egypt--represent AID's less severe problems in the sense that each owes significantly less than India and Pakistan. Nevertheless, from a collection standpoint, Chile and Egypt are of equal importance because each has also required debt relief on every dollar-repayable loan.

The remaining countries referred to in table I have less serious problems--only some of their loans had developed collection problems, not all of them had required debt relief, and some of the debt relief was limited to the capitalization of interest--a form of debt relief which is sometimes anticipated and provided for at the time the loan is made. In addition, a few problem loans were owed by private borrowers; consequently, they did not necessarily represent payment problems of the countries in which the borrowers were located.

On the other hand, some of these seemingly less severe problems were more serious than indicated in table I because they pertained primarily to loans no longer in their grace periods; most of the loans were still in their grace periods. The following data shows, for example, that AID's dollar-repayable loans to Turkey and Indonesia, the two principal countries in which some loans required rescheduling, had disturbingly high rates of nonpayment when loans still in their grace periods are excluded.

	Loans outstanding			Problem loans	Ratio of problem loans to total
	Total	Grace	Nongrace	nongrace	nongrace loans
	(millions)				(percent)
Turkey	$ 860.1	$517.2	$342.9	$106.8	31
Indonesia	382.2	332.2	50.0	22.1	44
Total	$1,242.3	$849.4	$392.9	$128.9	

AID had provided $92.2 million in debt relief to these two countries by June 30, 1975. If their past record of nonpayment continues, the countries will require substantially more debt relief as more payments become due, particularly as payments become due on loans now in their grace periods.

Similarly, although many of the delinquencies were only temporary problems on June 30, 1975, some of the countries whose problems were limited to delinquencies represented more serious collection problems. For example, Syria and Vietnam were each delinquent as a result of political developments. Those two countries owed a total of $40.6 million at that time and payment will apparently depend on future political relationships.

All dollar-repayable loans owed to AID on June 30, 1975, totaled $11.4 billion. Of this total, only $2.1 billion was owed by borrowers in countries which had made all scheduled loan payments, and about 53 percent of that amount pertained to loans still in their grace periods.

Some of the countries with rescheduled loans were making payments in fiscal year 1976 in accordance with their revised agreements, while others were not. For example, as of March 31, 1976, payments were being made on most of the rescheduled loans of Chile and India and on those Pakistan loans not involved in the Bangladesh dispute, while principal and interest payments due on the Egyptian loans as well as the disputed Pakistan loans, continued to be delinquent. (See ch. 3 for additional information on dollar-repayable problem loans.)

Although AID has also had collection problems with loans repayable in foreign currencies, the main shortcoming of this type of loan has historically involved losses resulting from exchange rate changes and restrictions on the use of currencies after they were collected. Since 1971 the principal development affecting AID's foreign currency loans has been the recorded collection from India of rupees valued at about $2 billion. This occurred in 1974 in connection with an authorized U.S. grant to India of excess rupees valued at about $2 billion. Thus, although the $2 billion appears in the records of AID's loan program as a loan collection, it actually represents forgiveness by the United States of practically all of India's debt to AID repayable in foreign currency. This transaction was part of an overall Indian rupee settlement which was subjected to congressional review at the time it was being negotiated.

AGENCY VIEWS

AID maintains that the preceding analysis exaggerates the debt problem faced by loan recipients and incorrectly characterizes the nature of the problem. It has arrived at this position primarily by discounting the significance of loan delinquencies and debt relief and allowing for special circumstances in individual cases.

One of AID's principal views is that foreign assistance loans to governments differ from, and therefore cannot be judged as, commercial loans. The differences are:

--Most of its borrowers are countries with underdeveloped economies and unreliable foreign exchange earnings and they therefore do not qualify in terms of creditworthiness for long-term loans in the private market.

--Its loan collections depend on improvements in the borrowers' economies rather than on the financial results of specific projects, as is the case with commercial loans.

--Its lending requires more extensive subjective judgmental conclusions, covering a much longer time path and a much broader range of factors and more complex issues.

--Overall long-term goals are more important in its lending.

Two related views AID advanced are (1) because of the uncertainty associated with its loans, the need to reschedule them should not be considered unusual and (2) the furnishing of debt relief, rather than being evidence of a collection problem, increases the chances of collection because the purpose of debt relief is to restore a debtor's creditworthiness without hindering its economic development.

To illustrate its views, AID has included in its comments a revised version of table I showing that almost no collection problems exist. For the four countries requiring debt relief on all their loans (India, Pakistan, Chile, and Egypt), for example, AID's revised table I shows no problem loans and no delinquent payments. AID eliminated these countries from the problem category because India, Pakistan, and Chile were making payments in accordance with their revised agreement; Pakistan's continuing delinquencies on some loans were attributable to the war and change of government in Bangladesh; and Egypt has shown no intent to repudiate its debts.

AID has also claimed that borrower countries, in general, have no intent to repudiate debts and has cited this as a reason for objecting to our method of measuring the magnitude of all collection problems. To replace our reliance on amounts owed on problem loans, AID has offered two methods which it believes are better. To illustrate the method described by AID as most important, it points out that the unpaid amounts requiring debt relief for India accounted for about 5 percent of the total amount owed by that country. Thus, in addition to claiming that India's loans are no longer a problem because debt relief solved it, AID is claiming that the problem before its solution was not very serious. This reasoning, coupled with the claim made for Egypt, strongly implies that serious collection problems will never be encountered in any country willing to accept debt relief until the country shows an intent to repudiate its debts.

In addition to its basic rationale and reliance on such special events as wars, AID has cited a variety of relatively minor reasons for excusing or denying the existence of problems.

1. The usual slow-moving process of government-to-government business transactions creates apparent rather than real delinquencies.

2. Because the main issue involves loans to countries, problem loans to private entities should be considered separately.

3. Capitalized interest, the need for which was foreseen at the time of loan negotiations, should not be counted as debt relief.

4. Loans made from supporting assistance funds were not required to be as sound as loans made from development loan funds, and therefore should not be considered as part of the problem.

AID's complete views on the nature and seriousness of loan collection problems, together with our additional comments on specific points, are in appendix I.

OUR EVALUATION AND CONCLUSIONS

We recognize that AID made loans primarily to countries which could not obtain them from private sources and that repayment depended on the borrowers improving their economies, which made AID's lending riskier and subject to more miscalculation than commercial lending. We also recognize that there can be understandable reasons for a country's requiring debt relief and for AID's wanting to provide it, particularly when the objective is to facilitate achievement of overall long-term development goals.

However, we do not agree that [illegible] conditions justify establishing unique rules for iden[illegible]ing loan collection problems. AID's loans are the same as all loans in the sense that they are intended to be repaid. Whenever any borrower is unable to pay, regardless of the reason, the unpaid loan is obviously not as sound as had been intended and the lender just as obviously has a collection problem.

But different methods can be used to measure the magnitude of AID's collection problems. As a practical matter, however, little can be said in favor of comparing debt relief with the total amount owed, particularly when it shows an across-the-board problem, such as that experienced with India, as being relatively small. Given the long repayment periods of all AID's loans, as well as their generous grace periods and low interest rates, the unpaid amounts requiring debt relief at any given time will never be a high percentage of the total amount owed. Under these circumstances, the use of such a measurement merely affirms that inability to pay was not caused by a requirement for excessively high payments. We therefore believe it more appropriate to measure the problem in terms that are meaningful for loans in general, keeping in mind that AID's collection problems can perhaps be expected to be greater than those experienced by a commercial lender.

With respect to AID's view that debt relief overcomes collection problems, we know of no basis for automatically concluding that future results will be better than results of the past. We know that the future is subject to the same uncertainties and opportunities for miscalculation as those now known to have existed in the past. Accordingly, in assessing the financial condition of AID's loans, we place more importance on results over a relatively long period rather than on current short-term and anticipated results.

India's experiences are meaningful examples of events over a relatively long period. As AID pointed out, India made many payments on its loans over the years. Most of those payments were made with inconvertible foreign currency rather than dollars. Foreign currency payments do not require foreign exchange earnings and are relatively easy for an underdeveloped country to make. Yet in 1974, the United States forgave the final $2 billion India owed on foreign currency loans. In the meantime, India had begun to experience difficulty in making payments on its dollar-repayable loans, which are more difficult for an underdeveloped country to make because payment requires sufficient foreign exchange earnings. India still owes almost $3 billion on AID dollar-repayable loans which it may be able to pay as the due dates arrive. Based on past results, however, all of India's loans must be considered part of AID's loan-collection problems which have now grown to a significant size.

We believe that AID's growing collection problems present clear evidence that the financial condition of its loan program is weak and that serious consideration needs to be given to this problem. We have in the past held that the realizable value of the loans was indeterminable. We continue to hold this view, and we also hold that the realizable value of the loans is less than their recorded value.

CHAPTER 3

CONTINUED LENDING TO COUNTRIES WITH PROBLEM LOANS

Some of the countries with problem loans referred to in chapter 2 have long been major recipients of U.S. foreign economic assistance, while others have participated more recently or on a smaller scale. Since 1971, AID has been making dollar-repayable loans to most of the problem countries. It made some of those loans after the recipients had been provided relief from making payments on their earlier loans, and it appears that many of the same countries will continue to need assistance if their economies are to become viable.

Table II lists countries in the descending order of the magnitude of their problems, and shows all their dollar-repayable loans as of June 30, 1976. These are categorized into loans made by June 30, 1971, and loans made since then. During each of these periods, dollar-repayable lending to the problem countries was a substantial part of dollar-repayable lending to all countries, amounting to 72 percent during the earlier period and 74 percent after June 30, 1971.

Of the problem countries shown in table II as receiving little or no new lending since 1971, India represents a major change in AID's loan program. India had long been the principal recipient of U.S. foreign economic assistance loans, and consequently now owes more than any other country. Although AID could have terminated its lending to India because of poor repayment prospects, the lending was suspended because of the war in Pakistan, and since then, the United States and India have been unable to agree on resuming the lending. This freed AID's available loan funds for use in other countries and, as shown in table II, much of its lending since 1971 shifted to smaller countries having less advanced AID loan problems.

