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Report to Congressional Committees

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FOOD AID

Competing Goals and Requirements Hinder Title I Program Results

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Chairman
The Honorable Patrick J. Leahy
Ranking Minority Member
Committee on Agriculture,
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United States Senate

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The Honorable Benjamin Gilman
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The Honorable Lee H. Hamilton
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Committee on International
Relations
House of Representatives

The 1990 Food, Agriculture, Conservation and Trade Act (P.L. 101-624) gave the U.S. Department of Agriculture responsibility for managing agricultural commodity assistance to developing countries provided under title I (Trade and Development Assistance). The 1990 act also required GAO to evaluate the title I program.

This report contains the results of our evaluation and discusses the impact of title I assistance on broad-based, sustainable development and long-term market development for U.S. agricultural commodities in recipient countries. In addition, the report discusses the impact of the 1990 act on certain elements of title I program management.

As arranged with the Committees, we are sending copies of this report to the Secretaries of the Departments of Agriculture and State; the Director, Office of Management and Budget; the Administrator of the Agency for International Development; and other congressional committees. Copies will also be made available to other interested parties upon request.

Please contact me at (202) 512-5889 if you have any questions concerning this report. Other major contributors to this report are listed in appendix IV.

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Executive Summary

Purpose

Over the past 40 years, the United States has allocated more than $88 billion (1993 dollars) in food assistance to developing countries under title I of the 1954 Agricultural Trade Development and Assistance Act (Public Law 83-480, 1954), commonly referred to as P.L. 480. Under the title I program, which is administered by the U.S. Department of Agriculture (USDA), U.S. agricultural commodities are sold on long-term credit terms at below market-rate interest. Although the United States remains a world leader in providing food aid, title I's share of both U.S. food aid and overall U.S. agricultural exports has declined dramatically since the program's inception.

The 1990 Food, Agriculture, Conservation and Trade Act (the 1990 act) most recently amended P.L. 480 and required GAO to evaluate several aspects of the title I program. For this review, GAO assessed the impact of title I assistance on (1) broad-based, sustainable economic development in recipient countries and (2) long-term market development for U.S. agricultural goods in those countries. GAO also reviewed the effect of the 1990 act on restructuring title I program management and its ability to accomplish the program's sustainable economic development and market development objectives.

Background

P.L. 480 first established the legal framework for U.S. food aid in 1954. Since then, numerous amendments, including the most recent amendments in the 1990 act, have revised the goals and the provisions of the food aid programs administered under P.L. 480. The P.L. 480 program includes three titles. Title I, the concern of this report, authorizes the sale of U.S. agricultural commodities to developing countries using concessional credit provided by the U.S. government. The terms are concessional because they include a maximum 30-year period for repayment, with a maximum 7-year grace period and interest rates below prevailing market rates. In comparison, credit guaranteed under another USDA program offers no grace period and requires a shorter repayment period (i.e., from 6 months to 3 years) with interest rates set at prevailing market rates. Titles II and III are administered by the Agency for International Development (AID) and provide food aid grants and donations in response to emergencies and in support of economic development.[1]

[1]The 1990 act also required GAO to evaluate the title II and III programs. GAO reports addressing these programs are: Food Aid: Management Improvements Are Needed to Achieve Program Objectives (GAO/NSIAD-93-168, July 23, 1993) and Foreign Aid: Actions Taken to Improve Food Aid Management (GAO/NSIAD-95-74, Mar. 23, 1995).

Currently the goal of the P.L. 480 legislation, as amended, including title I, is to promote U.S. foreign policy by enhancing the food security[2] of developing countries through the use of agricultural commodities and local currencies to (1) combat world hunger and malnutrition and their causes; (2) promote sustainable economic development, including agricultural development; (3) expand international trade; (4) develop and expand export markets for U.S. agricultural commodities; and (5) encourage the growth of private enterprise and democratic participation in developing countries. For this report, GAO considered these five ways to promote U.S. foreign policy by enhancing food security as the "objectives" of the 1990 act.

The importance of title I, domestically and internationally, has declined significantly since the program's inception. When P.L. 480 was first enacted in 1954, its objectives were to move large amounts of U.S. surplus agricultural commodities and serve U.S. foreign policy objectives. During the 1950s, title I aid represented over 80 percent of U.S. food aid and approximately 20 percent of the total value of U.S. agricultural exports. By the late 1980s, increased food aid donations from other countries and the establishment of new USDA export assistance programs reduced the importance of title I aid as a humanitarian, surplus disposal, and export assistance program. Title I's share of U.S. food aid declined to 14 percent in fiscal year 1993, and its share of U.S. agricultural exports dropped to less than 1 percent in fiscal year 1993.

As part of its responsibilities for managing the title I program, USDA proposes the amount of title I assistance to be allocated to recipient countries and negotiates and monitors title I agreements with recipient governments. As part of the title I agreement, recipients must state in writing how they will integrate the benefits of the title I assistance into their countries' overall development plans. The concessional nature of the title I loan (i.e., long grace periods and interest rates below prevailing market rates) allows a developing country to conserve its scarce foreign exchange when importing U.S. agricultural commodities. In fiscal year 1993, 22 countries received about $333 million, in allocations ranging from $5 million to $40 million, in title I loans from the United States.

As part of this review, GAO conducted audit work at USDA, AID, and the Department of State in Washington, D.C., and their missions in seven

[2]The 1990 act defines food security as "access by all people at all times to sufficient food and nutrition for a healthy and productive life." GAO reported in July 1993 that AID had not developed a strategy for implementing food aid programs to enhance food security (see GAO/NSIAD-93-168). AID is currently in the process of developing such a strategy.

countries that received title I assistance in fiscal year 1992 (Egypt, El Salvador, Guatemala, Jamaica, Morocco, the Philippines, and Sri Lanka). While overseas, GAO also interviewed foreign government officials and representatives from U.S. commodity groups.

Results in Brief

Through the literature reviewed and interviews conducted with U.S. and foreign government officials, GAO found that the primary means by which title I assistance could contribute to broad-based, sustainable development in recipient countries would be by helping countries save foreign exchange that then could be used to invest in projects that promote long-term economic development. These savings should occur when title I assistance displaces commercial sales, i.e., when countries purchase agricultural goods through the title I concessional sales program instead of purchasing them through commercial channels.

GAO's analysis of title I assistance to 15 recipients in fiscal year 1991 indicated that even if the maximum possible foreign exchange savings had occurred, title I's contribution to sustainable economic development would still have been minimal because of the program's small size relative to each country's overall development needs. On the other hand, GAO's research also indicated that title I assistance could be making a meaningful, short-term contribution to the food supply in some recipient countries. While a short-term increase in the supply of food may help relieve hunger, it is not sufficient for achieving food security because food security is a long-term, broad-based economic development issue. The program's ability to achieve its sustainable economic development goals through foreign exchange savings is also hampered by legislatively mandated requirements.

Title I's importance to helping develop long-term U.S. agricultural markets has not been demonstrated. To the extent that title I contributes to broad-based sustainable development and helps expand a country's domestic economy, the program may lead to an increase in the volume of U.S. agricultural exports over time. Title I assistance may also contribute to market development by increasing U.S. market share if the program creates preferences for U.S. products that persist after title I sales have been discontinued. However, none of the many studies GAO reviewed was able to establish a link between title I assistance and the establishment of a long-term commercial market share for U.S. agricultural products over the 40-year history of the title I program. GAO also found that achievement of the program's market development objective is hindered by several legislatively mandated program requirements, including the requirements to carry title I cargo on U.S. flag ships,[3] reexport restrictions on P.L. 480 food aid that impose constraints on recipients, and commodity eligibility rules.

The 1990 act streamlined title I program management by abolishing the cumbersome interagency administration of the program and assigning the management of the title I program to USDA. In addition, the 1990 act simplified title I program implementation overseas by eliminating the requirement that recipients undertake specific and measurable economic development activities as part of the title I agreements and requiring only general development statements. Despite these changes, the revised structure of the title I program did not improve the program's ability to accomplish either its sustainable economic development or market development objectives of the 1990 act. USDA must still cope with the program's multiple and sometimes competing goals and objectives and various program requirements that are difficult to integrate into an effective program strategy.

Principal Findings

Title I Makes Minimal Contribution to Long-Term Economic Development in Recipient Countries

If 100 percent of a country's title I assistance were to displace commercial imports, the country would gain the maximum amount of foreign exchange savings possible. If, instead, a country's title I imports were "additional" to the level of commercial imports a country would have imported, then foreign exchange savings would not occur. GAO's evaluation of two separate literature reviews that together examined over 100 studies on food aid's impact on commercial trade and GAO's own analysis of wheat import statistics for 5 (El Salvador, Guatemala, Jamaica, Morocco, and Sri Lanka) of the 7 countries visited, supported the view that a country's imports of agricultural commodities under food aid displaced commercial imports. However, the degree of displacement varied considerably among countries. In GAO's case-study countries, Guatemala and El Salvador provided the clearest examples of title I aid displacing commercial imports. For any country, GAO cannot define with certainty the extent to which title I assistance displaced commercial imports because many other factors affect a country's import and production of particular food products.

[3] See Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, Sept. 29, 1994).

GAO's analysis indicated that even if the maximum possible amount of foreign exchange savings had occurred, title I's potential contribution to broad-based, sustainable development would have been minimal because the dollar value of the program was small relative to each recipient's overall development needs. Data were available for 14 of 15 title I recipients in fiscal year 1991.[4] In all of these countries, the dollar value of title I assistance was 4 percent or less, and generally much less, of the dollar value of the countries' total imports. For eight of these recipients (the Congo, Costa Rica, the Côte d'Ivoire, Guatemala, Morocco, the Philippines, Sri Lanka, and Tunisia), title I represented 1 percent or less of the dollar value of the countries' total imports. The GAO analysis looked at title I as a percent of a country's imports because imports represent at least some of those goods the country finds necessary for its development and must purchase with its scarce foreign exchange.

Although GAO's analysis of potential foreign exchange savings indicated that title I's contribution to broad-based, sustainable development was limited, title I assistance could have contributed significantly in some cases to helping a country meet its short-term food import requirements. Food import data were available for 12 of the 15 recipients in fiscal year 1991.[5] For five of these countries (Costa Rica, Egypt, Guatemala, Jamaica, and Sierra Leone), title I aid amounted to 7 to 13 percent of the country's food imports. In addition, title I assistance represented 24.7 percent of the value of El Salvador's total food imports. GAO's analysis also indicated that title I assistance could have enabled 5 of the 15 recipients (the Congo, the Côte d'Ivoire, Guyana, Jamaica, and Sierra Leone) to acquire food that they otherwise would not have been able to purchase, because these 5 countries were experiencing a critical shortage of foreign exchange.[6] While increasing the supply of food may help relieve hunger and malnutrition in the short term, achieving food security requires long-term solutions to the problems of food availability, accessibility, and utilization in developing countries.

The title I program also contains legislative requirements that impede the program's ability to achieve its sustainable economic development objective through foreign exchange savings. Food aid provides foreign

[4]The 15 title I recipients in fiscal year 1991 were the Congo, Costa Rica, the Côte d'Ivoire, Egypt, El Salvador, Guatemala, Guyana, Jamaica, Morocco, the Philippines, Sierra Leone, Sri Lanka, Tunisia, Yemen, and Zaire. Import data were available for all the recipients except Yemen.

[5]Food import data were not available for Guyana, Yemen, and Zaire.

[6]GAO defined those countries experiencing a critical shortage of foreign exchange as those countries whose nongold international reserves cover less than 1 month's worth of imports.

exchange savings when it displaces commercial imports. However the P.L. 480 legislation includes requirements that are designed to ensure that food aid is in addition to normal commercial imports and therefore does not lead to displacement of commercial imports. Section 403(e) requires that reasonable precautions be taken to ensure that the sale of agricultural commodities will not unduly disrupt normal patterns of commercial trade with foreign countries, and section 403(h) requires that reasonable precautions be taken to avoid displacing U.S. agricultural commodity sales. Thus, these requirements hamper the program's ability to provide foreign exchange savings, which would otherwise occur through displacement of commercial imports.

These requirements also interfere with another legislative requirement called the Bellmon determination, which is designed to ensure that food aid does not disrupt domestic production. The Bellmon determination stipulates, in part, that the distribution of food aid in the recipient country will not result in substantial disincentive to or interferences with domestic production or marketing in that country. In economic terms, this generally requires that food aid not increase the total supply of food, as the increase in the food supply may create disincentives to local production by putting downward pressure on local agricultural prices. Consequently, it may at times not be possible to satisfy the Bellmon determination and simultaneously ensure that the food aid is in addition to commercial imports.

Title I's Importance to Long-Term Market Development Has Not Been Demonstrated

USDA officials in many of the countries GAO visited said that promoting broad-based, sustainable development is the key way in which title I could contribute to market development in those countries. However, many factors besides title I assistance influence a country's economic development as well as its decision to import from the United States. As a result, it is difficult to demonstrate a link between title I assistance, economic development, and subsequent market development. Despite the longevity of the title I program and claims by USDA officials, GAO did not find any studies, by USDA or other researchers, that established a link between food aid and long-term commercial market share for U.S. agricultural products. Nor did any studies address the issue of whether former title I recipients were more likely to be greater importers of U.S. agricultural products than countries that never received title I assistance.