TABLE II

ALL DOLLAR-REPAYABLE LENDING TO PROBLEM COUNTRIES (note a) AS OF JUNE 30, 1976

	Cumulative loan agreements June 30, 1976	Timing of loan agreements	
		By June 30, 1971	After June 30, 1971
	(millions)		
India	$ 2,936.1	$ 2,860.4	$ 75.7
Pakistan	1,543.0	1,237.6	305.4
Chile	571.7	531.8	39.9
Egypt	418.2	69.0	349.2
Vietnam	43.1	-	43.1
Syria	93.6	1.1	92.5
Andean Dev. Corp.	15.0	-	15.0
Yugoslavia	18.8	18.8	-
Dahomey	23.7	0.8	22.9
Guinea	7.6	7.6	-
Venezuela	55.0	55.0	-
Mali	12.2	3.2	b/9.0
Somalia	14.0	17.3	-3.3
Botswana	24.2	6.5	17.7
Sudan	24.5	13.5	11.0
Mexico	77.2	77.2	-
Ghana	159.2	125.1	34.1
Spain	65.7	65.7	-
Uganda	11.3	11.3	-
Panama	162.4	106.7	55.7
Israel	398.1	173.4	224.7
Paraguay	47.8	35.6	12.2
Turkey	937.3	876.0	61.3
Dominican Rep.	185.3	164.0	21.3
Nine others	3,544.5	2,443.2	1,101.3
Total	$11,389.5	$8,900.8	$2,488.7

a/The countries are listed in descending order of the magnitude of their payment problems, measured by the ratio of problem loan balances to total loan balances. For example, India's ratio was 100 percent while the last 9 countries ratios averaged 5 percent each. The remaining countries had ratios ranging from 100 percent to 11 percent.

b/Negative amounts are caused by loan cancellations.

The following amounts (in millions) were loaned after 1971 to Pakistan, Chile, and Egypt after debt relief action had been taken:

Pakistan	$258.4
Chile	20.0
Egypt	334.3
Total	$612.7

As of June 30, 1976, an additional $61.5 million in loans had been authorized for Pakistan ($47.5 million) and Chile ($14 million). Except for a temporary suspension from November 1971 to September 1972, new lending to Pakistan occurred continuously after 1971, despite the major debt relief actions being taken on its earlier loans. Lending to Chile was temporarily stopped and then resumed starting in 1975. At June 30, 1976, substantial additional loans were also being planned for Egypt.

Lending to problem countries after debt relief actions were taken occurred also in the countries having smaller payment problems. For example, Indonesia received new loans totaling $347.8 million after debt relief had been provided. The changed pattern of new lending after 1971 and after India was no longer a major recipient indicates that some of the relatively minor problem countries today could be major problem countries in the future.

Of the above-cited lending that occurred after debt relief actions were taken, most of the loans to Pakistan and all the loans to Chile and Indonesia were made from appropriations for development loans, while the loans to Egypt were made from supporting assistance appropriations. The source of funds is significant because the Foreign Assistance Act of 1961 requires AID to make development loans only upon determining reasonable prospects of repayment and to take into account a country's capacity to repay the loans. Although AID has technically met these legal requirements, the requirements have, to a large extent, been ineffective in limiting loans to countries having the ability to repay.

Section 620(q) of the Foreign Assistance Act of 1961 contains another legal requirement which has not achieved its apparent purpose. The section includes a prohibition against furnishing additional assistance to any country in default on a loan for more than 6 months. By exercising its authority to revise payment provisions of any loan agreement that a borrower cannot meet, AID has avoided any default that otherwise might have occurred, and thereby has avoided the need to comply with the requirements of section 620(q). This action may be questionable from a management standpoint but it is not legally improper.

AGENCY VIEWS

AID opposes the idea that new loans should be governed by a borrower's need for debt relief on prior loans. In addition to believing that this report exaggerates and incorrectly characterizes the nature of loan collection problems, it asserts that the relationship between assistance and debt relief is far more complex than presented.

AID's basic view is that debt relief, rather than being a form of assistance, is the instrument used to insure recovery of assistance. It therefore strives to maintain as clear a distinction as possible between assistance and debt relief, and it objects to any effort to link the two.

AID points out that its practice has been to link debt relief with conditions appropriately designed to improve the borrower's economy (domestic taxation, expenditure policy, overall fiscal and monetary policy, and foreign exchange management), and that it imposes these conditions on a case-by-case basis through multilateral forums requiring the participation of all creditors. AID contends that this approach has minimized the incidence of debt relief operations, as evidenced by the fact that the United States participated in only one multilateral debt renegotiation (Zaire) in 1976.

From this, AID concludes that our proposals to link new lending with debt relief would have a substantial adverse impact on the Agency's ability to comply with the intent of foreign assistance legislation and make it significantly more difficult to administer the loan program in the best interest of the United States. More specifically, AID sees:

1. A loss of flexibility in participating in multilateral forums and in dealing with widely diverse debtor country situations.

2. The imposition of penalties (higher costs and reduced assistance) which would make it more difficult for borrowers to repay outstanding loans and restore creditworthiness.

3. The introduction of unnecessary uncertainties into the Agency's planning and operating processes without the compensating benefit of a strengthened loan collection program.

4. A difficulty in establishing country credit ceilings which, even if they can be established, may tend to compromise long-term development objectives desired by the United States.

AID suggests that the purpose of linking new lending with debt relief can best be achieved by continuing and improving current practices whereby the United States cooperates with other donor countries and international organizations.

AID's complete views on the relationships between assistance and debt relief, together with our additional comments on specific points, are in appendix I.

OUR EVALUATION AND CONCLUSIONS

We concur with AID's desire to cooperate with other donor countries and international organizations in providing debt relief. We believe such cooperation is essential and should be continued and improved upon as much as possible.

Similarly, we endorse the practice of linking debt relief with conditions designed to strengthen the borrower country's economy. A strengthened economy was the objective when the assistance was initially provided. It obviously continues to be an unmet objective when debt relief becomes necessary.

Providing debt relief in this manner, however, does not require continuing new lending as though collection problems no longer exist. Debt relief, however provided, represents a forced adjustment to prior assistance plans, and ignoring this relationship is not facing up to reality. Debt relief is linked with prior lending, and we believe that new lending should, in turn, be linked with it.

Having no link between new lending and debt relief could encourage the borrower to believe that successful use of assistance and the repayment of loans are not serious U.S. objectives, and could eventually result in resentment when the borrower is subsequently called to account for even larger loan repayments it cannot make. The practice could also encourage the justification of a higher loan level than warranted by the repayment capability of the country.

We recognize that, in many cases, a sudden cutoff of new lending would be unrealistic. However, a mechanism is needed to insure that an appropriate brake on new lending will be applied when borrowers are unable to pay on prior loans.

Such a mechanism can be introduced without impinging on the flexibility AID needs to satisfactorily resolve its collection problems. Those problems are related to prior lending, and they can and should be resolved without regard to any requirements affecting new lending.

Similarly, it is not necessary to lose the flexibility needed to administer an effective assistance program. Although a need for debt relief might require that new lending to a country be reduced, new assistance to that country need not be reduced. The retention of needed flexibility in administering assistance would only require a more realistic approach in establishing future lending and grant levels, and more consultation with the Congress.

RECOMMENDATIONS TO THE CONGRESS

To provide for more realistic administration of foreign assistance lending as well as for more consultation with the Congress, we recommend that the Congress consider amending the Foreign Assistance Act of 1961 in the following manner.

1. Provide specific authorization for the use of any available loan funds--funds appropriated for loans but not yet obligated--to make debt relief loans, the proceeds of which shall be used by the borrowers to make payments on their existing loans.

2. Require AID to prescribe a systematic method of determining annual maximum levels for additional AID lending to borrowers receiving debt relief loans. The maximum level would automatically decrease and eventually reach zero as outstanding debt relief loans increased, and as outstanding debt relief loans decreased, the maximum level would increase.

3. Provide that any further lending to a borrower whose loans in any year have reached the prescribed maximum level be permitted only upon congressional review and approval of a written presidential justification of the proposed lending.

4. Provide an alternative way to alleviate debt repayment problems and preserve a country's ability to obtain additional AID assistance by amending section 620(q) of the Foreign Assistance Act of 1961 to provide the following. Whenever a loan agreement has been revised to defer loan principal or interest

payments, the prior payment provisions apply in determining default unless the borrower has agreed to pay a rate of interest on the deferred payment of no less than the average cost of money to the Treasury.

AID disagrees with each of the above recommendations for reasons previously summarized under Agency Views. AID's complete position is in appendix I.

We are preparing specific legislative language for implementation of the above recommendations and will furnish such language to appropriate committees upon request.

CHAPTER 4

REDUCED AGE OF UNDISBURSED LOANS

Before 1974, loan implementation slippages caused a buildup of undisbursed loan funds. Questions about the continued need for and the age of some loans prompted AID to initiate loan reviews and establish new loan implementation criteria.

AID has reduced the age of its undisbursed loan balances since 1974, mainly by making disbursements on many of the older loans. It also deobligated some of the funds, but it adopted this solution on a relatively limited scale. In some cases, in lieu of deobligating funds that were not disbursed when planned, AID extended the disbursing periods; consequently, its undisbursed loan portfolio as of March 31, 1976, still included some very old loans that were not fully disbursed.

The following comparison of undisbursed loan agreements at March 31, 1976, and March 31, 1973, shows the extent that AID has reduced the age of its undisbursed funds.

Age of loan agreements (months)	Undisbursed balances at: March 31, 1973	March 31, 1976	Increase or decrease (-)
	(millions)		
0 to 24	$1,057.1	$1,152.3	$ 95.2
25 to 48	350.6	294.6	-56.0
49 to 72	129.7	118.2	-11.5
73 to 96	49.4	18.1	-31.3
Over 96	43.7	13.4	-30.3
Total	$1,630.5	$1,596.6	-$ 33.9

This comparison shows a reduction of all balances over 2 years old. On March 31, 1973, the balances over 2 years old represented 35 percent of the total. This was down to 28 percent at March 31, 1976, so that 72 percent of AID's undisbursed loan funds represented loan agreements 2 years old or less.

AID initiated its reduction efforts by establishing time frame criteria for completing designated stages of loan implementation. These criteria have been generally effective for loans authorized on and after July 1, 1974. For loans existing on June 30, 1974, AID established a review team to determine and initiate appropriate actions. In addition, an AID team performed a similar review of the undisbursed loans as of August 31, 1975.

During the 21-month period, June 30, 1974, to March 31, 1976, AID fully disbursed or deobligated 200 of the 353 undisbursed loans existing as of June 30, 1974. During the same period, AID authorized 92 new loans. Changes during the period and the undisbursed loan balances as of March 31, 1976, including loans authorized but not yet signed, are shown below:

		(millions)
Undisbursed loan balances reviewed as of June 30, 1974		$1,711.0
Reduced by:		
Disbursements	$823.1	
Deobligations	114.5	-937.6
Undisbursed balances of June 30, 1974 loans as of March 31, 1976		773.4
Undisbursed balances of new loans as of March 31, 1976		980.1
Total undisbursed loan balances as of March 31, 1976		a/$1,753.5

a/Includes $156.9 million for loans authorized but not yet signed.

The deobligations of $114.5 million shown above could have been greater. At March 31, 1976, for example, 39 loans were still active even though their terminal disbursement dates had passed during the period because AID extended the terminal dates. These loans had undisbursed balances at March 31, 1976, totaling $72 million, their new terminal disbursement dates were in 1976 and 1977, and 12 of them were more than 6 years old.