South Korea is frequently cited by USDA and others as the best example of a former title I recipient's becoming a market development success.

However, GAO's research did not identify any strong evidence to support a direct tie between title I aid and the development of commercial markets for U.S. agricultural goods in South Korea. Instead, GAO's research suggests that the increase in absolute value of U.S. farm exports to the South Korean market was the result of a number of complex macroeconomic, political, and social factors in conjunction with substantial foreign aid from the United States, including title I assistance, and other donors. According to a 1985 AID study, South Korea received approximately $26 billion (nominal dollars) in international assistance between 1943 and 1983, much of it in grant or concessional forms. According to the U.S. Overseas Loans and Grants statistical annex, for fiscal years 1946 to 1992 the United States gave South Korea almost $15 billion (nominal dollars) in economic and military assistance. This amount included $1.6 billion (nominal dollars) in title I assistance for fiscal years 1956 to 1981.

While economic growth influenced South Korea's ability to import, other factors, such as technical assistance and commodity price and quality, also played a role in South Korea's decisions to import from the United States and other countries. As a result of this complex combination of factors, it is very difficult to attribute market development results to any one factor in isolation from other possible causal factors.

Title I assistance also could contribute to market development if the program created preferences for U.S. products that remained after the title I concessional sales have been discontinued, resulting in greater U.S. market share or sales. However, it is difficult to achieve market development success when title I commodities, which are typically bulk and semiprocessed agricultural goods,[7] can be easily replaced by, or substituted with, products at a lower price from other nations. According to USDA's long-term agricultural trade strategy, the prices of U.S. bulk and semiprocessed commodities in comparison to those of competitor nations are a primary determinant of U.S. sales in overseas markets.

USDA told GAO that title I assistance serves as a market maintenance tool. In the short term, the program can help the U.S. producers of some agricultural products (1) move commodities, albeit on a concessional basis, and (2) possibly keep a market presence that they might not have had otherwise. However, GAO does not consider this situation to be long-term market development unless market presence remains after the assistance ends. In several of GAO's case-study countries, the concessional

[7]Bulk commodities are essentially raw agricultural commodities, such as grains and oilseeds; and examples of semiprocessed commodities include wheat flour and vegetable oil.

sales did not lead to commercial sales unless the United States offered competitive prices. For example, although the title I program once helped the United States to maintain a market presence for U.S. wheat exports to Jamaica and vegetable oil to Guatemala, the United States lost its share of these markets to competitor countries offering similar commodities at lower prices.

Title I may help lay the groundwork for market development by exposing consumers to U.S. commodities and familiarizing country traders with U.S. trade practices, according to USDA officials. However, several legislatively mandated program requirements hinder the program's ability to achieve its market development objectives. For example, "cargo preference" provisions requiring that 75 percent of food aid tonnage be shipped on U.S. flag ships can impede market development efforts. Because of these provisions, some recipients were forced to purchase a different variety of the commodity than planned: their purchasing decisions were driven by the availability of U.S. flag ships rather than by the availability of the commodity. For instance, both El Salvador and Guatemala were interested in purchasing western white wheat under the title I program in fiscal year 1993; however, they were forced to purchase different varieties of wheat because no U.S. flag vessels were obtainable from the West Coast where western white wheat is loaded for export.

Other program requirements discouraged potential importers from participating in the title I program because they severely restricted the recipient's ability to reexport title I goods after processing in-country, thus eliminating an important source of foreign exchange earnings. For example, Poland declined to import U.S. cotton in fiscal year 1991 and Latvia declined to import U.S. wheat in fiscal year 1994 under the title I program because of the program's reexport restrictions.

Program requirements also restrict the types of commodities eligible for promotion under the title I program to those considered in excess of domestic U.S. requirements and anticipated export opportunities.[8] Thus, the program supports a limited range of commodities without regard to recipient country preferences. In fiscal year 1993, 18 categories of commodities were eligible for export under the title I program, but commodities associated with only 6 of the categories were actually exported (i.e., wheat, rice, corn, vegetable oil, tallow, and soybean meal). Items offered but not exported under the title I program in fiscal year 1993

[8]This restriction may be waived if the Secretary of Agriculture determines that some part of the supply should be used to carry out urgent humanitarian purposes.

included cotton, wood, legumes (e.g., beans, peas, and lentils), wheat flour, Atlantic mackerel and dogfish, peanuts, nonfat dry milk, and raisins.

While USDA officials also told GAO that the title I program had helped the United States build trade relations with countries of Eastern Europe and the former Soviet Union, such a benefit may be overstated because several of these countries declined to participate in the program in fiscal year 1994 because of dissatisfaction with the program. For example, Bulgaria, Latvia, Poland, and Slovakia declined to import title I commodities either because of the high prices of title I commodities, restrictions on reexporting title I goods, and/or reluctance to assume additional debt, according to USDA and State Department officials we interviewed.

Program Management Has Improved, but Structural Barriers Remain

The 1990 act streamlined the administration of the title I program by eliminating the interagency body[9] that managed the title I program and assigning program responsibility to USDA. Once actively involved in administering the P.L. 480 programs, the role of the interagency body is now primarily limited to approving the country selection and program funding allocations proposed by USDA and AID. Officials GAO interviewed from USDA, AID, the Office of Management and Budget (OMB), and the State Department agree that the allocation process is much simpler and much less time consuming. In general, they believed that the revised function of the interagency body provides the necessary level of communication to coordinate program implementation.

USDA now does not have to negotiate specific and measurable development activities as part of the title I agreements. In part, the provisions were revised in recognition of the difficulties in negotiating and managing specific development activities that were supported by local currencies generated from the sale of title I commodities and owned by the recipient government. The 1990 legislation requires only that agreements contain a statement on how the country will integrate title I assistance into its overall development plans. In addition, the 1990 act does not require USDA to monitor a country's use of the local currencies and its progress on implementing its development plans.

Although program management has been streamlined, the 1990 act continues to support multiple and sometimes competing goals, objectives, and program requirements that are difficult to integrate into an effective

[9]The interagency body, called the Development Coordinating Committee, was composed of five agencies: USDA, AID, OMB, the State Department, and the U.S. Department of the Treasury.

program strategy. For example, legislative requirements impede the program's ability to achieve its sustainable development objective through foreign exchange savings, and cargo preference provisions impair the program's ability to accomplish its market development objective. In addition, the process for selecting countries for title I aid illustrates how the multiple objectives and goals of the program can sometimes work at cross purposes. For instance, the 1990 act requires USDA to give priority to countries that demonstrate the greatest need for food. However, the 1990 act also requires USDA to give priority to countries that demonstrate the potential to become commercial markets for competitively priced U.S. agricultural commodities. In addition, the State Department and AID have influenced the selection of title I recipients to pursue program objectives that more closely align with their primary missions: foreign policy and economic development, respectively. While these objectives can complement USDA's market development objective, they can also work at cross purposes to each other.

Recommendations

GAO is making no recommendations in this report.

Matters for Congressional Consideration

The size and importance of the P.L. 480 title I program have declined, and the program as currently structured does not significantly advance either the economic development or the market development objectives of the 1990 act. Thus, if Congress wants to continue to support these objectives and devote resources to achieving them, it may want to consider alternative approaches to doing so. Among the alternatives available to Congress are (1) refocusing the program on more specific economic and/or market development objectives by eliminating some of the multiple and competing requirements of the present framework; (2) restructuring the program to concentrate on a single objective, such as market development; (3) eliminating the program and transferring its resources to existing programs with compatible purposes; and (4) eliminating the program and replacing it with a new program or programs unencumbered with a history of competing objectives and outdated program requirements.

Agency Comments

GAO received comments on a draft of this report from USDA, OMB, and State Department officials. AID officials were offered the opportunity to provide comments but declined.

USDA, OMB, and State Department officials generally agreed with the information presented in the draft report. USDA and OMB agreed with the report's overall conclusion that multiple and competing objectives, along with certain program requirements, make it difficult to create and implement an effective title I program strategy. They agreed that the program, as currently structured, is unable to significantly advance either the sustainable economic development or market development objectives.

However, USDA disagreed with GAO's conclusion that the title I program has not demonstrated long-term market development success, stating that the program moves commodities and possibly keeps a market presence that the United States might not have had otherwise. GAO acknowledges the short-term contributions the title I program has made but does not believe that these benefits constitute long-term market development unless market presence remains after the assistance ends. The evidence presented in this report shows many examples where title I exports did not transform into commercial share. Nor did GAO find any studies that established a link between food aid and long-term commercial market share. USDA did not refute this evidence.

USDA and OMB officials did not agree with the original phrasing of GAO's matters for congressional consideration. Rather than eliminate the title I program and dedicate those resources to new or existing programs that individually address each of the program objectives, both USDA and OMB officials suggested restructuring the program to reduce the impact of multiple and competing objectives and improve the program's focus on market development. A complete discussion of USDA's and OMB's comments on the draft report appears in chapter 5.

Officials at the State Department also disagreed with GAO's overall conclusion and matters for congressional consideration. These officials said that the title I program as currently structured serves the multiple objectives reasonably well and does not need to be significantly restructured. The State Department's comments are discussed in chapter 5.

While GAO did not intend to imply in its matters for consideration that elimination of the program and use of its resources on new or existing programs to achieve the program's objectives was the only option for Congress to consider, it appears that the original wording led the agencies to believe GAO discounted other options. GAO has expanded and reworded its matters for congressional consideration to make it clear that there is a range of options available for Congress to consider.

Contents

Figures

Abbreviations

AID	Agency for International Development
BBS	broad-based, sustainable
COAP	Cottonseed Oil Assistance Program
DCC	Development Coordination Committee
DEIP	Dairy Export Incentive Program
EEP	Export Enhancement Program
ERS	Economic Research Service
FAO	Food and Agriculture Organization of the United Nations
FAPC	Food Aid Policy Council
GNP	gross national product
GSM	General Sales Manager program
IMF	International Monetary Fund
ODA	official development assistance
OMB	Office of Management and Budget
SDR	special drawing right
SOAP	Sunflowerseed Oil Assistance Program
UMR	usual marketing requirement
USDA	U.S. Department of Agriculture

Introduction

Background

International assistance using agricultural commodities, or food aid, has been an important part of U.S. agricultural and foreign policy since 1954. The Agricultural Trade Development and Assistance Act of 1954,[1] commonly known as Public Law (P.L.) 480, established the legal framework for U.S. food aid. The title I program is one of the three food aid programs authorized under P.L. 480 and is administered by the U.S. Department of Agriculture (USDA). Under the title I program, U.S. agricultural commodities are sold on long-term credit terms at below-market-rate interest to developing countries.

Numerous acts, including the most recent amendments in the 1990 Food, Agriculture, Conservation, and Trade Act[2] have revised the goals and provisions of P.L. 480. The P.L. 480 legislation and its amendments have always consisted of a composite of multiple and sometimes competing objectives. While the emphasis among the various P.L. 480 program objectives has shifted over time to reflect the changing needs of domestic farm policy and emerging foreign policy developments, the importance of the title I program as a U.S. export program and U.S. food aid program has diminished significantly since the program's inception in 1954. Title I commodity exports, which once represented a significant share of the total value of U.S. food aid and U.S. agricultural exports, have declined dramatically—representing about 14 percent of the total value of U.S. food aid and less than 1 percent of U.S. agricultural exports in fiscal year 1993.

For this review, we assessed the impact of title I assistance on (1) broad-based, sustainable development in recipient countries and (2) long-term market development for U.S. agricultural goods in those countries. In addition, we evaluated the effect of the 1990 act on the interagency coordination of the title I program, the content of development plans included as part of title I agreements with recipient countries, and the process for selecting and funding countries for title I assistance.

P.L. 480 Food Aid Consists of Three Programs

The P.L. 480 legislation, as amended, authorizes international food assistance under three different programs: government-to-government concessional loans that offer long-term, low-interest-rate credit (title I program); donations (title II program); and grants (title III program). Specifically, the three P.L. 480 programs are intended to provide the following types of assistance:

[1]Public Law 83-480, 1954.

[2]Public Law 101-624, 1990.

- Title I (trade and development assistance) authorizes concessional loans to developing countries that are short of foreign exchange and have difficulty meeting their food needs through commercial channels. The 1990 act gives priority to countries that are experiencing the greatest need for food, are undertaking economic development measures, and have demonstrated a potential to become commercial agricultural markets for U.S. exports. This type of food aid program is unique to the United States: no other country offers a food assistance program using long-term, low-interest concessional loans (i.e., repayment terms of 10 years or more and interest rates below prevailing market rates).
- Title II (emergency and private assistance programs) authorizes donations of agricultural commodities to provide emergency feeding programs and carry out activities to alleviate the causes of hunger, disease, and death.
- Title III (food for development) authorizes grants of agricultural commodities to be (1) used for food distribution programs and the development of food reserves or (2) sold and the proceeds used for economic development purposes. The 1990 act targets title III aid for least-developed countries. Before the 1990 legislative changes, the title III program forgave debt incurred under title I if the recipient governments used the local currencies generated from the sale of title I commodities to finance mutually agreed-upon development projects.