In addition to the extended loans that otherwise would have expired during the period, AID extended future terminal dates for 16 of the loans that were still active at March 31, 1976. Their undisbursed balances totaled $84.7 million at that date. Most of these loans also had new terminal dates in 1976 and 1977, and most were less than 4 years old as of March 31, 1976.

The three cases described below are examples of the 39 loans that continued to have undisbursed balances on March 31, 1976, because AID extended their terminal disbursement dates during the period.

1. Chile Loans (L-020, L-037, and L-033)

On March 31, 1976, loan L-020 was the Agency's oldest loan--over 11 years old--and the remaining two loans were 8 and 7 years old, respectively. At the time of AID's 1974 review, these loans were 1 year to 2-1/2 years past their terminal disbursement dates. AID's review team recommended that these loans be deobligated and referred them to the Deputy Administrator for further consideration. However, the Deputy Administrator subsequently approved resumption of disbursements under the loans, which had been suspended during the Allende regime.

Loan agreement amendments established new terminal disbursement dates. For loans L-020 and L-033, AID made no disbursements during the period June 30, 1974, to March 31, 1976, but the new terminal dates were in May 1977 and April 1977 respectively. The undisbursed balances for loans L-020 and L-033 totaled $6.7 million at March 31, 1976. For loan L-037, the extended terminal date was February 14, 1976, and the Deputy Administrator approved another extension to May 14, 1976. By August 1976, the loan was fully disbursed or deobligated except for a relatively small amount to cover outstanding vouchers and banking charges.

2. Peru Loan (L-028)

On March 31, 1976, this loan agreement was over 11 years old and was the Agency's second oldest loan. A dispute among the contractor, consultant, and Peruvian Government caused suspension of AID loan disbursements in 1968 and resulted in litigation in 1970.

At the time of AID's 1974 report, the sixth extension of the terminal disbursement date was granted. All parties dropped their claims in 1974, and AID agreed to resume disbursements, later extending the terminal disbursement date for the seventh time to December 31, 1977.

The original amount of the loan was $12.1 million. On March 31, 1976, disbursements were being made and $6.8 million remained to be disbursed.

3. <u>Korea Loan (H-038)</u>

On March 31, 1976, this loan agreement was over 9 years old and was the Agency's third oldest loan. The original amount of the loan was $3.5 million but the project was expanded, increasing the loan to $6.3 million in April 1974, with the added $2.8 million being accounted for as a separate loan (U-089). At the time of AID's 1974 review, both loans had terminal disbursement dates of December 31, 1975.

In June 1975, AID deobligated $161,900 of loan U-089 and subsequently extended both terminal dates. Loan H-038 was extended for the fourth time to August 31, 1976, and loan U-089 was extended to December 31, 1977.

On March 31, 1976, $870,000 remained to be disbursed on loan H-038, and $760,000 remained to be disbursed on loan U-089, for a total of $1.6 million.

In addition to the older loan extensions, AID has also exceeded the implementation time frame criteria for its new loans. These criteria establish maximum time frames for (1) signing the loan agreement after it has been authorized, (2) the borrower meeting conditions specified in the agreement before disbursements will commence, and (3) completing all disbursements. Although we found that time frame exceptions were few, AID has not been deauthorizing or deobligating any loan funds when the time frames were exceeded. AID requires high level reviews of each loan requiring a time frame extension, and has emphasized completing loan implementation actions within the established times. Therefore, exceptions have been needed for only a small number of loans. Of the 92 new loans authorized since July 1, 1974, borrowers had not signed formal agreements within the maximum 210-day time frame for only 5 loans, and for another 8 loans borrowers had failed to meet specified loan conditions within the time frame criteria. AID had not canceled any of these loans as of March 31, 1976.

Strict adherence to the established implementation periods would have resulted in AID deauthorizing $58 million and deobligating $99.2 million. On the other hand, making exceptions to the time frame limits may sometimes be justified, assuming that a valid need for the loan still exists. For example, as of March 31, 1976, a $40 million loan authorized for Pakistan in June 1975 had not been formally signed into agreement. Since joint negotiations with other lenders were causing delays, AID's Deputy Administrator approved an extension of the maximum 210-day period for signing the loan agreement. In addition to the $40 million AID loan, other loans were being made by the International Bank for Reconstruction and Development ($50 million) and the Federal Republic of Germany ($30 million).

CONCLUSIONS

AID's loan reviews have resulted in extensive attention being given to loan implementation actions. Many older loans have been fully disbursed or deobligated, some older loans have not yet expired, but some loans that otherwise would have expired have been extended. Most of AID's undisbursed loans are 2 years old or less and are governed by AID's loan implementation standards which, if exceeded, require review by the Agency's highest levels of management.

Although Agency actions have deterred old undisbused fund buildups, the amount of future buildups and the continued reduction of existing amounts depend on the extent that AID approves future loan extensions. We believe that each decision to extend the period in which a loan can be implemented provides new assistance and that AID should take steps to formally recognize this, particularly in the case of borrowers experiencing problems in repaying prior loans.

RECOMMENDATION TO THE ADMINISTRATOR OF AID

To insure that available resources are devoted to priority needs, we recommend that AID cancel loans that have remained undisbursed for long periods and rejustify them as new loans when a valid need for the assistance still exists.

AID did not comment on this recommendation.

CHAPTER 5

SCOPE OF REVIEW

We made this review primarily by analyzing data in AID's loan program accounting records and supporting documentation, including reports AID prepared from those sources. Although we tested the validity of some of that data, the scope of our work was not designed to express an opinion on the fairness of AID's accompanying financial statements. We have included the financial statements in this report solely for information purposes (see ch. 2 for our evaluation of the realizable value of AID's loans).

A major part of our verification work consisted of confirming with selected borrowers the validity of their loan balances. These confirmation actions showed no significant disagreements over the amounts recorded as owed on loans.

We also tested the validity of AID's computations of interest earned on loans as well as its recorded collections of interest and principal, and we examined selected accounting matters and agency action taken in response to matters included in our prior report. We have reported separately to the Agency on these matters and have included that report as an appendix to this report.

FINANCIAL STATEMENTS

SCHEDULE 1

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

	September 30, 1976		June 30, 1971	
	(millions)			
ASSETS				
Fund balance with U.S. Treasury (note 1)		$ 2,659.9		$ 1,997.1
Foreign currencies (notes 1 and 7)		1.9		139.8
Advances made under Special Letters of Credit		.0		.6
Other receivables		.1		.1
Stock acquisitions (note 11)		2.4		4.0
Loans receivable (notes 2, 3, 4, 8, and 10):				
Repayable in U.S. dollars	$11,804.3		$ 9,461.3	
Repayable in foreign currencies:				
With maintenance of value	1,214.8		2,392.9	
Without maintenance of value	1,056.7	14,075.8	3,200.0	15,054.2
Accrued interest receivable (notes 1, 2, 3, 8, and 10):				
Repayable in U.S. dollars	58.3		44.4	
Repayable in foreign currencies:				
With maintenance of value	17.0		30.4	
Without maintenance of value	12.5	87.8	27.6	102.4
Total assets		$16,827.9		$17,298.2
LIABILITIES				
Current liabilities (amounts owed other agencies, appropriations, funds, etc.)	$ 2.0		$ 6.1	
Accrued annual leave (note 9)	.3		.5	
Total liabilities		$ 2.3		$ 6.6
U.S. GOVERNMENT INVESTMENT				
Interest-bearing capital:				
Borrowings from U.S. Treasury (note 14)			450.6	
Non-interest-bearing capital (schedule 4)	17,547.8		17,889.3	
Accumulated losses (schedule 5)	-1,566.0		-1,389.6	
Retained earnings reserved for loan losses (schedule 5 and note 5)	843.8		341.3	
Total U.S. Government investment		16,825.6		17,291.6
Total liabilities and U.S. Government investment		$16,827.9		$17,298.2

The accompanying notes to financial statements as of September 30, 1976, are an integral part of this statement.

This statement was prepared by GAO from annual statements prepared by AID. GAO did not fully audit AID's statements.

 SCHEDULE 2

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

STATEMENT OF INCOME AND EXPENSE

FOR FISCAL YEARS 1972 THROUGH 1976 AND QUARTER ENDED SEPTEMBER 30, 1976

	Fiscal year 1976 and quarter ended September 30, 1976	Fiscal years ended June 30 1975	1974	1973	1972
	(millions)				
INCOME:					
Interest earned on [illegible]s:					
In U.S. dollars	$ 252.3	$ 175.7	$160.3	$148.3	$141.4
In foreign currencies	105.4	93.6	136.1	162.1	173.4
Interest earned on foreign currencies on deposit with foreign banks				.0	.0
Other income	.0		.0	.0	0.2
Total income	357.7	269.3	296.4	310.4	315.0
OPERATING EXPENSES:					
Fees of Dept. of State Inspector General for monitoring foreign aid program				0.6	0.5
Interest on borrowings from U.S. Treasury (note 14)	3.2	6.1	6.8	7.5	8.3
Administrative expenses (note 9)	55.7	51.1	42.3	43.8	5.2
Total operating expense	58.9	57.2	49.1	51.9	14.0
Excess of income over operating expenses	298.8	212.1	247.3	258.5	301.0
OTHER CHARGES OR CREDITS:					
Exchange rate adjustments:					
On investments (note 7)	0.1	0.1			
On current assets (note 6)	-1.4	-0.8	-2.7	-4.5	4.9
On prior year collections		.7			
On loans (note 7)	83.2	24.2	215.9	-126.2	228.3
On prior year disbursements		.0			
Uncollectible loan losses (note 8)	31.0	0.3	2.6	5.4	4.4
Prepayment discount				24.9	
Other expense	.0		.0		
Total other charges or credits	112.9	24.5	215.8	-100.4	237.6
Net income	$ 185.9	$187.6	$ 31.5	$358.9	$ 63.4

The accompanying notes to financial statements as of September 30, 1976, are an integral part of this statement.

This statement was prepared by GAO from annual statements prepared by AID. GAO did not fully audit AID's statements.

SCHEDULE 3

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR FISCAL YEARS 1972 THROUGH 1976 AND QUARTER ENDED SEPTEMBER 30, 1976

	Fiscal year 1976 and quarter ended September 30, 1976	Fiscal years ended June 30 1975	1974	1973	1972
	(millions)				
FUNDS PROVIDED:					
Appropriated capital	$ 10.0	$ 0.2	$ 2.0	$ 412.0	$ 362.0
Transfers from AID appropriations	1,509.2	765.8	495.4	4.8	2.2
Foreign currency allocations from U.S. Treasury	3.2	-2.7	-[illegible]9.6	2.5	1.1
Repayment of loans (U.S. dollars and foreign currencies)	474.3	358.8	2,380.7	399.7	262.1
Interest earned on loans (U.S. dollars and foreign currencies)	357.7	269.3	296.4	310.4	314.8
Loan repayments and interest credited to U.S. Treasury and Dept. of Agriculture (U.S. dollars and foreign currencies)	-538.3	-273.8	-2,386.3	-429.9	-335.5
Capital transfers to other Gov't agencies and appropriations	-41.5	-273.0	-307.1	-43.3	-27.2
Total	1,774.6	844.6	451.5	656.2	579.5
Other income	.0		.0	.0	0.2
Net changes in other assets and liabilities	31.1	-4.0	38.8	48.1	42.9
Net change in cash	-781.9	-168.7	140.2	-15.5	159.3
Total funds provided	$1,023.8	$ 671.9	$ 630.5	$ 688.8	$ 781.9
FUNDS APPLIED:					
Disbursements of loans (U.S. dollars and foreign currencies)	$ 69[illegible].1	$ 534.9	$553.5	$ 561.5	$ 722.7
Capitalized interest (U.S. dollars and foreign currencies)	65.8	36.9	96.4	51.0	7.6
Repayment of borrowings from U.S. Treasury (note 14)	233.0	94.3	46.5	42.6	34.3
Interest paid or accrued (note 14)	3.2	6.2	6.8	7.5	8.3
Fees of the Inspector General				0.5	0.5
Exchange rate adjustments (notes 2, 6, and 7)	-1.3	.0	-2.7	-1.5	5.0
Prior year adjustments	.0	-0.7	-72.6	1.1	-0.9
Investments	.0	.0	.0	-1.2	.0
Uncollectible loan losses and waivers (note 8)	31.0	0.3	2.6	5.4	4.4
Pre-payment discount and other	.0		.0	24.9	
Total funds applied	$1,023.8	$671.9	$630.5	$688.8	$781.9

The accompanying notes to financial statements as of September 30, 1976, are an integral part of this statement.

This statement was prepared by GAO from annual statements prepared by AID. GAO did not fully audit AID's statements.

SCHEDULE 4

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAM

STATEMENT OF CHANGES IN NON-INTEREST-BEARING CAPITAL

FOR FISCAL YEARS 1972 THROUGH 1976 AND QUARTER ENDED SEPTEMBER 30, 1976

	Fiscal year 1976 and quarter ended September 30, 1976	Fiscal years ended June 30 1975	1974	1973	1972
	(millions)				
Balance at beginning of period (U.S. dollars and foreign currencies)	$16,404.7	$16,098.6	$18,177.4	$18,064.5	$17,889.3
Adjustments:					
Capital subject to transfer to Dept. of Agriculture					2.4
Capital subject to payment of accrued annual leave	.4	.4	.4	.5	.5
Adjusted balance	16,405.1	16,099.0	18,177.8	18,065.0	17,892.2
Add:					
U.S. dollar appropriations for loans	10.0	.2	2.0	412.0	362.0
Transfers from other AID appropriations	1,509.2	765.7	495.4	4.8	2.2
Allocation of foreign currencies in accordance with the Agricultural Trade Develop ent and Assistance Act	3.2	-2.7	-29.6	2.4	1.1
Sub-total	17,927.5	16,862.2	18,645.6	18,484.2	18,257.5
Less:					
Loan principal collections credited to U.S. Treasury (note 14)	-326.8	-176.7	-2,230.8	-180.7	-157.8
Loan principal collections credited to Department of Agriculture	-11.1	-7.5	-8.7	-82.5	-7.5
Capital transferred to other government agencies and other AID appropriations	-41.5	-273.0	-307.1	-43.2	-27.2
Capital subject to payment of accrued annual leave	-.3	-.3	-.4	-.4	-.5
Balance at end of period (U.S. dollars and foreign currencies)	$17,547.8	$16,404.7	$16,098.6	$18,177.4	$18,064.5

The accompanying notes to financial statements as of September 30, 1976, are an integral part of this statement.

This statement was prepared by GAO from annual statements prepared by AID. GAO did not fully audit AID's statements.

SCHEDULE 5

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

STATEMENT OF CHANGES IN UNRESERVED RETAINED EARNINGS (ACCUMULATED LOSSES)

AND RETAINED EARNINGS RESERVED FOR LOAN LOSSES

FOR FISCAL YEARS 1972 THROUGH 1976 AND QUARTER ENDED SEPTEMBER 30, 1976

	Fiscal year 1976 and quarter ended September 30, 1976	Fiscal years ended June 30 1975	1974	1973	1972
	(millions)				
UNRESERVED RETAINED EARNINGS (ACCUMULATED LOSSES):					
Accumulated losses at beginning of period (U.S. dollars and foreign currencies)	$-1,549.4	$-1,587.5	$-1,484.0	$-1,588.7	$-1,389.6
Adjustments:					
Prior year adjustments recorded in current year	.0	.7	72.7	-1.1	.9
Interest collections subject to transfer to U.S. Treasury					1.1
Adjusted balance at beginning of period	-1,549.4	-1,586.8	-1,411.3	-1,589.8	-1,387.6
Add:					
Net income for the period (schedule 2)	185.9	187.6	31.5	358.9	63.4
Administrative expenses funded by separate appropriations (note 9)	55.7	51.1	42.3	43.8	5.2
Less:					
Interest collections credited to U.S. Treasury and the Department of Agriculture (note 14)	-200.4	-89.6	-146.8	-166.7	-170.1
Transferred to retained earnings reserved for loan losses (note 5)	-57.8	-111.7	-103.2	-130.2	-99.6
Accumulated losses at end of period (U.S. dollars and foreign currencies)	$-1,566.0	$-1,549.4	$-1,587.5	$-1,484.0	$-1,588.7
RETAINED EARNINGS RESERVED FOR LOAN LOSSES (NOTE 5):					
Balance at beginning of period (U.S. dollars)	$786.0	$674.3	$571.1	$440.9	$341.3
Add:					
Transferred during the period	57.8	111.7	103.2	130.2	99.6
Balance at end of period (U.S. dollars)	$843.8	$786.0	$674.3	$571.1	$440.9

The accompanying notes to financial statements as of September 30, 1976, are an integral part of this statement.

This statement was prepared by GAO from annual statements prepared by AID. GAO did not fully audit AID's statements.

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1976

NOTE 1: The Status of Fund Balance With U.S. Treasury is as Follows:

	U. S. Dollars	Foreign Currencies (Dollar Equivalent)	Total
* Undisbursed Obligations	$ 2,438,591,941	$ 1,911,025	$ 2,440,502,966
Unallotted Appropriations	571	-	571
Committed for Loan Authorizations	218,450,000	-	218,450,000
Accounts Payable to the Public	303,657	-	303,657
Accounts Payable to U.S.D.A.	973,594	-	973,594
Due to Other A.I.D. Appropriations	1,639,828	-	1,639,828
Funds Restricted by Special Letters of Credit for Disbursements in Connection with Specific Loans	(17,167)	-	(17,167)
TOTAL (NOTE 2)	$ 2,659,942,424	$ 1,911,025	$ 2,661,853,449

*Represents September 30, 1976 Outstanding Loan Agreements (Net of Disbursements).

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1976

NOTE 2:

Foreign currency cash and non-maintenance-of-value loans have been translated into U.S. dollar equivalents at rates of exchange prescribed by Treasury Circular 930, revised. Foreign currency maintenance-of-value loans and related accrued interest receivable are accounted for in U.S. dollars and are so reported in these statements.

A maintenance-of-value loan (MOV) is stated in terms of U.S. dollars but the borrowers have the option to repay the loan in units of foreign currency. The borrower assumes the risk of exchange rate fluctuations or currency revaluation.

A non-maintenance-of-value loan (NON-MOV) is stated in terms of foreign currency units. The U.S. assumes the risk of foreign exchange fluctuations during the life of the loans. Such loans were funded, principally, from the proceeds of foreign currency sales of surplus agricultural commodities under Title I of PL 480 and Section 402 of the Mutual Security Act, as amended. On these financial statements, foreign currency amounts have been converted to U.S. dollar equivalents.

Loans denominated in U.S. dollar amounts for currencies other than U.S. dollars have been translated into U.S. dollars at the exchange rates prevailing at the time of disbursement. For loans denominated in currencies other than United States dollars and the undisbursed balances of currencies other than U.S. dollars, the amounts have been translated into United States dollars at the U.S. Treasury exchange rate established by Treasury Circular 930 at September 30, 1976. No representation is made that any such currencies are convertible into any other of such currencies at any rate or rates. Because of unpredictable fluctuations in values of foreign currencies, it is not considered feasible to estimate the future realizable value of the assets affected by such factors.

NOTE 3:

As of September 30, 1976 principal and interest installments due and upaid 90 days or more totalled $26,290,070 on 72 loans. Of these loans, seven with due and unpaid installments totalling $5,127,856 were under negotiation with the borrower country for rescheduling. See schedule on next page for aging of delinquent loan installments.

Please note that Loan receivables and Accrued Interest Receivable due and upaid 90 days or more are separated from current receivables on Schedule I. Prior years statements separated the receivables that were delinquent 30 days or more. The June 30, 1975 Statement of Financial Condition was restated to reflect the change in reporting.

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1976

NOTE 3: (Cont'd)

AGING OF DUE AND UNPAID INSTALLMENTS — AS OF SEPTEMBER 30, 1976

	Installments Due and Unpaid 90 Days To Six Months	Six Months To One Year	One Year Or More	Total
AFRICA:				
Ghana	$ 163,229	-	$ -	$ 163,229
Guinea	693,617	-	930,851	1,624,468
Ivory Coast	220	-	-	220
Senegal	3,329	-	-	3,329
Somalia	-	-	3,079,782	3,079,782
Sudan	-	-	1,963,005	1,963,005
Uganda	-	64,737	195,293	260,030
Zaire	453,882	1,254,254	893,118	2,601,254
Total Africa	$1,314,277	$1,318,991	$ 7,062,049	$ 9,695,317
ASIA:				
Bangladesh	$ -	$ -	$ 265,535	$ 266,535
India	848,234	1,005,837	4,984,958	6,839,029
Laos	-	-	324	324
Pakistan	3,637	-	-	3,637
Vietnam	-	-	5,032,433	5,032,433
Total Asia	$ 951,871	1,005,837	$10,284,250	$12,141,958
LATIN AMERICA:				
Columbia	251,289	-	-	251,289
Costa Rica	152	-	-	152
Mexico	892	-	-	892
Nicaragua	286	-	-	286
Paraguay	70	-	1,503,727	1,503,797
Peru	8	-	160,049	160,057
Total Latin America	$ 252,697	$ -	$ 1,663,776	$ 1,916,473
NEAR EAST:				
Arab Republic of Egypt	$ [illegible]7,628	$ 80,628	$ 15,042	$ 123,298
Greece	3,562	-	-	3,562
Tunisia	-	27	-	27
Turkey	455,127	-	-	455,127
United Kingdom	-	-	1,954,308	1,954,308
Total Near East	$ 486,317	$ 80,655	1,969,350	$ 2,536,322
GRAND TOTAL	$2,056,928	$1,409,296	$22,823,846	$26,290,070

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1976

NOTE 4:

As of June 30, 1975, one hundred eighty-two (182) loans have had $349,948,627 in principal installments deferred.