Under the 1990 act, before an agricultural commodity can be considered for export under any one of the P.L. 480 programs, the domestic supply of that commodity in the United States must be in excess of what is needed to meet domestic consumption requirements, provide adequate surplus for domestic reserves, and meet anticipated export opportunities. Each fiscal year, the Secretary of Agriculture announces a P.L. 480 "docket" that lists the types and amounts of agricultural commodities available for sale or donation under the three P.L. 480 programs. Agricultural commodities typically sold under the title I program are bulk commodities (i.e., wheat, rice, corn, and cotton) and semiprocessed commodities (i.e., vegetable oil, wheat flour, and tallow).

Commodities typically donated under title II and III assistance include those exported under the title I program as well as legumes (e.g., beans, peas, and lentils) and soyproducts. According to officials from USDA, several commodities that are regularly on the P.L. 480 docket represent planned production for export rather than an accidental byproduct of U.S. farmers' overproduction during a year. For example, USDA considers the P.L. 480 programs at the outset of the fiscal year when it sets production goals and establishes acreage reduction programs to remove farm land from production for price-supported crops, such as wheat, corn, rice, and cotton.

The total volume of U.S. agricultural goods exported and the total amount of program funds allocated for titles I, II, and III in fiscal year 1993 are presented in table 1.1. Countries are not restricted to receiving one type of U.S. food aid and can participate in more than one food aid program simultaneously. For example, many title I and title III recipients also receive title II assistance. Appendix I lists the countries that participated under each of the P.L. 480 programs and the value of the agricultural commodities exported in fiscal year 1993.

Table 1.1: Amount of U.S. Agricultural Commodities Exported Under P.L. 480 Programs, Plus Ocean Freight Costs to U.S. Treasury, Fiscal Year 1993

P.L. 480 program title	Total value of commodities exported (in millions)	Total metric tons shipped (in millions)[a]	Ocean freight costs to U.S. Treasury (in millions)[a]	Number of recipient countries
I	$332.8	2.9	$58.3	22
II	509.1	1.8	200.3	68
III	231.7	0.8	46.1	16

[a]USDA estimates for fiscal year 1993 are based on all shipments made during that year and may include some tonnage purchased in fiscal year 1992.

Source: USDA.

In addition to encompassing expenditures for agricultural commodities, the P.L. 480 programs also include expenditures for ocean freight, or the cost of shipping title I commodities to recipient countries. Cargo preference provisions[3] require that at least 75 percent of the P.L. 480 commodity tonnage be shipped on U.S. flag ships rather than on generally less expensive foreign flag vessels. The cost to the U.S. Treasury to ship title I commodities during fiscal year 1993 was $58.3 million (see table 1.1). Ocean freight expenditures are lower under the title I program than the other P.L. 480 programs because the U.S. government reimburses the recipient countries only for the amount by which the cost to ship on U.S. vessels exceeds the cost to carry the same commodities on vessels of other countries. In comparison, the ocean freight expenditures are higher for commodities donated under the title II and III programs because the U.S. government pays for the entire ocean freight costs via U.S. or foreign flag vessels.

[3]Provisions of the Merchant Marine Act of 1936 (ch. 858, 49 Stat. 1985, June 29, 1936), as amended by the Cargo Preference Act of 1954 (ch. 936, 68 Stat. 832, Aug. 26, 1954) and the Food Security Act of 1985 (P.L. 99-198, Dec. 23, 1985).

Although title I assistance is a concessional loan program in which recipients are expected to pay back the amount of the loan plus interest, according to officials at the Office of Management and Budget (OMB), the U.S. government never fully recovers the cost of the loans. In other words, the outlays for the commodities are greater than the present value of the expected returns, which include expected principal payments plus interest.[4] Under the Federal Credit Reform Act of 1990 (P.L. 101-508, 1990), USDA and OMB must estimate the subsidy rate for program loans to determine the total budgetary cost of the title I concessional loans. The composite subsidy rate for all of the individual title I concessional loans in fiscal year 1993 was approximately 64 percent, according to USDA officials. Therefore, even though title I is a loan program, the actual cost of the fiscal year 1993 title I concessional loans to the U.S. Treasury is estimated to be $223 million on the basis of $332.8 million in title I loans made to recipients for commodity purchases during that fiscal year. In other words, OMB expects the U.S. Treasury to get back, on average, $.36 for every $1.00 loaned under the 1993 title I program.

USDA Manages the Title I Concessional Loan Program

As part of its program management responsibilities, USDA directs the selection of title I recipients and the amount of money they receive under the program. In fiscal year 1993, 22 countries imported title I commodities from the United States in amounts ranging from $5 million to $40 million (see table 1.2 for title I allocations for fiscal years 1992 to 1994). In addition, 8 of the 22 title I recipients in fiscal year 1993 also received title II assistance,[5] and 1 country, Sri Lanka, also received title III assistance. Several of the recipients were countries of the former Soviet Union and were first-time participants of the program in fiscal year 1992. While USDA hopes to transform title I recipients into commercial importers, their "graduation" from the program can be a long and uncertain event. For example, 6 of the 22 recipients in fiscal year 1993 have been in the program for 20 years or more.

[4]The interest paid does not cover the cost of financing because of the concessional nature of the title I loan (i.e., grace period, long repayment terms, and below-market rates of interest).

[5]These title I recipients also received title II assistance in fiscal year 1993: Costa Rica, the Côte d'Ivoire, El Salvador, Guatemala, Morocco, the Philippines, Yemen, and Zimbabwe.

Table 1.2: Total Value of Commodities Exported Through the Title I Program by Country, Plus Number of Years That Countries Participated in Program, Fiscal Years 1992-1994

Dollars in millions

Country	Fiscal year 1992	Fiscal year 1993	Fiscal year 1994	Years in title I program
Angola	•	•	$5.9	1
Belarus	$19.9	$5.0	24.1	3
Bulgaria	•	15.0	•	1
Congo	5.0	•	6.0	5
Costa Rica	•	15.0	•	9
Côte d'Ivoire	10.0	10.0	15.0	8
Croatia	•	•	9.2	1
Egypt	40.4	•	•	28
El Salvador	29.4	33.4	•	15
Estonia	8.4	•	•	1
Guatemala	14.9	15.0	15.0	13
Guyana	7.1	•	•	14
Jamaica	29.9	30.0	14.8	22
Jordan	20.0	25.6	15.0	16
Latvia	8.0	•	•	1
Lithuania	8.8	19.6	13.5	3
Macedonia[a]	•	•	4.5	1
Moldova	7.0	7.6	15.9	3
Morocco	45.0	20.0	15.0	31
Pakistan	•	40.0	•	37
Philippines	20.0	20.0	15.0	26
Romania	10.0	10.0	•	3
Sierra Leone	7.0	•	•	22
Sri Lanka	13.0	10.0	18.0	33
Suriname	7.4	2.4	5.5	3
Tajikistan	8.2	11.4	•	2
Tunisia	15.0	5.0	•	30
Turkmenistan	•	6.3	8.5	2
Ukraine	•	16.5	16.9	2
Yemen	•	10.0	•	9
Zimbabwe	40.0	5.0	•	3
Total	**$374.4**	**$332.8**	**$217.8**	**n/a[b]**

(Table notes on next page)

Legend

• = Title I program was not used in-country that year.

[a]Former Yugoslavia Republic of Macedonia.

[b]Not applicable.

Source: USDA.

The main impact of the 1990 legislative changes on title I allocations was to shift several former recipients of title I assistance to the newly revised title III program.[6] However, events since the 1990 act have spurred even greater changes in the allocation of title I assistance. Egypt, one of title I's largest and longest-term recipients, did not use approximately $100 million of its fiscal year 1992 allocation and subsequently dropped out of the program in fiscal year 1993. In 1991, Egypt's financial picture vastly improved, in large part as the result of U.S. and allied debt forgiveness following the 1991 Gulf War.[7] The unused $100-million program allocation represented about 25 percent of title I's total program value for that year. At the same time, countries of the former Soviet Union and Eastern Europe had become more important participants in U.S. assistance programs. During fiscal years 1992 and 1993, USDA was able to initiate title I programs in many of these countries using title I funds that may have otherwise been allocated to Egypt.

Once a country is selected to participate in the title I program, USDA negotiates title I agreements with recipient government officials to determine the types and quantities of commodities the country will import. Under the title I program, countries purchase commodities selected from the P.L. 480 docket with concessional credit provided by the U.S. government. The concessional terms include a maximum 30-year period for repayment, with a maximum 7-year grace period and interest rates below prevailing market rates.[8] USDA also negotiates with the recipient country to include a statement in the title I agreement describing how the assistance provided will be integrated into the country's overall development and food security plans (see app. III for development plans for our seven case-study countries in fiscal year 1992 title I agreements).

[6]Formerly title I recipients in fiscal year 1990, Bangladesh, Bolivia, Ghana, Honduras, Peru, Senegal, and Uganda became title III recipients in fiscal year 1991.

[7]In 1991, the United States and a number of other countries canceled about $14 billion of Egypt's total indebtedness of roughly $50 billion.

[8]Before the 1990 act, the maximum allowable repayment period was 40 years and the maximum grace period was 10 years.

Purpose and Importance of Title I Program Have Changed

While the emphasis among the various P.L. 480 goals has shifted over time to accommodate changing U.S. farm and foreign policy interests, the domestic and international conditions that engendered the inception of the U.S.' food aid program in 1954 have altered even more so. An increase in donations of food aid by other countries and the creation of new USDA market development programs designed to expand U.S. exports have significantly reduced the importance of the title I program as a worldwide food aid program as well as its importance as a U.S. agricultural export and surplus disposal program.

Title I Goals Have Shifted Over Time

According to the literature we reviewed on the history of the P.L. 480 legislation, when P.L. 480 was enacted in 1954 its goals were to move large amounts of U.S. surplus agricultural commodities to needy countries and serve U.S. foreign interests as well as develop future markets for U.S. agricultural commodities. At the time, the United States was the primary producer of agricultural commodities worldwide, there was a shortage of international purchasing power after World War II, and there was a great humanitarian need for food aid. Most U.S. food aid was sold to foreign governments through title I loans, but some was donated for disaster relief, economic development, and feeding programs. All countries, except some communist nations, were eligible to participate in the title I program.

Although none of the original goals of the P.L. 480 legislation were abandoned, amendments in 1966 reoriented the goals of the P.L. 480 program toward combating world hunger. The 1966 amendments required that recipient countries sign self-help contracts as part of every title I agreement to encourage the countries to improve their domestic agricultural and food production. Amendments in 1968 expanded the use of loan repayments in local currency for self-help contracts and development programs. Title I loan repayments in local currencies were phased down between 1966 and 1971, emphasizing long-term credit sales for dollars and for convertible local currencies.

In the early 1970s, agricultural prices soared as worldwide agricultural production stagnated and worldwide demand for agricultural products expanded. Demand increased because of strong economic growth in developing countries and rising commercial imports by the Soviet Union. The amount of U.S. surplus commodities drastically diminished, and Congress did not raise title I program appropriations to cover the increased costs of providing food aid. Amendments to the P.L. 480 legislation in 1973 and 1974 attempted to direct the distribution of P.L. 480

funds, including title I, to serve the most needy countries. Ultimately, the amendments required that 75 percent of the title I concessional sales go to countries designated by the United Nations as most seriously affected by food shortages.

Amendments in 1977 shifted the emphasis of the food aid program to promoting the self-sufficiency of recipient countries. Recipient governments were encouraged to use proceeds from local sales of title I commodities for agricultural and rural development projects under a revised title III program. The focus of P.L. 480 shifted again in the 1981 amendment, when social development objectives became paramount. Recipient countries were urged to use local currency proceeds from the sale of title I commodities to support literacy and health programs for the rural poor. These development objectives were retained in the 1985 amendments to P.L. 480.

By the late 1980s, both U.S. foreign assistance funds and U.S. farm surpluses to help meet global food aid needs were becoming more scarce. Under the 1990 amendments to P.L. 480, the focus of the food aid programs shifted again. Currently, the goal of P.L. 480, including title I, is to promote U.S. foreign policy by enhancing the food security of developing countries through the use of agricultural commodities and local currencies to (1) combat world hunger and malnutrition and their causes; (2) promote sustainable economic development, including agricultural development; (3) expand international trade; (4) develop and expand export markets for U.S. agricultural commodities; and (5) encourage the growth of private enterprise and democratic participation in developing countries. Food security was defined in the 1990 act as "access by all people at all times to sufficient food and nutrition for a healthy and productive life."

While the 1990 act emphasized food security —an economic development and food assistance issue—it also assigned title I program management responsibilities to USDA, whose international responsibilities are foreign market development for U.S. agricultural goods, rather than to the Agency for International Development (AID), which is an international economic development agency. The 1990 act removed the requirement that 75 percent of title I commodity sales go to countries that were defined as those with the lowest income, allowing USDA more flexibility in selecting title I recipients. In addition, the 1990 act removed the requirement that recipient countries be deemed "friendly" before receiving title I aid.