NOTE 5:

The retained earnings (or accumulated losses) in these statements reflect results of operations subsequent to June 30, 1961. The retained earnings of predecessor agencies, as of July 1, 1961, are included in the non-interest-bearing capital investment of the U.S. Government. Retained earnings reserved for loan losses represent the total accumulated U.S. dollar earnings of the Alliance for Progress, Development Loan Funds and other funds as at Sept. 30. 1976. These amounts (subject to revaluation when the total amount reaches 10% of the outstanding loan and accrued interest balances) are reserved for possible losses due to uncollectibility of loans and accrued interest receivable. This reserve was established in accordance with the recommendations by the accounting consultants, Lybrand, Ross Brothers and Montgomery, and concurred in by GAO. The unique aspects of the Agency's Loan Program do not permit a more reliable estimate of future losses to be made.

NOTE 6:

The exchange rate net gain of $1,402,551 resulted from the following:

Reason	Gain or (Loss)
Loss resulting from translation of foreign currency cash balances at September 30, 1976 exchange rate prescribed by Treasury Circular 930.	$ (250,984)
Loss resulting from translation of foreign currency accrued interest receivable balances at September 30, 1976 exchange rate prescribed by Treasury Circular 930.	(1,428,714)
Gain realized on the collection of maintenance-of-value long-term receivables when the Sept. 30, 1976 Treasury Circular 930 rate differed from the rate used by the borrower.	3,082,249
Net Gain	$ 1,402,551

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1976

NOTE 7:

The exchange rate loss of $83,157,509 resulted from the translation of non-maintenance-of-value long-term receivables at the September 30, 1976 Treasury Circular 930 (Revised) exchange rate.

The exchange rate loss of $141,598 resulted from the translation of foreign currency investments at the September 30, 1976 Treasury Circular 930 (Revised) exchange rate.

NOTE 8:

During FY 1976, $30,978,820 was written-off as uncollectible. Below is a brief description of the loans written off:

--Public Law 480, Section 104(G) loans to nine Israeli or Israeli associated institutions were written-off per authority given by the Foreign Assistance Appropriation Act of 1976. The total principal and interest write-off totaled $29,844,029.

--Section 496(b) of the FAA of 1961, as amended, authorized A.I.D. to forgive the liability incurred by the Government of Cape Verde Islands for the repayment of a $3,000,000 loan made June 30, 1975. Write-offs on the loan (655-Z-001) totaled $839,498 during FY 1976.

--Two loans made by the Development Loan Fund Corporation were written-off in FY 1976:

521-A-003	$236,809
515-A-002	$ 58,484

NOTE 9:

The administrative costs of the Agency allocated to the A.I.D. loan program in FY '76 amount to $55,714,961.

Since funds of the loan program are not used to defray any portion of the Agency's operating expenses, the loan program's administrative costs are added to net income on the statement of changes to unreserved retained earnings. (Schedule V).

Accrued annual leave identified to personnel within the loan program is shown as a liability and a reduction of non-interest-bearing capital on the statement of financial condition as shown in Schedule IV.

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL S' ATEMENTS

AS OF SEPTEMBER 30, 1976

NOTE 10:

In prior years, the Cooley Loan Program has been administered by OPIC under A.I.D. Delegation of Authority No. 91, dated May 24, 1971. Effective September, 1976 the administration of the "Cooley Loans" was returned to A.I.D.

NOTE 11:

The Bataan Pulp and Paper Mill stock acquired during the FY '73 represents non-voting preferred stock in the amount of 17,808,553 Philippine Pesos (equivalent to U.S. $2,536,831). A.I.D. obtained this stock in exchange for the Class A preferred stocks (P-20,427, 262) and Class B preferred stock (P-5, 465,774) received from a previous "Rescheduling Agreement" dated, April 29, 1971. This stock has no right to dividends, but is eligible for conversion to debentures which have an interest payment clause requiring the borrower to pay interest out of net income not to exceed 4.5% of the face value of the debentures. However, the conversion cannot be effected before January 1, 1981. After that date, A.I.D. may, in aggregate or, in portion, convert the stocks into debentures from time to time at its option. In addition, A.I.D. received a warrant to purchase 2,500,000 shares of Bataan Pulp and Paper Mills common stock at a price of forty centavos per share, which A.I.D. may exercise form time to time until December 31, 1991.

NOTE 12:

By exchange of letters between the United States of America and the Federal Republic of Germany and subsequent approval by the Department of State, Treasury Department and A.I.D., the United States of America's right, title and interest in certain maturities of promissory notes of Belgium, Denmark, Ireland, Norway and Portugal, having a face value of $31,250,000.00 and maturing between December 31, 1979 and December, 1981, were sold to the Federal Republic of Germany on June 15, 1971 as evidenced by Instrument of Transfer of the same date.

NOTE 13:

(1) When applicable, the original loan agreement amounts were modified by capitalized interest, deobligations, and exchange rate adjustments.

(2) During FY '76 certain Predecessor Agencies and Public Law 480 maintenance-of-value (MOV) loan for Chile and Bolivia were converted into U.S. Dollar repayable loans. As a result of this conversion, negative disbursements are shown in the FY '76 activity column for MOV disbursements. A positive disbursement is included in the FY '76 activity column for U.S. Dollar repayable loans to off-set the negative disbursement. Net effect on total disbursements is zero (0).

AGENCY FOR INTERNATIONAL DEVELOPMENT

LOAN PROGRAMS

NOTES TO FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1976

NOTE 14:

Section 203 of the Foreign Assistance Act of 1973 amended the FAA to provide that after July 1, 1975 AID could no longer reprogram loan reflows. The amendment also provided that after that date all dollar receipts from loans made pursuant to the FAA or any predecessor legislation had to be deposited in the Treasury as miscellaneous receipts.

A.I.D. used $236,224,951 of the FY 1976 dollar collections of principal and interest to retire the Notes Payable to the Treasury Department and accrued interest. The remainder of the principal and interest receipts were deposited into the Treasury's miscellaneous receipts accounts.

APPENDIXES

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Auditor General

JUL 8 1977

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

Thank you for providing the GAO draft report "Financial Status of Foreign Economic Assistance Loan Program" for review and comment by this Agency. Through discussions with GAO personnel, who have been very cooperative, the draft was revised and retransmitted to us on May 10. It has taken more than 30 days to provide these comments, as the draft presents conclusions and recommendations potentially having a major impact on Agency programs. The Agency comments still take strong exception to the findings and conclusions presented in the revised draft, and with the recommendations drawn therefrom.

We believe the recommendations made in this draft report, if implemented, would have a significant adverse impact on the Agency's ability to comply with the intent of foreign assistance legislation and make it significantly more difficult to administer the loan program in the best interest of the United States. The analysis from which these recommendations flow exaggerates the debt problem faced by AID loan recipients and the data as presented incorrectly characterizes the nature of the problem. The relationships between assistance and debt relief are far more complex than presented in the draft report. The attached comments clarify this relationship and further explain AID's position.

I know you will fully consider AID's position. If further meetings with you or your personnel will help clarify any points, we will be happy to meet with you. After full consideration of the issues, I believe you will want to significantly modify the draft report.

Sincerely yours,

Harry C. Cromer

Harry C. Cromer

Attachment: a/s

Agency for International Development Comments on the GAO Draft Report, "Financial Status of Foreign Assistance Loan Program," dated May 10, 1977

GAO Recommendations to Congress

The GAO has recommended four changes in the Foreign Assistance Act in the report directed to Congress. These recommendations would:

(1) amend Section 620(q) to state that whenever a rescheduling takes place in which there is a deferral of loan principal and/or interest payments, the prior payment provisions apply in determining default unless the borrower agrees to pay a rate of interest on the deferred payments which is no less than the average cost of money to the Treasury;

(2) authorize the use of any available loan funds to make debt relief loans (which would be used by borrowers to make payments on their existing loans) on terms no less stringent than any regular loan made from such funds;

(3) require AID to establish a systematic method of determining maximum additional lending levels applicable to any borrower receiving debt relief loans, whereby the level of permitted new lending decreases and eventually reaches zero as outstanding debt relief loans increase; provide that all debt-relief loans be included as part of any additional lending permitted by the established levels; and

(4) provide that further lending to a borrower who has reached the limit established in (3) be permitted only upon Congressional review and approval of a written Presidential justification for the proposed lending.

AID Views on GAO Recommendations

The relationship between the concepts of aid and debt relief are far more complex than presented in the GAO report. AID believes debt relief to be a unique financial instrument, involving complicated relationships between the U.S. and the debtor countries, and between the U.S. and other creditor countries. The prime function of debt relief as it is employed by the U.S. is not aid, but rather to enhance the probability of repayment of all debts to the U.S. As a result, our policy on debt relief rests on three major elements: the case-by-case approach in emergency situations; the use of multilateral fora (usually the so-called Creditor Club, to insure all creditors share equitably in the risks of lending); and the linkage of relief with appropriate conditionality usually via an IMF stabilization program. We believe there are considerable advantages accruing to the U.S. from our current strategy of maintaining as clear a distinction as possible between aid and debt relief. Present arrangements have in fact minimized the incidence of debt relief operations. Despite the financing difficulties of most developing countries in 1976, for example, the U.S. participated in only one multilateral debt renegotiation (Zaire). We do not therefore believe the report's conclusion that debt relief should be recognized as the "equivalent of furnishing additional assistance" is in the overall interests of the U.S. (See GAO note 1.)*

In summary, the following are AID's views on GAO's recommended changes in the Foreign Assistance Act:

Recommendation (1)

U.S. policy is to entertain requests for debt rescheduling on a case-by-case basis in the context of multilateral creditor club fora. This approach allows creditors the flexibility which is necessary to consider and negotiate rescheduling (including the terms of relief) on the merits of each individual case, and in a way that insures equitable burden sharing. Recommendation (1), by setting a minimum rate of interest on deferred payments, would deny us the flexibility to treat widely diverse debtor country situations, and would place U.S. Government negotiation of debt relief on a bilateral rather than a multilateral basis.

(See GAO note 2.)