Title I's Share of Both U.S. Food Aid and U.S. Agricultural Exports Has Declined

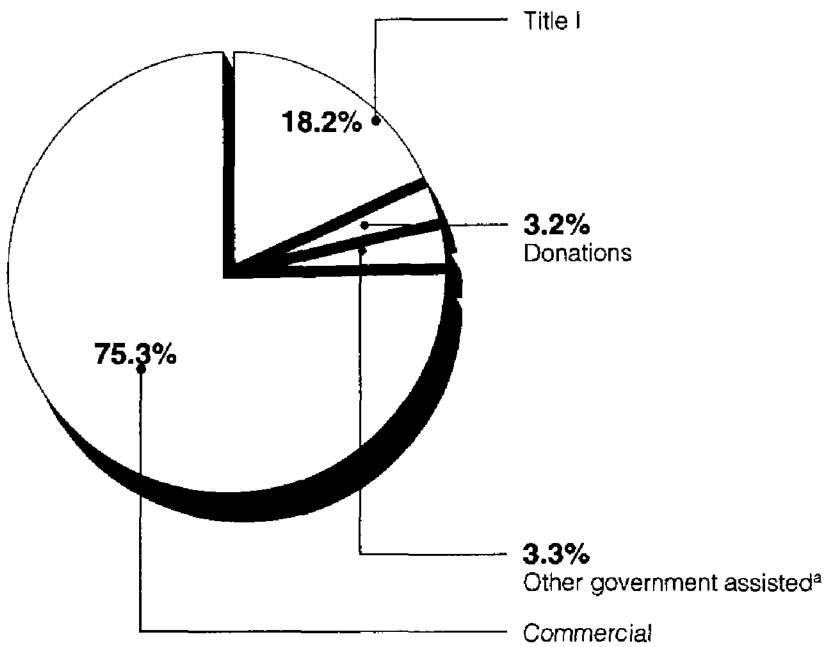
Despite the shifting emphasis of the title I program, the importance of title I, domestically and internationally, has declined significantly since the program's inception in 1954. Although the United States remains a world leader in providing food assistance, title I's share of both total world food aid and U.S. agricultural exports has decreased substantially since the inception of the P.L. 480 programs. During the 1950s and 1960s, the United States provided about 90 percent of world food aid, and title I represented around 80 percent of U.S. food aid.[9] As other countries began to increase their food aid donations in the 1970s, the U.S. share of world food aid decreased, to about 50 percent by 1980 and continued to decrease to about 43 percent by 1992. Title I's share of U.S. aid also declined to about 65 percent in fiscal year 1980 and to 14 percent in fiscal year 1993.

The establishment of new USDA credit guarantee programs and commodity price reduction programs in the mid-1980s also decreased the importance of title I food aid as a U.S. export and surplus disposal program.[10] In the late 1950s and mid-1960s, title I shipments accounted for roughly 19 percent of the total value of U.S. agricultural exports (see fig. 1.1 for fiscal year 1960 data). However, this share decreased to around 2 percent in the mid-1970s to late 1980s. In 1993, title I's portion of U.S. agricultural commodity exports dropped to its lowest level in over 40 years—0.8 percent (see fig. 1.2). Appendix II lists the value of title I exports and total U.S. agricultural exports for fiscal years 1955 to 1994 and presents title I as a percent of total U.S. agricultural exports.

[9]U.S. food aid includes the P.L. 480 programs (titles I, II, and III), Food For Progress (7 U.S.C. 1736o), and food donations made under section 416(b) of the Agricultural Act of 1949, as amended (7 U.S.C. 1431).

[10]See chapter 3 for descriptions of USDA credit guarantee programs (i.e., the General Sales Manager (GSM) -102 and -103 programs) and commodity price reduction programs, such as the Export Enhancement Program (EEP), Sunflowerseed Oil Assistance Program (SOAP), Cottonseed Oil Assistance Programs (COAP), and Dairy Export Incentive Program (DEIP).

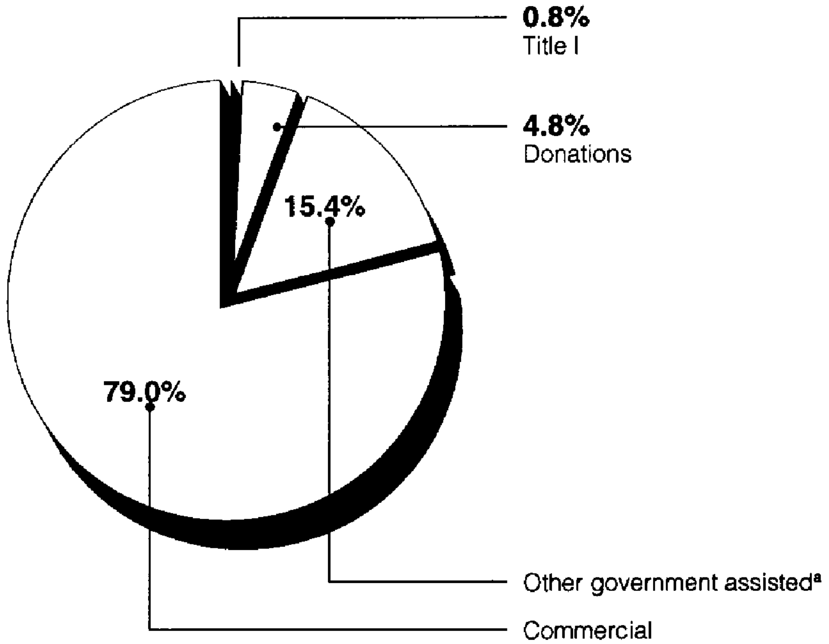
Figure 1.1: Government Assisted and Commercial Shares of U.S. Agricultural Export Value, Fiscal Year 1960



[a]Includes barter sales and direct credit programs (GSM-5).

Source: GAO analysis of USDA data.

Figure 1.2: Government Assisted and Commercial Shares of U.S. Agricultural Export Value, Fiscal Year 1993



[a]Includes credit guarantee programs (GSM -102 and -103), commodity price reduction programs (EEP, SOAP, COAP, DEIP, and combined EEP/GSM sales), and Commodity Credit Corporation direct sales.

Source: GAO analysis of USDA data.

Objectives, Scope, and Methodology

The objectives of our review were to assess the impact of title I assistance on (1) broad-based, sustainable development and (2) long-term market development for U.S. agricultural commodities in recipient countries. The 1990 act directed us to evaluate the impact of title I assistance on agricultural development in recipient countries. The three authorizing committees agreed that we would satisfy this requirement by assessing the impact of title I aid on broad-based, sustainable development since agricultural development is included under one of the act's legislative objectives—"to promote broad-based, equitable, and sustainable development, including agricultural development." In addition, broad-based, sustainable development includes raising economic and agricultural productivity—factors critical to achieving food security, which is also one of the act's legislative goals. We also evaluated the effect of the 1990 act on certain elements of title I program management. Specifically, we looked at (1) the interagency coordination of title I assistance in Washington, D.C.; (2) the content of the development statements included in the title I agreements with recipient countries; and (3) USDA's country selection and title I program fund allocation process.

The 1990 act required us to review the title I program and conduct audit work in countries located in three geographic regions of the world that are representative of countries receiving title I assistance. As part of our review, we selected seven case-study countries in four regions of the world to conduct audit work at USDA's, AID's, and the State Department's overseas posts. Our seven-case study countries were: Egypt and Morocco (northern Africa), Sri Lanka and the Philippines (East Asia), El Salvador and Guatemala (Central America), and Jamaica (the Caribbean). We selected these seven case-study countries in four geographic regions because they represented a variety of title I recipients in terms of program size, mix of USDA and AID programs, and length of title I participation. In fiscal year 1992, these seven countries received 51 percent of the total title I program funds.

To assess the impact of title I assistance on long-term economic development and market development in our case-study countries as well as other recipient countries, we conducted interviews with and obtained documents from officials with USDA and its Economic Research Service (ERS), AID, OMB, the State Department, the World Bank, and U.S. commodity groups in Washington, D.C. In each country we visited, we interviewed U.S. and host government officials; representatives from U.S. commodity groups; and other parties, such as foreign food aid donors, importers, and exporters. We also reviewed literature that evaluated title I's long-term impact on economic development, agricultural development, and commercial trade in recipient countries.

To estimate the maximum foreign exchange savings made possible when a country imports title I commodities and to estimate the relative importance of these foreign exchange savings to broad-based, sustainable economic development, we calculated title I aid as a percentage of a recipient's total imports for the 15 title I recipients in fiscal year 1991—the most recent year for which complete international financial statistics were available. We reported this information for each country, arranged by group according to their foreign exchange shortage. To measure foreign exchange shortage, we used a country's international nongold reserves[11] expressed in number of weeks of imports these reserves would cover. We also calculated title I aid as a percentage of a country's total food imports to determine the size of title I's contribution to a country's food import needs. In addition, we reviewed past and current development statements contained in title I agreements and discussed them with USDA, AID, and recipient government officials in the seven countries we visited.

Using USDA's and the United Nations' trade database, we attempted a statistical analysis to determine whether there was any relationship between title I and commercial imports from the United States for major title I recipients, past and present. Our regression analysis, however, was not successful because of problems with the data, i.e., missing data, incompatible data sets, differences in reporting periods, inconsistencies between figures reported by the United States and other countries, differences in classification, and double counting of transshipments through other countries.

Because we were unable to conduct a regression analysis, we based our conclusions regarding the relationship between title I and a country's commercial imports on evidence drawn from literature we reviewed; an analysis of trade data from the International Wheat Council for our case-study countries for crop years July 1, 1980, through June 30, 1992 (the one data set we found that was complete and consistent for more than a decade); and information we collected from documents and interviews with officials from USDA and U.S. commodity groups in Washington, D.C., and in our seven case-study countries. Unless otherwise noted, we reported dollar values covering periods of 5 years or longer in 1993 dollars. In addition, we assessed title I's contribution to developing or expanding markets for U.S. agricultural products in South Korea, a former title I recipient considered by USDA to be a best-case example of title I's market development success. We interviewed officials from USDA, ERS, and three different commodity groups; analyzed trade data for three commodities that were the primary commodities exported to South Korea under the title I program (wheat, corn, and cotton); and reviewed several studies that examined factors contributing to South Korea's economic development.

To evaluate the effect of the 1990 act on certain elements of program management, we interviewed officials from USDA, AID, and the State Department in Washington, D.C., and in our seven case-study countries, as

[11]Nongold international reserves include those assets that are considered as available for use by an economy's central authorities in meeting balance of payments needs. Nongold international reserves are fully convertible currency that are acceptable as payment on the world market.

well as officials from OMB. In addition, we looked at the reasons why USDA never implemented a local currency program, section 104, which was authorized in the 1990 act.

We requested comments on a draft of this report from the Secretary of Agriculture or his designee. USDA chose not to provide us with written agency comments, but senior USDA officials responsible for title I program management gave us oral comments on the draft. We also discussed the contents of this report at exit conferences with senior officials from OMB and the State Department. Our evaluation of the comments from USDA, OMB, and the State Department appears in chapter 5. AID officials declined to discuss the draft report and did not provide agency comments.

We did our work between October 1992 and December 1994 in accordance with generally accepted government auditing standards.

Title I Makes Minimal Contribution to Broad-Based, Sustainable Development

While broad-based, sustainable (BBS) development is widely considered to be a cornerstone of any long-term strategy to achieve food security, the results of our review indicate that title I assistance has limited ability to affect sustainable economic development in recipient countries. The primary way that the title I aid can contribute to BBS development in a recipient country is by helping the country save its scarce foreign exchange[1] to invest in projects that promote long-term sustainable economic development. Foreign exchange savings occur when title I imports displace commercial imports. Our analysis indicated, however, that even if the maximum possible foreign exchange savings occurred, title I's potential contribution to sustainable economic development would still be minimal because the program is small in relation to the country's overall development needs. There are some cases, though, in which title I assistance may have made a meaningful short-term contribution to the food supply in some recipient countries. However, this assistance is not considered a contribution to BBS development.

The recipient government's sale of the title I commodities to the private sector in-country generates revenues, called "local currencies," that the recipient government can use to cover budgetary expenses. These revenues, however, are not an infusion of additional resources to the country since they are generated from the sale of the title I commodities within the local economy. Instead, the local currencies are a shift of money from the private to the public sector.

The title I program is also intended to promote BBS development through the title I agreements in which countries agree to undertake certain development activities in exchange for receiving title I assistance. However, the results of our review indicated that the title I program provided the United States with relatively little leverage to induce recipient countries to undertake additional BBS development activities or policy reforms. The leverage was limited because the dollar value of the title I aid was small compared to the countries' basic development requirements as well as to the total assistance provided by other world donors. Moreover, other competing program objectives dilute whatever leverage might have been associated with the provision of title I assistance. Although economic and agricultural development is one of P.L. 480's objectives, a chief criticism of title I assistance has been that it may have a disincentive effect on local farmers and local food production, according to the studies we reviewed. Any disincentive effect, however,

[1]Foreign exchange savings are also known as "balance of payments support" because a country can use these savings to make international purchases.

may be diminished to the extent that food aid imports displace commercial imports rather than domestic production.

The title I program contains legislative requirements that impede the program's ability to achieve its BBS development objectives through foreign exchange savings. These requirements also interfere with another provision in the legislation that is meant to ensure that the distribution of food aid in the recipient country does not interfere with that country's domestic production.

BBS Development Is a Cornerstone to Achieving Food Security

The 1990 act unites P.L. 480's multiple objectives under one central policy goal: to promote the foreign policy of the United States by enhancing the food security of the developing world. While increasing the supply of food may help to relieve hunger and malnutrition in the short term, it is not sufficient for achieving food security. That goal requires long-term solutions to the problems of food availability, accessibility, and utilization in developing countries. BBS development is an integral component of a successful food security strategy because its tangible benefits, which include raising the purchasing power and productivity of the recipient population, are critical to attacking the causes of poverty, hunger, and malnutrition.