Practice in the past has been to charge an interest rate on reschedulings which is similar to the cost of the original loans, not to the cost of money to the Treasury. We believe that enactment of Recommendation (1) would not materially improve the collectibility of AID loans and could make it more difficult for the loan recipient to resume the payments. In our view, problems that give rise to loan delinquencies are not soluble through an approach that essentially imposes a penalty on the borrower in higher direct monetary terms. Instead we take the position that the remedy should be prescribed on a case-by-case basis and consistent with the objectives of improved economic performance, which would enhance prospects for eventual total repayment. In this context,

*GAO notes are on pp. 60 and 61.

we believe that debt relief conditions which set forth specific requirements with regard to domestic taxation, expenditure policy, overall fiscal and monetary policy, and foreign exchange management are far more fruitful for achieving U.S. objectives than the automatic imposition of a monetary penalty.

Under the provisions of the Foreign Disaster Assistance Act of 1974, the Secretary of State has the responsibility to notify Congress prior to entering into any negotiations with any foreign government which could have the effect of liberalizing the repayment terms of loans extended under the authority of the Foreign Assistance Act. He also has the responsibility of responding to requests by Congress for information on the status of negotiations and must forward the text of any bilateral debt rescheduling agreement to Congress at least 30 days before its entry into force. It is our belief that our commitment to implementing this legislation insures a meaningful dialogue with Congress on this important aspect of U.S. policy, while at the same time permitting the U.S. Government to retain flexibility for treating diverse situations effectively. (See GAO note 3.)

Recommendation (2)

This recommendation would have two effects: (a) it would link debt relief with new aid through what might be called a refinancing mechanism and (b) it would reduce U.S. flexibility in setting the terms of debt rescheduling in multilateral negotiations. Linking debt relief to new aid is directly contrary to current U.S. policy of employing debt rescheduling as an orderly means of restoring creditworthiness, which is in the interest of debtor and creditor countries alike.

Congress amended Section 203 of the FAA in 1974 to provide that all dollar receipts from repayment of loans be deposited into the Treasury as miscellaneous receipts, thereby ending the prior practice in which loan receipts could be relent without Congressional appropriation. The enactment of Recommendation (2) would reverse this policy. (See GAO note 4.)

AID is fully aware that present U.S. policy of providing debt relief through reschedulings may have an adverse impact on loan reflows and thus Treasury's cash inflow projection. However, it should be noted that the shortfalls in Treasury's cash projection attributable to AID loan reschedulings compared to the total of such projections are quite small, whereas they would represent a far more significant proportion of AID's appropriated funds. We also recognize Congressional desire and authority to have the use of these reflow funds subject to the legislative process. The Agency has every desire and intention of operating its program in full consultation with Congress. Nevertheless, we feel that the enactment of Recommendation (2) would introduce unnecessary uncertainties into the Agency's planning and operating processes, without compensating benefits in terms of a strengthened loan collection program. Under such a system, the Agency's ongoing program would become a residual to its limited, necessary, and unavoidable debt relief operations.

Debt relief operations usually take place in multilateral fora where the magnitude of the relief to be provided, as well as the terms of such relief to be provided by respective participants, are negotiated in the group rather than bilaterally determined. This recommendation would make it difficult for the U.S. to negotiate appropriate terms of relief in a multilateral context as well as the set terms consistent with the situation of the rescheduling country on a case-by-case basis.

Recommendations (3) and (4)

AID believes that enactment of these recommendations would impose punitive measures on debtor countries rendering it more difficult for them to repay outstanding loans, and restore their creditworthiness, by reducing the inflow of foreign aid. If debt rescheduling occurs, this type of operation facilitates the development of measures, by creditors and debtors alike, which reduce the likelihood that a similar problem would arise in the future. We further believe that the establishment of country credit ceilings is a task difficult to achieve, even in concert with other U.S. agencies and other donors--and certainly not possible for AID to achieve alone. Even if possible, such country ceilings may tend to compromise long-term development objectives which the U.S. Government and AID may wish to pursue in the recipient country. The U.S. attempts to achieve the purpose of these recommendations through the coordination of all U.S. Government debt relief operations with other donor countries and international organizations. AID believes that the best interest of the U.S. Government in this respect will be served through an intensification of our cooperation with other donor countries and international organizations in an earlier identification of problem cases.

(See GAO note 5.)

Comments on the GAO Analysis

AID believes that the conclusions and recommendations contained in the GAO report rest on an analysis which exaggerates the debt problem faced by AID loan recipients and incorrectly characterizes the nature of the problem faced in many cases. The major conclusion of the report is that the financial condition of AID's loan program is weak; its further conclusion is that AID has made development loans to countries that it knew or should have known--based on commercial standards--did not have the capability of repaying such loans. These conclusions are based on data collected during the GAO's most recent examination of AID's loan portfolio which are presented in Tables I and II on pages 6 and 14, respectively, of its report. While some of the loans in AID's loan portfolio have from time to time been delinquent, and in some cases required reschedulings, the data presented by GAO in Tables I and II strongly exaggerates the magnitude and the nature of the problem. Thus AID's opposition to GAO's recommendation rests in an important way on a disagreement with GAO's analysis and interpretation.

(See GAO note 6.)

We take specific exception to GAO's:

(a) definition of loan delinquency,

(b) overstatement of loan collection problems by using outstanding balances as related to delinquencies as the major criterion, rather than the amount of debt service scheduled to be paid as related to the level of payments actually made.

(c) classification of all rescheduled loans as problem loans irrespective of debt service performance following the rescheduling,

(d) classification as "country debt" loans made to private entities that were not guaranteed by the government of the country in which the private entity is located,

(e) classification of interest capitalization when provided for in the original loan agreement as rescheduling/debt relief,

(f) inclusion of Pakistan and Vietnam with other countries in its tables instead of treating the countries separately, as their special circumstances (wars) warrant.

(g) inclusion, without differentiation, of supporting assistance loans with development loans,

(h) use of commercial standards for evaluating recipient creditworthiness and AID's loan management.

(See GAO note 6.)

Following is an elaboration of each of these points:

(a) In this report the GAO uses 30 days as its basis for classifying a loan as delinquent. On the other hand, the Department of the Treasury uses a 90-day period as the basis in its quarterly report on delinquencies to the Congress. While AID uses a 30-day period as the basis of its internal reporting, this is done for internal administrative purposes only, to act as a reminder to Area Bureaus to initiate actions to ascertain the reason for the delay and to determine the likely payment date.

(See GAO note 7.)

There are any number of events that could and usually do delay prompt payment from time to time--such as delays attributable to changes in government or senior government officials, and mix-ups between the debtor government and its U.S. paying agent--that have not been associated in any way with a country's ability to pay. Given the slow moving process of government-to-government businss transactions, often accompanied by the need for lengthy representations and clearances by both sides, it is not at all unusual for these minor matters to delay payments by 30 days or longer. Thus, a snapshot review on an given date is very likely to result in some loans being classified as problem loans when a 30-day basis is used, when in fact they are not. The longer 90-day criterion, on the other hand, allows a period sufficiently long that minor problems in most cases will have been worked out. Supporting evidence for the soundness of this position, especially in reference to the identification of long-term loan collection problems, can be found in AID's revised Table I-AID, which shows that under the 90-day criterion delinquent amounts are eliminated. (See GAO note 7.)

(See GAO note 7.)

We have therefore adjusted the data in GAO Tables I and II and present these results in Tables I-AID and II-AID to provide more meaningful information on loans. AID's tables also delete those loans on which payments were delayed for more than 90 days for one or more of the reasons enumerated above, and in cases where there have been underpayments strictly attributable to accounting differences.

(See GAO note 7.)

(b) Reliance on the ratio of delinquencies to outstanding balances is more appropriate for the purpose of assessing the magnitude of potential losses by commercial organizations. In cases where the major issue involves mainly a lengthening or change of contour in the repayment stream, the ratio of payments actually made, relative to debt service scheduled, is a better criterion of loan collection problems. GAO has presented no evidence or contention that the concerned countries are in a real sense on the brink of repudiating these debts. In the case of AID loans, we think the latter standard more appropriate.

(c) It is AID's position that rescheduled loans on which the debtor is in accord with the terms of rescheduling are not problem loans in the sense used in the report. To lump these with other problem loans ignores the very purpose of rescheduling--to tailor repayment requirements to a current evaluation of the debtor's capacity to pay, while at the same time protecting the U.S. position as a creditor. That position could be endangered by a complete default that could result in a total cut-off of credit to the debtor that is seriously needed to generate and restore any debt repayment capability. AID does not, however, undertake reschedulings to avoid the need to comply with the requirements of Section 620(q). Thus, we have also removed loan reschedulings from the "Problem Loan Balance" column in our table, where repayments are current. The most important indicator of the magnitude of problem loans in cases of debt relief is the proportion of the amount of debt relief provided to the amount of outstanding balances at the time the rescheduling is effected. For example, in the case of India, over the 1968-1975 period, debt relief/reschedulings amount to $138 million and its outstanding balance to AID at the beginning of the period amounted to about $3,000 million, producing a proportion of roughly 5%.

(d) The GAO report has included in country totals loa[illegible] made to private entities not guaranteed by the respective government. The inclusion of such figures in government totals not only unjustly magnifies respective country figures but in addition confuses basic causative factors. It is by no means clear that the same underlying explanatory factors apply to debt service problems of a government and those of a private entity that is located in that government's territory. In any event, the remedial steps required to eliminate the problem(s) are likely to be very dissimilar. For these reasons, we have taken these private loans out of the affected country totals. (See GAO note 8.)

(e) Classification of capitalized interest, the need for which is foreseen at the time of loan negotiations and provided for in the original loan agreement as debt relief represents a sharp departure from standard commercial practices, e.g., in construction financing. This type of classification basis, moreover, goes beyond the appropriate scope of GAO's examination. It represents, instead, a substitution of GAO's judgment for the Agency's as to whether or not provision for interest capitalization <u>should</u> have been included in the original loan

(See GAO note 9.)

agreement without the benefit of an in-depth understanding of each case--in marked contrast with AID's knowledge of the project and loan particulars. AID has provided in original loan agreements provisions for interest capitalization as an integral part of its creditworthiness evaluation and designed such provisions solely to accommodate in a sound manner the particulars of projects on a case-by-case basis. We have thus adjusted the attached tables to remove this upward bias to problem loans.

(f) GAO points out that a part of AID's collection experience with its loans to Pakistan is attributable to an internal war that led to the subsequent separation of East Pakistan into a separate country now known as Bangladesh. The emergence of an independent State from the former East Pakistan created the problem of the responsibility for those debts contracted by Pakistan which benefited its Eastern portion. AID was not alone in facing this problem. Thus the U.S. Government, along with other creditor countries, and within the framework of the Aid-to-Pakistan Consortium, sought to develop a procedure to avoid a default on any portion of the total pre-war Pakistan debt. Against this background, AID believes that the results of this effort have been satisfactory, on balance. Because of the special nature of the problems associated with the Pakistan situation, the figures for that country should be deleted from Tables I and II of the GAO report (they are removed from Tables I-AID and II-AID) and reported and analyzed separately. The same can be said for the figures for Vietnam for similar reasons.

(g) GAO bases its analysis of AID's loan program on Section 201(b) of the Foreign Assistance Act of 1961, as amended. That Section applies only to development loans, as apart from supporting assistance loans. The requirements for making these two types of loans are quite different. Development loans require a positive determination by AID of repayment capacity, whereas supporting assistance loans require less rigorous determination of creditworthiness. Yet GAO has lumped them together in its presentation of problem loans. We have accordingly adjusted Tables I-AID and II-AID to exclude supporting assistance loans.

(h) We believe that GAO's conclusion that AID has made loans to countries it knew or should have known lacked the capacity to repay (based on commercial standards) is not supported by the data and/or analysis in the report. In our view, this conclusion does not reflect an in-depth understanding of the Agency's

(See GAO note 6.)

operations. As a practical matter, there is no commercial loan product that is sufficiently similar to the long-term loans that characterize AID lending; this is particularly true of the long grace period provided. There is thus no directly comparable commercial standard to use for comparative purposes. As a rule, most countries to which AID lends are not candidates for private market long-term loans because on a relative basis they cannot compete in terms of creditworthiness. Their economies are usually in an early stage of development and their foreign exchange earnings are often characterized by a greater degree of variability than the private long-term market is willing to accept or assess--often a reflection of the dependence on a single or a few primary commodities.

The proceeds of AID loans, while for productive purposes in the aggregate sense, may not be associated directly with increases in foreign exchange earnings in the short or medium term; thus the need exists for long grace periods to allow the economy rather than the specific project to generate the capability of repaying hard currency loans. It is this distinction (reliance on the economy rather than the project exclusively) that gives rise to a dimension of uncertainty associated with AID loans that is not present to the same degree in private market financial transactions. Over this longer perspective then, it should not appear unusual that the necessity to reschedule loans, both to extend or reduce maturities and payment contours, should occur. The FAA of 1961, as amended, specifically recognizes this need in Sections 635(a) and 635(g)(2) of that Act.

In this context, it is important to emphasize that AID's creditworthiness appraisal covers a much longer time path than in the case of private lending and of necessity covers a much broader range of factors and more complex issues that require more extensive subjective judgmental conclusions than is the case of operations of the private capital market. Moreover, the overall long-term goals to be served by AID lending in the view of the Agency loom somewhat more importantly than in the case of commercial arrangements, where purpose is a factor, but one of significantly less importance than profit realization and the intact return of capital. For these reasons, the strict application of commercial standards is inappropriate in an evaluation of the Agency's development loan program and loan portfolio.

> A set of more realistic criteria would have as its focus (a) the degree to which the Agency achieved or made substantial progress in reaching the long-term development goals of the loan programs, and (b) whether the Agency's continuous loan supervision and administration provided adequate safeguards to assure the complete return of the financial resources extended within the confines of sound financial management.

GAO points out that since 1971 AID has changed its pattern of lending, shifting markedly from loans repayable in local currency to dollar repayable loans. It concludes that this changed pattern of lending, on the basis of its compilation of the data, could result in some countries that now have relatively minor loan problems becoming countries with major loan problems. As a part of the evidence for this conclusion, GAO presents data on countries to which AID has continued to lend, following reschedulings, citing AID's experience in India, Pakistan, Chile, and Egypt. AID takes exception to the use of India as an illustrative example of the Agency's long-term collection problems. (See GAO note 10.)

AID's data reveal that between 1968-1975 the U.S. Government rescheduled $138 million in AID debt owed by India. During that time period, however, India paid over $700 million on debt to the U.S. Government, of which $235 million related to FAA country program loans. Moreover, India is expected to service fully the $103 million in AID debt scheduled for FY 1977 repayment. To use India as an example of long-term collection problems, given its overall good performance under reschedulings that have taken place as part of multilateral exercises, ignores a major purpose of these reschedulings--the restoration of the debtor's creditworthiness in such a manner as to maximize prospects for eventual repayment of all debt, while at the same time minimizing the impact on economic development. Chile and Pakistan have also posted good performances under their restructured debts. AID believes that to deny additional assistance to a country solely because it proved necessary in some previous period to provide debt relief could adversely affect its development and ability to earn foreign exchange, and thereby jeopardize not only outstanding debt due to AID but the country's total outstanding debt obligations as well.

The Agency's procedures for handling loan reschedulings are set forth in M.O. 1055.3. Under these regulations Regional Assistant Administrators must submit for the approval of the Administrator recommendations for loan reschedulings. Such recommendations must be supported by analyses of relevant factors and circumstances affecting the borrower's present and prospective financial condition in relation to the requirements for servicing the loan under the payment schedule originally provided in the loan agreement and the proposed rescheduling, respectively. It is only after the review and evaluation of these recommendations that the Administrator makes a decision. In cases where the problem relates to a deterioration in a country's overall financial condition, multilateral negotiations are usually required and the proposed rescheduling is coordinated by the National Advisory Council on International Monetary and Financial Policies, and reported to Congress prior to implementation. It is AID's position that reschedulings that are authorized as a result of the application of these procedures and this process in fact enhance the ultimate collectibility of such loans in a more orderly manner, even though some change in the final maturities might result. Such reschedulings often allow a country to maintain economic growth, instead of inducing a depressive effect which a demand for payment according to original agreements would likely bring about.

Attachments:

Tab 1 - Table I-AID
Tab 2 - Notes for Table I-AID
Tab 3 - Table II-AID

PPC/PDA:N. Riden/C. Michalopoulos:ec:6/30/77, X21646

Clearance:
AA/SER:DMacDonald (draft)
AA/LA:AValdez (draft)
AA/ASIA:JSullivan (draft)
AA/AFR:GButcher (draft)
AA/NE:JWheeler (draft)
AA/PPC:AShakow (draft)
AA/IIA:TVan Dyk (draft)
AA/LEG:JLewis (draft)
GC:MBall (draft)
GC:EGreenberg (draft)
GC:KKammerer (draft)
STATE/EB:RRyan (draft)
TREAS/ODNF:JCanner (draft)

Information:
DAA/SER:JOwens
LA/OPNS:PRomano
NE/PMC:EVinson
AFR/DR:JWithers
FM/LD:TPanagos
PPC/DPRE:NCohen
PPC/PDA/FA:DRedding
ASIA/PD:TMcCabe
AG/GAO-IGA:AMills

APPENDIX I

TABLE I (REVISED BY AID)

COLLECTION PROBLEMS WITH DOLLAR-REPAYBLE LOANS
JUNE 30, 1975

	Total Dollar-Repayable Loans	Problem Loan Balances	Debt Relief Provided	Delinquent Payments
	(Millions)			Over 90 Days
Countries requiring debt relief on all their loans:				
India 1/ 19/	$ 2,874.3	$	$ 193.1	$
Pakistan 1/	1,490.3		44.1	
Chile 1/	508.5		37.8	
Egypt 2/ 19/	60.3		1.6	
Total	$ 4,933.4		$ 298.0 9/	
Eight countries in which some loans required rescheduling:				
Yugoslavia 4/	$ 7.5	$	$ 2.2	$
Sudan 5/				
Israel 6/				
Paraguay 7/				
Turkey 8/ 19/	860.1		57.3	
Bolivia 9/				
Nicaragua 7/				
Indonesia 10/ 19/	382.2		11.1	
Total	$ 1,249.8	$	$ 70.6	$
Nine countries in which relief was limited to capitalized interest:				
Guinea 11/	$ 7.2	$ 5.1	$	$ .8
Botswana 12/				
Mexico 12/				
Ghana 12/				
Panama 12/				
Brazil 13/				
Peru 13/				
Philippines 7/				
Tunisia 7/				
Total	$ 7.2	$ 5.1	$	$ .8
Twelve countries whose problem was limited to delinquencies:				
Vietnam 14/	$	$	$	$
Andean Dev. Corp. 7/				
Dahomey 15/				
Venezuela 15/				
Mali 15/				
Somalia 15/				
Spain 16/				
Uganda 17/	10.3			
Dominican Rep. 15/				
Colombia 15/				
Costa Rica 5/				
Syria 18/ 19/	.4	.4		
Total	$ 10.7	$ .4	$	$
Grand Total	$ 6,201.1	$ 5.5	$ 368.6	$ .8

Notes for Table I-AID

1/ India, Pakistan, and Chile have had debt relief, but within the concert of such reschedulings, current billings have been paid on time.

2/ Egypt has had debt relief and has been late on some billing, but is not in the strict sense of the word a problem loan. There is no reason to assume that the country has any intent to repudiate outstanding balances.

(See GAO note 11.)

4/ Yugoslavia has had debt relief, but current billings have been paid on time.

5/ Loans are to private borrowers within the country--not the govern-
6/ ment.

7/ Excluded because debt relief was for the primary private borrower(s), not the country(s).

8/ Turkey has had debt relief but current billings have been paid on time.

9/ There was a change in the amortization of the original loan, 511-A-002. This change was effected primarily to have principal payments fall due at the same time as the add-on loan 511-L-002, El Alto Airport. This undertaking was for administrative convenience.

10/ Indonesia has had debt relief but current billings have been paid on time.

11/ We have corrected GAO's figures and agree that this is a problem balance.

12/ Provision for capitalization of interest provided for in original loan agreement terms.

13/ Excluded because capitalized interest was on the first step borrower, not the second step (the Governments of Brazil and Peru).

14/ Excluded as representing special circumstances (war).

15/ Under 90 days or slight underpayment.

16/ Was not delinquent as of 6/30/75.

17/ On 3/14/77 Uganda paid all delinquent amounts. The account is now current.

18/ The Syrian collection problem at 6/30/75 involved Loan 276-H-008, Grain Storage, for $427,000. The delinquent amount of $40,348.67 was paid on 8/30/76 after agreed minutes signed 3/2/76.