The P.L. 480 legislation does not define BBS development. The World Bank and AID, however, broadly define BBS development as meeting the needs of the present generation without compromising the needs of future generations. "Broad-based" refers to development policies designed to raise productivity (including agricultural productivity), buying power (including the foreign exchange earnings), and quality of life for the majority of the recipient population. "Sustainability" is concerned with avoiding policies that buy short-term gains at the expense of future growth, e.g., unsound macroeconomic policies that involve excessive borrowing or that unduly damage the environment, thereby impairing the quality of life for current and future generations. "Development" implies a continuing improvement in the "quality" of life and the extension of this improvement in quality to the lives of all the people in the country concerned.

Potential Contribution to BBS Development Derived From Foreign Exchange Savings

According to representatives from USDA, AID, our seven case-study countries, and the World Bank, and based on our literature review, the primary way in which title I aid can contribute to BBS development is through the foreign exchange savings that occur when title I imports displace commercial imports. These foreign exchange savings take place when a country purchases agricultural goods through the title I concessional sales program instead of purchasing them through commercial channels. Maximum gains in foreign exchange savings occur when 100 percent of the title I aid displaces agricultural imports that were previously purchased through commercial channels. Foreign exchange savings do not take place when title I imports are received in addition to a country's customary level of commercial imports. In other words, title I assistance contributes to foreign exchange savings only when it displaces commercial food imports. This question of "additionality," whether title I imports displace a country's commercial imports or constitute an addition to the country's food supply, is considered to be one of the most important issues when analyzing food aid's impact on BBS development and on commercial trade.

Title I Aid Displaces Commercial Imports to Varying Degrees

We evaluated two separate literature reviews[2] that together examined over 100 studies on food aid's impact on commercial trade. While all of these studies evaluated P.L. 480 food aid's impact on commercial trade, every study did not specifically address the title I program. However, taken as a whole, these studies tended to support the view that food aid partially displaces commercial imports, though the degree of displacement varies greatly from country to country. Three studies within our literature review[3] specifically examined whether title I assistance displaced commercial imports in three of our seven case-study countries—Egypt, Sri Lanka, and Jamaica. Through the use of statistical models, each study concluded that title I assistance had allowed the countries to achieve some foreign exchange savings by displacing commercial imports. For example, the analysis of commercial and concessional wheat imports in Sri Lanka from 1955 to 1981 strongly suggested that food aid had substituted for

[2]See Food Aid Impacts On Commercial Trade: A Review of the Evidence, prepared for AID by Nathan Associates (Washington, D.C.: Oct. 1990) and The Development Impact of U.S. Program Food Assistance: Evidence from the AID Evaluation Literature, AID, Bureau for Food for Peace and Voluntary Assistance (Washington, D.C.: Aug. 1989).

[3]See Grant Scobie, Government Policy and Food Imports: The Case of Wheat in Egypt, International Food Policy Research Institute, Research Report 29 (Washington, D.C.: Dec. 1981), covering the period of 1949-1979. Also, see H. Christine Bolling, Jamaica: Factors Affecting Its Capacity to Import Food, Foreign Agricultural Economic Report Number 176 (Washington, D.C.: Jan. 1983), covering several periods, especially the latter 1970s through the early 1980s and Edward J. Clay, "Sri Lanka: Food Aid as a Resource Transfer," Food Policy (Aug. 1983), covering 1955-1981.

commercial purchases. The author concluded that P.L. 480 food aid imports clearly resulted in foreign exchange savings for Sri Lanka.

We also compiled trade data from the International Wheat Council on wheat imports for six of our seven case-study countries[4] for crop years July 1, 1980, through June 30, 1992, to help assess the impact of title I assistance on U.S. commercial imports. While we could not conclude that title I concessional sales had displaced U.S. commercial sales of wheat in Egypt, it appears that title I wheat had, to varying degrees, displaced U.S. commercial sales of wheat in the other five case-study countries (El Salvador, Guatemala, Jamaica, Morocco, and Sri Lanka). For any of our case-study countries, however, we could not define with certainty the extent to which title I aid had displaced commercial imports because many other factors affected the importation and domestic production of wheat. To be more precise, for example, we would have to know what each country would have imported and produced in the absence of the title I assistance.

On the basis of our analysis of wheat import statistics, El Salvador and Guatemala provide the clearest examples of displacement of commercial imports by title I assistance. In both El Salvador and Guatemala, the United States had been the dominant supplier of wheat since the 1950s. Until the early 1980s, when Guatemala and El Salvador first imported wheat under title I programs, these countries had generally imported wheat from the United States on a commercial basis. After the introduction of title I aid, both the volume and share of commercial wheat purchases declined greatly, even as total U.S. wheat exports to these countries increased.

For Morocco, the interpretation of import statistics is more complicated due to the volatility of, as well as the reduction in, the volume of total U.S. wheat imports. However, in at least one of the many years of title I assistance, it appears that title I concessional sales replaced U.S. commercial wheat sales to Morocco. For crop years July 1, 1990, through June 30, 1992, the total volume of U.S. sales of wheat to Morocco declined by nearly 50 percent, whereas the volume of title I wheat sales increased by 72 percent.

[4]We excluded the Philippines from this analysis because it received only a small volume of wheat under the title I program during the years we reviewed (1980 to 1991).

Potential Foreign Exchange Savings Make Minimal Contribution to BBS Development

The extent to which foreign exchange savings can contribute to BBS development largely depends on the value of these foreign exchange savings relative to the country's total economic needs. Imports represent one component of the resources that a country regards as vital to its developmental needs. On the basis of our analysis of fiscal year 1991 recipients,[5] it appears that even if 100 percent of the title I assistance displaced the equivalent in a country's commercial imports, the foreign exchange savings that title I provides could satisfy only a fraction of a country's total imports. Consequently, title I's potential contribution to BBS development is limited. However, despite its small size, title I may constitute a significant percentage of some of the countries' food imports, which indicates that title I aid could be making a meaningful contribution to these countries' food supply in the short term. In addition, title I could be quite important to those countries that are severely restricted in their ability to pay for commercial imports due to a critical foreign exchange shortage.

To determine the extent to which the maximum foreign exchange savings made possible by the title I program could potentially contribute to a country's BBS development, we compared the value of title I aid to the country's total imports. A country's imports include, but are not limited to, those goods the country finds necessary for its development that are currently available only from abroad and that the country must purchase with its scarce foreign exchange. To highlight the relative scarcity of the countries' foreign exchange situation, we grouped the 15 title I recipients for fiscal year 1991 according to their foreign exchange position (see table 2.1). A general rule of thumb is that a developing country is experiencing a shortage of foreign exchange if it has less than approximately 3 months of reserves to cover its current rate of imports. We used nongold international reserves, expressed in terms of the number of weeks of imports these reserves covered, to measure a country's foreign exchange status.[6]

[5]We used fiscal year 1991 rather than fiscal year 1992 title I recipients as the subject of our analysis because international financial statistics were unavailable for 6 of the 22 recipient countries in 1992. These six countries (Belarus, Estonia, Latvia, Lithuania, Moldova, and Tajikistan) were all members of the former Soviet Union.

[6]Nongold international reserves include the country's (1) reserve position in the International Monetary Fund (IMF) and use of IMF credit; (2) holdings of internationally acceptable means of payments for the purpose of financing payment imbalances or influencing the movement of the exchange rate of its currency (i.e., foreign exchange holdings); and (3) holdings of special drawing rights (SDR), which is an international reserve asset that the IMF allocates to individual member nations and that is transferable among them to settle international indebtedness.

Table 2.1: Title I as a Percent of Total Imports and Food Imports for Recipient Countries, Fiscal Year 1991

Dollars in millions

Country/foreign exchange reserves	Title I	Title I as a percent of total imports (1991 figures)	Title I as a percent of food imports (1991 figures)
Nongold reserves: < 1 month's import coverage			
Congo	$2.0	1.0%	2.1%
Côte d'Ivoire	10.0	0.6	3.3
Guyana	6.9	1.3	[a]
Sierra Leone	5.0	3.1	12.8
Jamaica	40.0	2.2	10.9
Nongold reserves: 2 to < 3 months of import coverage			
Tunisia	15.0	0.3	1.9
El Salvador	35.0	4.0	24.7
Yemen	5.0	[a]	[a]
Sri Lanka	15.0	0.4	2.3
Nongold reserves: 3 to 5 months of import coverage			
Philippines	15.0	0.1	1.8
Zaire	9.0	1.3	[a]
Nongold reserves: about 6 months or more of import coverage			
Costa Rica	15.0	0.8	8.9
Egypt	169.3	2.2	7.4
Guatemala	18.0	1.0	8.1
Morocco	35.0	0.5	4.6
Total	**$395.2**	[b]	[b]

[a]Not available.

[b]Not applicable.

Sources: Title I figures are from USDA's Economic Research Service database. Import figures for Guyana and Zaire and figures for nongold reserves and number of weeks of imports covered by stock of nongold reserves are from the International Monetary Fund's International Financial Statistics 1993 Yearbook. The rest of the total import figures and food import figures are from the World Bank's World Development Report, 1993, tables 14 and 15.

Our analysis indicated that even if 100 percent of the title I imports had displaced commercial imports, title I's maximum foreign exchange savings represented a very small portion of a country's total import requirements and, therefore, did not meaningfully enhance the recipient's capacity to import. Consequently, the potential foreign exchange savings, at best, could make only a minimal contribution to BBS development. Data were available for 14 of the 15 recipient countries in fiscal year 1991. In all of these countries, title I assistance as a percent of the value of the countries' total imports was 4 percent or less, generally much less. For eight of the recipients, title I represented 1 percent or less of the value of the country's total imports (see table 2.1).

Although our analysis of potential foreign exchange savings showed that title I's contribution to BBS development was limited, our research indicated that title I assistance could contribute significantly, in some cases, to helping a country meet its food import requirements in the short run. Food import data were available for 12 of the 15 fiscal year 1991 title I recipient countries. For six of these countries, title I constituted a significant portion, about 7 to 13 percent, of the countries' total food imports. For El Salvador, this figure was 24.7 percent (see table 2.1). While a short-term increase in the supply of food may help relieve hunger, achieving food security requires long-term solutions to the problems of food availability, accessibility, and utilization in developing countries. Food security is a long-term, broad-based economic development issue.

In addition, title I may have enabled some countries that were experiencing critical shortages of foreign exchange (i.e., reserves available that covered less than 1 month of imports) to acquire food that they otherwise would not have been able to purchase. Five of the 15 fiscal year 1991 title I recipients were experiencing a critical shortage of nongold reserves (see table 2.1). Since these countries were so restricted in their ability to pay for commercial imports, the title I imports were probably in addition to their usual commercial imports. Consequently, the title I assistance probably did not result in foreign exchange savings that then could be invested in long-term BBS development. However, in the short run, title I possibly provided food that these countries otherwise would not have been able to import.

Title I Shifts Resources to the Public Sector

According to some program supporters, one way title I assistance might be able to contribute to BBS development is through the recipient government's sale of the title I commodities in-country. When title I commodities enter a country's food distribution system, their sale by the recipient government to the private sector generates revenues for the government that are called "local currencies." These revenues, however, do not represent an infusion of additional money into the country; instead, the revenues are a shift of money from the private to the public sector. In theory, this transfer of resources enables the recipient government to gain control over additional domestic spending power that it would not have otherwise had to help support activities that could contribute to BBS development. Ultimately, any contribution that local currencies can make to BBS development depends on their investment in activities with long-term, broad-based, and sustainable benefits.

In practice, there are many difficulties associated with ensuring the effective use of these local currencies. It is difficult for USDA or anyone else to say whether the currencies were actually dedicated to the projects specified in the title I agreements because these local currencies are owned and usually controlled by the recipient country's government. Ensuring that the local currencies are invested in BBS development activities is further complicated by the fact that money is fungible and difficult to track. This condition is also aggravated by inadequate accounting and control systems in some recipient countries. Before the 1990 act, when AID managed the title I local currency program, we[7] and AID's Office of the Inspector General found that the monitoring of local currencies by U.S. government officials in-country was insufficient to provide reasonable assurance that the currencies were properly used.

Title I's Leverage to Direct BBS Development Is Limited

The contribution of title I assistance to BBS development depends on the recipient government's investment in sound, long-term economic policies and projects. In return for the title I assistance, recipients must state in their title I agreement how they will integrate the benefits of the title I assistance into their country's overall development plans. In general, we found that title I agreements usually reinforce macroeconomic reforms or activities that the recipient governments are already undertaking. The program generally provides USDA with little leverage to direct the recipient governments to undertake additional reforms or projects because the program's value is small relative to the countries' overall development needs and the total assistance that other donors provide. Furthermore, other competing program objectives can dilute whatever leverage might be associated with the provision of title I assistance.

[7]See Foreign Assistance: Use of Host Country Owned Local Currencies (GAO/NSIAD-90-210BR, Sept. 25, 1990).

Agreements Tend to Reinforce Countries' Existing Developmental Goals

The 1990 act requires title I agreements to contain a statement that describes how the title I commodities or the revenues generated by the sale of these commodities will assist the overall development plans of the country to improve food security and agricultural development; alleviate poverty; and promote broad-based, equitable, and sustainable agriculture. In addition, the agreements must include a statement about how the recipient country intends to encourage private sector competition and participation. Within the title I agreements, a section known as the "development plan" describes what actions the recipient country will undertake in exchange for receiving title I assistance.

For five of our seven case-study countries in fiscal years 1991 and 1992, we found that development plans in the title I agreements tended to reinforce those macroeconomic reforms or activities that the recipient governments were already undertaking (see app. III for development plans found in fiscal year 1992 title I agreements for our seven case-study countries). For example, the 1992 title I agreement in Morocco specified that the government would support two agronomic research institutes, an activity that AID had already included as part of its title I agreements from fiscal years 1988 to 1990. In Jamaica, the fiscal year 1992 title I agreement encouraged the country to work toward meeting the criteria necessary to become eligible for debt forgiveness under the Enterprise for the Americas Initiative, a program established by the United States in 1990 to promote economic liberalization and growth in Latin American and Caribbean countries. Similarly, an Egyptian government official told us that his country's development plans reinforced economic goals similar to those found in Egypt's agreement with the International Monetary Fund (IMF). In Sri Lanka, USDA and AID officials explained that the country's title I agreement paralleled the provisions included in its title III agreement. For example, in both agreements the country pledged to support crop diversification and liberalization of certain import and trade policies.

In two of our case-study countries, El Salvador and Guatemala, USDA negotiated title I agreements that included promises by the recipient countries to undertake certain policy reforms in addition to the countries' ongoing development efforts. In their fiscal year 1992 title I agreements, El Salvador and Guatemala pledged to eliminate "price bands" for certain commodities. Price bands institute tariffs to protect farmers from agricultural imports. Eliminating this policy was in keeping with USDA's objectives to promote trade liberalization and reduce trade barriers that discriminate against U.S. products. The countries entered into similar agreements for fiscal year 1993. However, El Salvador dropped out of the title I program in fiscal year 1994 because its government did not want to pursue these particular reforms, according to State Department officials. Although the country was initially allocated funds for title I assistance in fiscal year 1994, the funds were never made available to the country because the United States and El Salvador failed to reach an agreement. For El Salvador and Guatemala, their agreements in fiscal year 1992 also supported another USDA activity in-country that was designed to protect the United States from pests and diseases that could be imported into this country.

We found that all 22 of the title I agreements for fiscal year 1992 contained some reference to how the local currency proceeds generated from the sale of title I commodities should be allotted to support the reforms or projects cited in the agreement. For 5 of the 22 countries (El Salvador, Guatemala, Guyana, Sierra Leone, and Suriname), the fiscal year 1992 agreements required that some portion of the local currency sale proceeds be deposited into special accounts designated to support activities specified in the title I agreements. In Sierra Leone and Guatemala, it was the U.S. Ambassador rather than USDA who insisted that the sales proceeds be assigned to specific accounts, according to USDA officials. The agreements for the other 17 recipients assigned the local currency to the country's general treasury, which meant that these funds were intermingled with other government revenues.

Title I Does Not Provide Much U.S. Leverage

Title I assistance often provided the United States with relatively little leverage to influence BBS development activities or initiate policy reforms beyond those that the country was already undertaking because of the program's small size as well as the primacy of other competing objectives. We found the dollar value of title I assistance was small relative to the countries' overall development needs as well as to the development assistance provided by world donors in most cases (see table 2.2). For example, in fiscal year 1991, total title I assistance distributed among the 15 recipients amounted to $395.2 million, while total official development assistance (ODA)[8] from the entire world to these countries was $10.8 billion. Representatives from the World Bank and a prominent international food policy research group told us that it would not be

[8]ODA consists of net disbursements of loans and grants made on concessional financial terms by all bilateral official agencies and multilateral sources. ODA must (1) promote the economic development and welfare of developing countries and (2) be concessional in character and contain a grant element of at least 25 percent. It consists of grants (e.g., technical assistance, food aid, and administrative costs), development loans, loans for food, debt reorganization, and contributions to multilateral institutions.

reasonable for countries to undertake major reforms with wide-ranging economic consequences in exchange for the relatively small amount of assistance provided through the title I program.

Table 2.2: Title I Aid Compared to Total Official Development Assistance (ODA) by Recipient, Fiscal Year 1991

Dollars in millions

Country	Title I assistance	Total worldwide ODA[a]
Congo	$2.0	$133.4
Costa Rica	15.0	172.9
Côte d'Ivoire	10.0	632.7
Egypt	169.3	4,988.0
El Salvador	35.0	289.6
Guatemala	18.0	196.8
Guyana	6.9	108.6
Jamaica	40.0	165.6
Morocco	35.0	1,075.1
Philippines	15.0	1,051.4
Sierra Leone	5.0	104.8
Sri Lanka	15.0	814.0
Tunisia	15.0	322.4
Yemen	5.0	313.4
Zaire	9.0	475.9
Total	**$395.2**	**$10,844.6**

[a]Total ODA data are collected on a calendar year basis, and title I assistance data are collected on a fiscal year basis.

Sources: The title I figures are the final figures from USDA's ERS database. The total worldwide ODA figures are from the World Bank.

The dollar value of title I assistance overstates its economic value to the recipient country. As a result, the leverage provided by title I assistance as indicated by its dollar value is likely to be significantly less than the figure suggests. There are several reasons why the recipient country may not place the same dollar value on the title I commodity as does the United States: (1) the title I assistance is a loan that needs to be repaid, not a cash grant; (2) the recipient government may sell the commodity in-country for a price lower than its purchase price; (3) the program restrictions on shipping and reexporting title I commodities may further reduce its value to the recipient country; (4) the recipient country may be buying something (quality or quantity) other than what it actually would have preferred; and (5) the title I price per metric ton may exceed prices for similar commodities available through other USDA programs and suppliers.

USDA's ability to use title I assistance as leverage to influence BBS development in-country may also be limited because other title I objectives, such as promoting U.S. agricultural exports or U.S. foreign policy, sometimes take priority in shaping title I programs, according to AID and USDA officials both in Washington, D.C., and in our seven case-study countries. We reported similar conclusions in past reports on title I assistance.[9] For example, if policy reforms are particularly sensitive, negotiations can be lengthy, and the long negotiation process may be contrary to U.S. farm interests who are concerned about signing agreements as early as possible to move commodities, according to AID officials. The AID officials believed that whatever leverage title I might provide exists only before the agreements are signed. The program's leverage to influence which development activity a country agrees to undertake is reduced once the agreements have been signed.

In addition, in some of our case-study countries U.S. officials told us that it would be difficult for USDA to negotiate additional policy reforms as part of the title I agreements since title I aid is also used to promote U.S. foreign policy objectives. For example, AID officials in the Philippines told us that AID could not be "tough" in the past when negotiating policy reforms to include in the title I agreements because the Philippine government considered all U.S. assistance "rent" for U.S. military bases in the country.

Title I assistance also has served as a major symbol of U.S. commitment to Egypt, according to U.S. and Egyptian officials in-country. Egypt has played a key role in U.S. foreign policy strategies in the Middle East. Wheat exported under the title I program has helped to ensure the Egyptian government's ability to make inexpensive bread readily available—a social policy critical to the country's political stability. Many AID, State Department, and USDA officials in our case-study countries reported that one of the primary reasons for providing title I assistance to countries was to promote U.S. foreign policy interests.

[9]See Food Aid: Improving Economic and Market Development Impact in African Countries (GAO/NSIAD-88-55, Dec. 21, 1987) and Foreign Aid: Problems and Issues Affecting Economic Assistance (GAO/NSIAD-89-61BR, Dec. 30, 1988).

Title I Assistance Has Potential to Discourage Agricultural Production in Recipient Countries

One of the chief criticisms of title I assistance, according to the studies we reviewed,[10] has been that it may have a disincentive effect on local farmers and local food production, although the evidence supporting this criticism remains inconclusive. These studies concluded that title I assistance has the potential to negatively affect local agriculture in particular situations. However, the agricultural policy environment of the recipient country is also very important in determining whether and to what extent food aid creates a disincentive for local agricultural production. To the extent that food aid displaces commercial imports, any disincentive effect on local food production due to an increase in the food supply putting downward pressure on food prices diminishes since the same food aid cannot simultaneously result in foreign exchange savings and be additional to commercial imports. The disincentive effect underscores a difficulty in the title I program. It may not be possible at times to fulfill certain program requirements and simultaneously not interfere with domestic production or marketing in the recipient country.

Disincentive Effect Is Possible

According to the studies we reviewed, food aid can discourage local agricultural production in two ways. Food aid can create disincentives to local production, in a direct manner, if it increases the availability of a commodity to the point where the additional title I imports put downward pressure on local food prices. Food aid can also discourage local agricultural production indirectly by enabling a government to neglect its own agricultural sector and/or postpone making policy reforms needed to enhance domestic food production. Disincentive effects can affect domestic production of those commodities that are imported under title I as well as those commodities that may act as substitutes for locally grown products; e.g., importing wheat could lead to consumer demand for bread rather than for locally grown corn-based foods. P.L. 480 responds to the possibility that the program may create disincentives by requiring that USDA conduct a Bellmon determination[11] before signing a title I agreement. The legislation also requires that USDA consult donor organizations, such as

[10]These studies were the same ones we used to support our conclusions on the existence of foreign exchange savings earlier in the chapter (see p. 36, fn. 2). In addition, we read other books and journal articles on the subject on which we drew in this analysis. For example, Hans Singer, John Wood, and Tony Jennings, Food Aid: The Challenge and the Opportunity, Clarendon Press (Oxford: 1987) and Jim Fitzpatrick and Andy Storey, "Food Aid and Agricultural Disincentives," Food Policy, vol. 14, Butterworth & Co. (Stoneham, MA: Aug. 1989).

[11]The "Bellmon determination," named after former Senator Henry L. Bellmon, was added to the P.L. 480 program in 1977. It contains two stipulations: (1) the recipient country must certify the availability of adequate storage space to prevent spoilage of donated commodities and (2) the local distribution of the food aid must not create a disincentive to domestic production or marketing.

the World Bank and IMF, to ensure that title I aid will not create a disincentive to domestic production or marketing.

The literature on the disincentive issue, while inconclusive, indicates that disincentive effects are possible with food aid. The literature emphasizes a case-by-case approach involving a thorough understanding of in-country commodity markets and agricultural policy environments. For example, according to one study, wheat, the principal commodity imported by Sri Lanka under title I, was not produced in Sri Lanka to any significant extent in the 1970s. Therefore, title I aid could have had no direct disincentive effect on domestic wheat production. However, because of the possible substitutability between rice and wheat, it could have been possible that consumers may have substituted bread for rice, thereby causing the demand for rice and its production to decrease. The study, however, suggested that this situation did not occur. Rice production generally remained constant, then increased, during the 1970s, though it is arguable that rice production would have increased even more in the absence of title I wheat. Furthermore, the literature indicates that Sri Lankans prefer rice over bread, unless the price of bread is significantly lower than the price of rice.

Agricultural Policy Can Affect the Impact of Food Aid

A country's agricultural policy environment is important in determining whether food aid creates a disincentive for local agricultural production. Government policies can try to insulate local agricultural production from responding to the changing supply and price conditions as a result of receiving title I aid. Conversely, government can create agricultural distortions through its food policies, which may dwarf any disincentives that food aid may cause. Even if title I assistance increases the overall availability of a commodity, it still may not adversely affect producers or consumers if the government provides price support or direct subsidies, though this may cause repercussions elsewhere in the domestic or international economy. A government might pursue a food policy, perhaps partially financed from the revenue from the sale of food aid, to protect producers and/or benefit consumers by letting consumer prices fall while keeping producer prices at a higher level. For example, one study, which analyzed the grain sector in Brazil from 1952 to 1971, showed that P.L. 480 wheat imports had a positive effect on grain production. This circumstance was due primarily to the government's wheat import and domestic price support programs whereby revenues gained from wheat imports were used to support domestic grain producers.

While a price system such as Brazil's may, at times, reduce the negative effects of food aid on producers or consumers, it may also backfire and lead to further distortions. For example, according to the study on Brazil, title I imports displaced commercial wheat imports, thus disrupting international wheat markets. Government intervention in Egypt, a country that had been a major recipient of title I assistance for decades, provides an example of how food aid and government policy interact to affect local agricultural production. Egypt's wheat policy from 1950 through the early 1980s reflected the government's objective to make bread, a commodity considered critical to Egypt's political stability, cheap and readily available. To ensure wheat supplies and thereby keep the price of bread low, the Egyptian government encouraged both imports and local production of wheat. This strategy, in turn, supported the government's policy of subsidizing retail sales of bread by supplying wheat to the predominantly state-owned mills at a low price. However, this policy resulted in an abundant supply of wheat flour with title I wheat shipments constituting an important component of this supply. This policy also contributed to other policies that acted as disincentives to farmers: the producer price of wheat was allowed to decline relative to other crops (maize, rice, and cotton) and relative to world market prices. This system had a direct disincentive effect on domestic wheat production. Egypt's elaborate food subsidy program is currently under revision as part of Egypt's commitment to ongoing structural economic reform, including agricultural pricing reform. This reform includes a price liberalization policy aimed at having most prices in the economy determined by market forces by 1995.