19/ Adjusted for Supporting Assistance Loans and Special Funds:

	Cumulative Loan Agreements 6/30/76	Timing of Loan Agreements By 6/30/71	Timing of Loan Agreements After 6/30/71
	(Millions)		
India	1.9	1.9	
Egypt	377.3	29.6	347.7
Syria	14.5		14.5
Indonesia	29.4	29.4	
Turkey	10.3	10.3	
Middle East Special Fund:			
Syria	78.0		78.0

TABLE II (REVISED BY AID)

ALL DOLLAR-REPAYBLE LENDING TO SELECT COUNTRIES
JUNE 30, 1976

	Cumulative Loan Agreements 6/30/76	Timing of Loan Agreements By 6/30/71	Timing of Loan Agreements After 6/30/71	
	(Millions)			
India	$ 2,936.1	$2,860.4	$ 75.7	
Pakistan	1,543.0	1,308.7 1/	234.3 1/	
Chile	571.7	531.8	39.9	
Egypt	418.2	69.0	349.2	
Vietnam	43.1		43.1	(See GAO
Syria	93.6	1.1	92.5	note 12.)
Andean Dev. Corp.	15.0		15.0	
Yugoslavia	18.8 1/	18.8	-0- 1/	
Dahomey	23.7	.8	22.9 1/	
Guinea	7.6	7.6		
Venezuela	55.0	55.0		(See GAO
Mali	12.2	3.2	9.0	note 13.)
Somalia	14.0	17.8	(3.8)	
Botswana	23.2 1/	6.5	16.7 1/	
Sudan	24.5	13.5	11.0	
Mexico	77.2	77.2		
Ghana	159.2	125.1	34.1	
Spain	65.7	65.7		
Uganda	11.3	11.3		
Panama	162.4	106.7	55.7	
Israel	398.1	173.4	224.7	
Paraguay	47.8	35.6	12.2	
Turkey	937.3	876.0	61.3	
Dominican Republic	185.3	164.0	21.3	
Indonesia	583.9	226.5	357.4	
Bolivia	240.4	109.5	130.9	
Nicaragua	153.5	65.1	88.4	
Brazil	1,210.0	1,084.7	125.3	
Peru	126.0	97.6	28.4	
Philippines	160.4	23.2	137.2	
Tunisia	159.6	150.7	8.9	
Colombia	8 833.2	621.8	211.4	
Costa Rica	77.5	64.1	13.4	
Corrected Total	$11,388.5	$8,972.4	$2,416.1	

1/ Corrected to remove errors and to make consistent with AID loan accounts.

GAO NOTES

1. We have expressed the view in the past and we continue to believe that debt relief is the equivalent of furnishing additional assistance. In this report, however, our position does not depend on describing debt relief in these terms.

2. Our recommendation to permit the continued use of deferred payments, provided that a minimum rate of interest is charged, is in addition to our principal recommendations involving the use of debt relief loans. The recommendation, therefore, adds rather than denies flexibility because it offers an alternative way to provide debt relief which would not adversely affect new lending. There would, of course, be no requirement that this alternative choice be made.

3. We did not advocate any change to provisions of the Foreign Assistance Act of 1974.

4. We advocated making debt relief loans from available loan funds rather than from such unavailable funds as dollar loan receipts required to be deposited into the Treasury as miscellaneous receipts. We define available loan funds as funds appropriated for making loans but not yet obligated.

5. We advocated that AID be required to establish maximum lending levels, meaning those applicable to AID's additional lending rather than to the lending of others. It is always possible for AID to establish its own maximum levels.

6. We did not criticize AID for not basing its lending on commercial standards. We did recognize that AID has been required to make loans to countries which, based on commercial standards, were not good credit risks--a fact not only confirmed by AID, but also emphasized.

7. The 30-day basis for classifying a loan as delinquent was established by AID rather than by us, and not only for internal reporting, but also for external reporting on its financial statements until the practice was changed for fiscal year 1976. Moreover, AID's substitution of a 90-day basis in its comments on this report did not eliminate a large part of the delinquencies. Most of the elimination consisted of Pakistan's delinquencies, which AID eliminated because of Bangladesh's change of government rather than the 90- versus 30-day issue.

8. Repayment of dollar-repayable loans made to private entities also depends on the financial condition of the country, even when the host government has no contractual responsibility, because all such repayments require that the country have sufficient foreign exchange.

9. We neither reviewed nor questioned AID's judgment in providing for interest to be capitalized at the time loans were negotiated.

10. Most of India's loan repayments applied to loans repayable in rupees rather than dollars.

11. We have eliminated this material because the matters referred to are no longer an issue.

12. AID's version of lending to Pakistan is misleading because it shows less lending after June 30, 1971, than actually occurred. AID's lesser amount is attributable primarily to the transfer during that period of loans from Pakistan to Bangladesh, which requires an adjustment to its records to avoid distortion.

13. AID has erroneously shown lending to Botswana between June 30, 1971, and June 30, 1976, as $16.7 million. The correct amount is $17.7 million, which consists of the following loans:

	(millions)
690-H-001	$12.6
690-H-001A	4.0
698-H-009	0.1
690-T-008	1.0
Total	$17.7

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

INTERNATIONAL DIVISION

JUN 10 1977

The Honorable John F. Owens
Acting Assistant Administrator
Bureau for Program and Management Services
Agency for International Development

Dear Mr. Owens:

During the course of our recent review of AID's Loan Program, we made a particular effort to assess the progress made in automating loan accounting operations. We were pleased to note that meaningful progress has been made. Not only has all loan accounting been converted but the implementation problems identified during our prior review have apparently been resolved. These changes have created an automated accounting system which differs significantly from the manual system that we approved in 1968.

Although additional refinements may still be needed, we believe that sufficient progress has been made to warrant full documentation of the automated system to replace the existing loan accounting manual. That manual, as well as our approval of it, is now out of date because it pertains to a system that no longer exists. The current system provides automated individual loan records, automated general ledger and reporting activities, direct access to loan data through a time sharing system, and facsimile transmission of data from New York to Washington, D. C. Obviously, a system of this complexity requires a well-conceived design and firm controls to ensure reliability, and we would like an opportunity to examine it in its entirety to discharge our responsibility for systems approval.

In this connection, we have noted that there continues to be a need for periodic internal financial audits of the Loan Program and for regularly recurring independent tests of source data and established procedures. Since the Office of the Auditor General was established in 1969, the only financial audit made of the program was of the fiscal year 1972 financial statements. Also, although the current loan accounting manual has always provided for semiannual internal check procedures to verify the validity of loan data introduced into and produced by the system, such tests were performed by AID for the first time in 1975.

We regard adequate internal audit activities as an indispensable part of the controls that must be incorporated in all accounting systems. Without them, management cannot ensure that its accountability responsibilities are being effectively discharged.

Accordingly, we recommend that AID (1) reduce pertinent aspects of the current automated accounting system to a written description of procedures and controls, including provisions for periodic internal financial audits and independent tests of source data and established procedures, and (2) submit the documented system to the Comptroller General for approval.

Sincerely yours,

Frank M. Zappacosta

Frank M. Zappacosta
Assistant Director

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

6 JUL 1977

Mr. Frank M. Zappacosta
Assistant Director
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Zappacosta:

I discussed your letter of June 10, 1977 with our Controller, Mr. Tom Blacka. He indicated that the Accounting Systems Division, SER/FM, is surveying the workload requirements to update currently approved Agency accounting systems and submit Agency systems not yet approved to the GAO. This survey is expected to be completed around the end of September. At that time we will begin work on a system by system basis. As a result of your letter, we will give the update of the Loan Accounting System top priority. Mr. Bruce Birnberg, Chief of the AID Accounting Systems Division, will keep you advised of progress in this matter.

You mentioned the need for a financial audit of the Loan Program. For your information I am enclosing a copy of the report covering the latest audit performed by the Office of the Auditor General. This audit covered the period ending September 30, 1976 and contains no recommendations.

Sincerely,

John F. Owens
Acting Assistant Administrator
Bureau for Program and Management Services

Enclosure:
AID Audit Report No. 77-140

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Memorandum

TO : SER/FM, Mr. Thomas R. Blacka DATE: MAY 23 1977

FROM : AAG/W, Rolland J. Deschambault

SUBJECT: Review of AID/W Accountability of Loan Program
Audit Report No. 77-148

We have examined the Agency's financial management of its development loan portfolio. These functions are carried out by the Loan Management Division (LMD) of the Office of Financial Management (SER/FM). The purpose of our review was to determine if (a) centralized and subsidiary accounting records are adequately maintained, and (b) loan servicing procedures are efficient.

We have concluded that the centralized and subsidiary accounting records are adequately maintained, and that loan servicing procedures are efficient. Two isolated conversion errors found in the yearly report, "Status of Loan Agreements" (W-224), were brought to the attention of officials concerned. Corrective action was taken and no recommendation is necessary.

We did not confirm the loan balances shown in the LMD's records with the borrowers because experience has shown that most borrowers do not respond to verifications. As an alternative to confirmation, we verified the authenticity of the loans by selective examination of original loan documentation in the archive files.

As of September 30, 1976, AID administered and serviced a loan portfolio of 2,242 loans with disbursements of approximately $21.8 billion. This constitutes an increase of 278 loans, at a disbursement value of $2.6 million, over the status of loan agreements shown as of June 30, 1972.

Audit Report No. 74-002, dated August 24, 1973 covered the most recent review by this office of SER/FM loan management activities. The report contained no recommendations.

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

PRINCIPAL OFFICIALS RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
ADMINISTRATOR:		
John J. Gilligan	Mar. 1977	Present
Robert H. Nooter (acting)	Mar. 1977	Mar. 1977
John E. Murphy (acting)	Jan. 1977	Mar. 1977
Daniel Parker	Oct. 1973	Jan. 1977
Maurice J. Williams (acting)	Oct. 1973	Oct. 1973
John A. Hannah	Apr. 1969	Sept. 1973
DEPUTY ADMINISTRATOR:		
Robert H. Nooter	July 1977	Present
Robert H. Nooter (acting)	Mar. 1977	July 1977
John E. Murphy	May 1974	Mar. 1977
Maurice J. Williams	June 1970	Apr. 1974
ASSISTANT ADMINISTRATOR FOR PROGRAM AND MANAGEMENT SERVICES (note a):		
Donald G. MacDonald	June 1977	Present
John F. Owens (acting)	Mar. 1977	June 1977
Charles A. Mann	May 1975	Feb. 1977
William L. Parks (acting)	Nov. 1974	May 1975
Willard H. Meinecke (acting)	Jan. 1974	Oct. 1974
James F. Campbell	Aug. 1971	Jan. 1974
James F. Campbell (acting)	July 1971	Aug. 1971
Lane Duinell	June 1969	July 1971
CONTROLLER:		
Douglas Stafford	Oct. 1977	Present
Thomas Blacka	Mar. 1975	Oct. 1977
Charles J. Christian (acting)	Jan. 1975	Mar. 1975
Sidney L. Brown	June 1973	Jan. 1975
Sidney L. Brown (acting)	Apr. 1973	June 1973
Charles F. Flinner	Sept. 1964	Mar. 1973

APPENDIX IV

AUDITOR GENERAL:		
Herbert L. Beckington	Sept. 1977	Present
Harry C. Cromer	June 1974	Aug. 1977
Max Medley (acting)	Feb. 1974	June 1974
John L. Ganley	Aug. 1973	Feb. 1974
David Curtin (acting)	Aug. 1972	Aug. 1973
Edward F. Tennant (note b)	June 1972	July 1972
L. W. Acker (acting)	Feb. 1972	June 1972
Edward F. Tennant (note b)	June 1969	Feb. 1972

a/Prior to February 1972, this position was the assistant administrator for administration.

b/On sick leave February 1972 through June 6, 1972.

(48677)