Aside from the impact of deliberate government intervention in the marketplace, other factors could overshadow food aid's potentially adverse effect on a country's agricultural production. In circumstances of war, political strife, or natural disasters, it would be difficult to disentangle title I's role, if any, in contributing to the decline in agricultural production. For example, the agricultural sector of El Salvador, a country that has received substantial amounts of title I assistance since 1980, has suffered from civil war over the past decade. Resources for agricultural production, especially for cotton, coffee, and livestock, became military targets of the guerrillas. As a result, most crop production declined in the 1980s. In instances such as these, title I assistance may have provided food that the country would not have otherwise been able to supply.

Program Requirements Impede Sustainable Economic Development Objectives

The title I program contains legislative requirements that impede the program's ability to achieve its BBS development objective. Title I aid could contribute to sustainable economic development if it were to provide recipient countries with foreign exchange savings. Food aid provides foreign exchange savings when it displaces commercial imports. However, the title I program contains requirements that are designed to ensure food aid is in addition to normal commercial imports and therefore does not lead to displacement of commercial imports. Section 403(e) requires that reasonable precautions be taken to ensure that the sale of agricultural commodities will not unduly disrupt normal patterns of commercial trade with foreign countries, and section 403(h) requires that reasonable precautions be taken to avoid displacing U.S. agricultural commodity sales. Essentially, these provisions require that the supply of the commodity increase by the full quantity of food aid. These requirements hinder the program's ability to provide foreign exchange savings, which would otherwise occur through displacement of commercial sales.

The mechanism used by USDA to ensure the requirement that title I aid be "additional" to normal commercial imports is the "usual marketing requirement" (UMR) provision of the food aid agreement. UMRs are the normal mechanism used by the United States and other nations to ensure that food aid is "additional"; they are negotiated between the supplying and recipient country and included in the contractual arrangements.[12] The UMR also supports another P.L. 480 objective—to develop and expand markets for U.S. agricultural goods.

The USDA calculates a UMR[13] each time new title I agreements are negotiated to determine how much of a given commodity, if any, a country is eligible to receive that year. Title I assistance to Honduras illustrates USDA's difficulty in implementing a program in-country that meets program requirements while simultaneously accomplishing the multiple program goals and objectives of supporting U.S. foreign policy, promoting economic development, and developing markets for U.S. agricultural goods. It was difficult, if not impossible, for USDA to reconcile the

[12]Under the Principles of Surplus Disposal established by the United Nations' Food and Agriculture Organization (FAO), the United States and other member nations are committed to ensuring that food aid (1) is in addition to a recipient country's usual flow of commercial imports from all countries and (2) does not discourage or adversely affect domestic production. FAO's Consultative Subcommittee on Surplus Disposal is made up of 45 member nations, the European Economic Community, and 21 observer countries. The Principles of Surplus Disposal represent a code of conduct recommended to governments in the provision of food aid.

[13]The UMR calculation is based on the most recent 5-year average of a country's commercial imports from all partners. Adjustments may be made to reflect import trends, the country's current financial status, and any other unusual considerations affecting the country's ability to import.

program's UMR rules with the desire to support BBS development through foreign exchange savings, as well as promote U.S. foreign policy interests.

The United States exported wheat on a strictly commercial basis to Honduras until 1975, when the title I program was introduced in response to emergency needs resulting from the ravages of Hurricane Fifi. According to USDA officials, the title I program continued into the 1980s and 1990s, motivated by U.S. foreign policy objectives to sustain political goodwill and provide economic support, despite USDA concerns about disrupting existing commercial markets for wheat. As a condition for receiving title I assistance, Honduras was expected to import an amount of wheat on a commercial basis equivalent to its preceding 5-year commercial import average after adjusting for factors affecting the country's ability to import the commodity.

In the early 1980s, it became more difficult for Honduras to meet its UMR requirement for wheat. For fiscal years 1983 through 1986, USDA was able to continue providing title I wheat to Honduras without technically violating the UMR rules by setting the UMR for wheat at zero—meaning that the country was not expected to import any wheat on a commercial basis during each of those years. According to a USDA official, the agency adjusted the 5-year commercial import average to zero because its analysis indicated that Honduras was unlikely to import any wheat commercially due to economic hardships facing the country. USDA set the UMR for wheat at zero for fiscal years 1983 through 1986, even though Honduras had been expected to import 51,000 metric tons of wheat commercially in fiscal years 1981 and 1982 according to the prior year's UMR analyses. In addition, import statistics for fiscal years 1983 through 1986 showed that Honduras continued to import commercially, but in smaller volumes, while the title I imports increased.

Solely on the basis of the UMR calculation, it would appear that title I wheat imports for fiscal years 1983 through 1986 were additional since Honduras was not expected to import any wheat commercially. However, it is more likely that title I wheat replaced commercial imports to some extent—contrary to the UMR principle. Ultimately, it appears that title I assistance made foreign exchange available without technically violating UMR rules.

The program requirements that ensure that food aid be additional to normal commercial imports can also hinder the implementation of another requirement in the food aid legislation, the Bellmon determination. The

Bellmon determination stipulates, in part, that the distribution of food aid in the recipient country should not interfere with domestic production or marketing in that recipient country. In economic terms, this generally requires that food aid not increase the total supply of food, as the increase in the food supply may create disincentives to local production by putting downward pressure on local agricultural prices. Whereas UMRs are meant to ensure that commodities exported under the title I program are, in fact, additional to the amount of commodities a recipient country would have bought commercially in the absence of the title I sales. Consequently, it may be impossible at times to simultaneously fulfill the usual marketing requirement and satisfy the Bellmon determination.

Conclusions

The ability of title I aid to promote BBS development in the recipient countries is quite limited. The central objective of P.L. 480 legislation, as amended, is to promote the foreign policy of the United States by enhancing the food security of the developing world through the use of agricultural commodities. BBS development is a crucial component of any long-term strategy to promote food security—the goal of the title I program. The primary way in which title I food aid could contribute to BBS development in the recipient country would be by giving the country foreign exchange savings that it would not have had otherwise. While it is probable that the title I program, to varying degrees, provides foreign exchange relief to the recipient countries, even the maximum potential contribution to BBS development is limited, primarily due to the small size of title I aid relative to the needs of the country. Other factors also limit the program's contribution to BBS development: title I assistance gives the United States relatively little leverage to influence BBS development activities or initiate policy reforms, and other title I objectives sometimes take priority in shaping the title I programs in countries. However, despite the small size of title I assistance, it appears that the program could be making a meaningful short-term contribution to the food imports of some title I recipients. In addition, title I aid may have enabled some countries that were experiencing critical shortages of foreign exchange to acquire food that they otherwise would not have been able to purchase.

Several program requirements also hamper the ability of the title I program to achieve its BBS development goals. Title I aid could contribute to BBS development if it were to provide recipient countries with foreign exchange savings. Yet the condition under which the foreign exchange savings occur, i.e., the displacement of commercial imports, is impeded by UMRs, which are meant to ensure the requirements that title I aid be additional to normal commercial imports. UMRs also hinder the implementation of the Bellmon determination, which is meant to safeguard against the disincentives to local agricultural production and marketing that may occur if the food supply increases.

Title I's Importance to Long-Term Market Development Has Not Been Demonstrated

The United States can claim market development success in a particular country if either the amount or the market share of U.S. agricultural exports to commercial markets has increased over the long-term. The results of our review, however, indicated that the importance of the title I program to long-term market development has not been demonstrated. To the extent that title I aid contributes to BBS development and expands the recipient's domestic economy, the program may lead to an increase in U.S. agricultural exports. However, it is difficult to demonstrate a link between market development and title I's impact on economic development because numerous factors affect the pace of economic growth. Although U.S. agricultural products have been exported under the title I program for 40 years, none of the many studies we reviewed has established a link between food aid and long-term commercial market share for U.S. agricultural products. While USDA officials often point to South Korea as the best example of a successful title I graduate, we believe that many influences, in addition to title I assistance, are responsible for the transformation of South Korea into a leading commercial market for U.S. agricultural products.

Title I assistance can contribute to market development if the program creates preferences for U.S. products that remain after the concessional sales have been discontinued, resulting in a greater U.S. share of the country's commercial market. However, it is difficult to develop product loyalty and secure commercial market share when title I commodities, which are typically bulk and semiprocessed agricultural goods, can easily be replaced by or substituted with products at a lower price from other nations.

In the short term, title I allows the United States to move commodities and possibly keep a market presence that it otherwise might not have been able to maintain. Over time, the concessional sales made possible by the title I program will not necessarily translate into commercial market share unless the United States offers exports with competitive prices and financing. While title I sales may help lay the groundwork for establishing trade relations and exposing consumers to U.S. commodities, the program's usefulness as a market development tool is diminished by several legislative requirements, such as cargo preference provisions, commodity eligibility criteria, and reexport restrictions.

Title I Is One of Several USDA Market Development Programs

The title I program, representing less than 1 percent ($332.8 million) of the total value of U.S. agricultural exports in fiscal year 1993, is just one of several USDA export assistance programs used to increase the export of U.S. agricultural products to developing countries. In addition to the provision of food aid (donations and concessional sales), USDA employs three other basic methods to increase exports.

- Price reduction. USDA's Export Enhancement Program (EEP), the Sunflowerseed Oil Assistance Program (SOAP), the Cottonseed Oil Assistance Program (COAP), and the Dairy Export Incentive Program (DEIP) pay cash to U.S. exporters as bonuses, allowing them to sell certain U.S. agricultural products to targeted countries at lower prices. These programs enable the U.S. exporters to meet price competition in world agricultural markets when domestic agricultural prices are higher than world prices. These programs are designed to help counter the effects of other countries that subsidize their exports.
- Export credit guarantees. Two USDA General Sales Manager programs (GSM-102 and GSM-103) offer short- and intermediate-term credit guaranteed by the U.S. government to countries with foreign exchange constraints. These programs are intended to help increase the availability of export financing to help U.S. agricultural exporters sell in markets with foreign exchange constraints. These programs protect the exporters against the risk of default on payments.
- Promotion assistance. USDA's Market Promotion Program is an export promotion program designed to help U.S. producers and trade organizations finance promotional activities for U.S. agricultural products overseas.

While the United States guarantees credit under the GSM programs, the terms of the GSM loans are not as attractive as the terms under the title I program. For example, the maximum repayment period is 3 years for GSM-102 and 10 years for GSM-103, compared to title I's maximum repayment period of 30 years with a maximum 7-year grace period. In addition, the interest rates under the GSM programs are not concessional, whereas title I's interest rate is set below prevailing market rates.

Unlike price reduction programs that subsidize export sales, such as EEP, the contract sales price billed by USDA for title I commodities is the U.S. market price for that commodity and grade, which is frequently higher than world-market prices. Oftentimes, EEP is used in conjunction with the GSM programs so that certain U.S. agricultural exports can be purchased at competitive discount prices using U.S. government credit guarantees. Title

I sales are not combined with EEP discounts. Because no discounts are allowed, recipients usually pay more on a price-per-tonnage basis for a title I commodity than they would if the commodities were purchased under one of the price reduction programs. For example, in fiscal year 1992, Egypt purchased wheat through title I at $141 per metric ton and through EEP at $110 per metric ton. In some cases, countries may choose to buy a certain commodity under a price reduction program because of its lower price-per-unit basis even though the cost of the commodity exported under the title I program is cheaper in the long-term since the cost is discounted over a long repayment period at below market rate of interest. However, multilateral development institutions discourage developing countries from incurring long-term debt for nondurable consumption goods, such as food. In addition, some countries forgo the benefits of the title I concessional loan, preferring the flexibility of commercial financing instead, according to USDA officials.

Country participation and the amount exported under each U.S. export assistance program vary from year to year depending on factors such as the availability of agricultural commodities, favorable credit terms and credit guarantees, the country's import needs and foreign exchange constraints, the export activity of competitor countries, and the foreign policy considerations of the United States. See table 3.1 for USDA program allocations to our seven case-study countries for fiscal year 1993. For several of our seven case-study countries, many commodities that were imported under the title I program (i.e., wheat, wheat flour, tallow, soybean meal, and vegetable oil) also were imported under the GSM, EEP, SOAP, and COAP programs.

Table 3.1: U.S. Agricultural Exports Assisted by USDA Programs for Seven Case-Study Countries by Export Value, Fiscal Year 1993

Dollars in millions

Country	Title I	EEP	GSM-102/ 103	EEP/GSM[a]	SOAP	COAP	DEIP	Donations[b]
Egypt	•	$330.2	$16.5	$26.9	•	•	$12.3	$4.1
El Salvador	$33.4	•	•	•	•	$17.1	•	5.9
Guatemala	15.0	•	19.4	•	$11.8	0.9	•	10.2
Jamaica	30.0	•	•	•	•	•	1.7	3.3
Morocco	20.0	267.7	19.6	158.9	•	•	•	3.1
Philippines	20.0	217.3	•	•	•	•	•	13.4
Sri Lanka	10.0	60.2	•	26.6	•	•	•	38.2

Legend

• = Program was not used in-country that year.

[a]EEP/GSM means that the programs were combined and the commodities were sold at a discount price using U.S. government credit guarantees.

[b]Titles II and III, food donations under section 416(b) of the Agricultural Act of 1949, and the Food For Progress program.

Source: USDA.

Link Between Title I and Market Development Via Economic Development Is Uncertain

USDA officials in many of our seven case-study countries told us that bolstering sustainable economic development is the key way in which title I assistance could contribute to market development in their countries. Research shows that economic growth is a key factor in enabling developing countries to increase their imports of agricultural commodities. As per capita income rises in the early and middle stages of economic development, consumer demand for food usually grows more rapidly than domestic food production is able to supply. Moreover, as countries continue to develop and consumers' dietary patterns begin to diversify, imports rise to accommodate these changing tastes and preferences.

However, the link between title I, economic development, and subsequent market development is tenuous. We did not find any studies by USDA or other researchers that established a link between food aid and long-term commercial market share for U.S. agricultural products, despite the longevity of the title I program. We attempted to perform a regression analysis to determine what relationship might exist between title I and a country's commercial imports for major title I recipients, past and present. However, the regression analysis was unsuccessful due to inaccurate, inconsistent, and missing data. While South Korea is frequently cited by USDA as best-case example of a country "graduating" from the title I program, our research did not identify any strong evidence to support a direct tie between title I aid and the development of commercial markets. Moreover, the level of U.S. agricultural exports to other countries having received little or no title I assistance indicated that title I assistance was neither a necessary nor sufficient condition for creating U.S. export opportunities.

Title I Aid One of Many Factors That Influenced South Korea's Import Market

South Korea has become a leading market for U.S. agricultural exports as a consequence of its rapid economic growth. In 1993, South Korea was the fifth largest market for U.S. agricultural goods, representing $1.9 billion. Our research suggests that to the extent that title I may have contributed to market development for U.S. agricultural products, it is most likely to have done so through the role it played in supporting South Korea's overall economic development in conjunction with substantial assistance from other U.S. programs and international donors as well as the South Korean government's own development efforts. Moreover, our research indicates that a variety of other considerations, such as demographic, political, and cultural factors, also contributed to the country's economic success.

According to a 1985 AID study,[1] the amount of international assistance South Korea received between 1943 and 1983 probably totaled over $26 billion, much of it in grant or concessional forms. According to the U.S. Overseas Loans and Grants statistical annex, the United States provided South Korea with approximately $15 billion in economic and military assistance for fiscal years 1946 through 1992, including $1.6 billion in title I assistance for fiscal years 1956 through 1981. These figures represent nominal values. If we had been able to covert these amounts to 1993 constant dollars, their value would have been substantially larger.[2]

While economic growth influenced South Korea's ability to import, other factors, such as technical assistance and commodity price and quality, have played a role in South Korea's decisions to import from the United

[1]David I. Steinberg, Foreign Aid and the Development of the Republic of Korea: The Effectiveness of Concessional Assistance, AID Special Study No. 42, U.S. Agency for International Development (Washington, D.C.: Oct. 1985).

[2]We did not convert these amounts into 1993 dollars because the $26 billion in international assistance was presented in an aggregated form.

States and other countries. For example, U.S. trade associations provided post-war South Korea with the technical abilities to utilize wheat, corn, and cotton exported under the title I program. Western Wheat Associates provided technical assistance to bakers, biscuit makers, and flour millers; and U.S. Feed Grains Council assisted South Korea in upgrading its technology for corn processing and feed and livestock production. In the case of cotton, U.S. technical assistance helped the country rebuild its spinning industry after the Korean conflict in the early 1950s, creating an industry designed to accommodate U.S. cotton specifications and merchandising systems. Because of the numerous and complex factors that influenced South Korea's economic growth and import decisions, it is very difficult to meaningfully attribute market development results to any one factor in isolation from other possible causal factors.

Several Top U.S. Export Markets Received Very Little or No Title I Aid

The level of U.S. agricultural exports to other countries suggested that having received title I assistance was neither a necessary nor sufficient condition for creating U.S. export opportunities. For example, the United States has been very successful in increasing the value of its agricultural exports to other Asian markets that received little or no title I assistance, such as China, Japan, Hong Kong, and Singapore (see table 3.2). In 1993, Japan ranked as the top leading market for U.S. agricultural exports. Hong Kong, China, and Singapore ranked as the 10th, 21st, and 30th largest export markets for U.S. agricultural goods, respectively. However, India was the 33rd largest market for U.S. agricultural exports in 1993 (up from 41st in 1992) even though the country received a total of $18.5 billion in title I assistance between fiscal years 1957 and 1978. The level of U.S. agricultural imports to India, South Korea, and the other Asian countries and the tremendous difference in the amount of title I assistance that each received imply that many factors other than title I assistance contribute to a country's economic success and to U.S. export growth.

Table 3.2: Market Ranking and U.S. Agricultural Export Value, Plus Total Value of Title I Aid for Select Countries, 1993

Dollars in millions

Country	1993 market ranking	1993 U.S. agricultural export value	Total value of title I aid[a]	Fiscal years country received title I aid
Japan	1	$8,695	$682	1956-1958
South Korea	5	1,933	5,357	1956-1981
Hong Kong	10	873	[b]	[b]
China	21	372	[c]	1974
Singapore	30	225	[b]	[b]
India	33	205	18,488	1957-1978

[a]Dollars reported in 1993 constant dollars.

[b]These countries did not receive title I aid.

[c]China received $37,740 of title I aid (in 1993 constant dollars) in 1974.

Source: GAO analysis of USDA data.

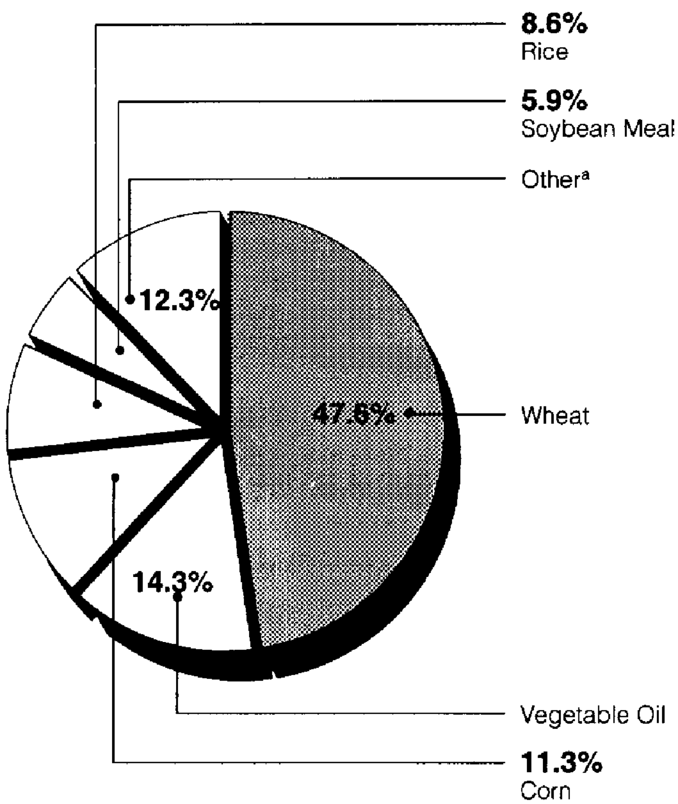
Price-Sensitive Exports Restrict Title I's Market Development Opportunities

Title I can contribute to market development by increasing U.S. commercial market share if the program creates preferences for U.S. products that persist after the program sales have been discontinued. Agricultural commodities typically exported under the title I program are bulk and semiprocessed commodities. While many factors influence a country's import decisions, such as the quality of a product, the availability of commercial financing, the reliability of the supplier, and the existence of trade ties, price is a predominant factor where the import of bulk and semiprocessed products is concerned. According to USDA officials, title I assistance serves as a market maintenance tool. In the short term, the title I program helps U.S. exporters to move commodities, albeit on a concessional basis, and possibly keep market presence that they otherwise may not have been able to maintain. However, this does not constitute long-term market development. Many USDA officials in the seven case-study countries we visited were skeptical of the United States' ability to maintain its market share for title I commodities once the program is discontinued, unless the United States can offer competitive prices and financing, because the purchasing decisions of these countries are largely driven by price.

Title I Commodities Are Difficult to Differentiate

Title I exports tend to consist of a few bulk commodities, such as wheat, rice, and corn, and a few semiprocessed products, such as vegetable oil, soybean meal, and tallow (see fig. 3.1). Wheat has been the predominate export under the title I program, representing approximately 48 percent of the total value of commodities exported under the title I program during fiscal years 1990 through 1993. Bulk products are traditionally seen as generic products that have little or no identification with a particular producer. According to USDA's long-term agricultural trade strategy, competitive pricing is particularly important in the marketing of bulk and semiprocessed products. It is difficult to develop product loyalty and secure a market share when the commodities under consideration can be easily replaced with identical products at a lower price and face competition from a range of substitutes.

Figure 3.1: Commodity Share of Title I Export Value, Fiscal Years 1990-1993



[a]Consists of wheat flour, tallow, cotton, and wood.

Source: GAO analysis of USDA data.

In only one of our seven case-study countries, the Philippines, has USDA claimed success in using the title I program to establish a U.S. market presence by promoting specific characteristics of a commodity, enabling it to be differentiated on the basis of quality. According to USDA and Philippine officials, the Philippines had imported cheaper low-protein soymeal, primarily from Brazil, China, and India, before the title I program was used to introduce high-protein soymeal in fiscal year 1990. At that time, the title I program created a market niche by offering a higher quality (and more expensive) soymeal. Philippine ranchers developed a preference for U.S. soymeal with a high-protein content because it resulted in better livestock growth.

While USDA officials in-country claimed market development success for high-protein soymeal, they could not provide import statistics to support their claim and stated that trade statistics do not distinguish between high- and low-protein soymeal. These officials told us that the long-term prospects for high-protein soymeal that have been supported through title I concessional sales are uncertain. Representatives from USDA and the American Soybean Association explained that, without the support of the title I program, users may return to less expensive, low-protein soymeal from China and India. In addition, a crushing plant was reopened in the Philippines, allowing the country to process raw soybeans. As a result, U.S. exports of high-protein soymeal will face increasing competition for market share, according to USDA officials.

Other attempts by the United States in our case-study countries to differentiate title I commodities and entice buyers with concessional credit have not been successful. According to USDA officials in Egypt, they tried to diversify the country's title I imports in fiscal year 1992 by offering an additional $10 million in title I assistance for U.S. soybean oil. Egypt declined the offer, however, because the country purchased more competitively price sunflowerseed oil and cottonseed oil from Asia, South America, and USDA's price reduction programs—SOAP and COAP.

In Guatemala, USDA officials told us that the country had imported vegetable oil (i.e., soybean, cottonseed, and sunflowerseed oil) under the title I program in the mid-1980s. While the program allowed the United States to establish a market presence, these officials said that eventually Guatemala decided to purchase vegetable oil from cheaper sources. Once the country stopped importing vegetable oil through the title I program, the U.S. share of Guatemala's vegetable oil imports decreased from 37 percent in fiscal year 1988 to 2 percent in fiscal years 1989 and 1990. USDA used SOAP and COAP in fiscal year 1993 to reestablish U.S. market share of Guatemala's vegetable oil imports; these programs helped increase the U.S. share to 38 percent.

In another case-study country, Jamaica, USDA exported soybean oil under the title I and other food aid programs during fiscal years 1977 to 1985. While the food aid programs allowed the United States to establish a market share for its soybean oil, Jamaica imported about 70 percent of its vegetable oil (volume) in fiscal year 1993 from other nations that supplied cheaper varieties, such as palm and coconut oils, as well as competitively priced soybean oil, according to USDA officials.

Competitive Programs Needed to Transform Concessional Sales Into Commercial Markets

On the basis of interviews with USDA officials and our analysis of title I exports to our seven case-study countries and South Korea, the transformation of concessional sales into commercial market share is largely influenced by USDA's ability to offer alternative export programs with competitive prices and financing. For example, according to USDA officials and representatives from a U.S. commodity group in Egypt, in fiscal year 1993 the United States was able to transform its concessional sales of wheat into a commercial market share with the help of USDA's EEP, which subsidizes export sales. These officials believe the title I program helped the United States to establish a market share for wheat in Egypt by offering concessional sales to a country that had a critical shortage of foreign exchange. In fiscal year 1992, after Egypt's foreign exchange reserves greatly improved due to significant debt forgiveness following the 1991 Gulf War, the country began using its foreign exchange to purchase U.S. wheat under EEP, where the price per ton was lower than under the title I program.

Wheat exports to Egypt under the title I program dropped from $108 million in fiscal year 1991 to $40 million in fiscal year 1992; at the same time, U.S. wheat exports to Egypt increased from $120 million to $462 million under EEP. In fiscal year 1993, Egypt did not participate in a title I program and imported all of its U.S. wheat under EEP. USDA officials told us that they expect the United States to retain its market share only as long as it offers prices and credit terms that are comparable to or better than those offered by competing suppliers from the European Union.[3]

In Jamaica, USDA officials told us that the country's import decisions are heavily influenced by price and the availability of favorable credit terms to stretch its scarce foreign exchange reserves. According to these USDA officials, title I concessional sales have helped the United States maintain a market presence that it otherwise might not have for corn and rice. Jamaica has imported corn through the title I program since 1972 and rice since 1981. Jamaica also imported wheat under the title I program during fiscal years 1978-1992. USDA officials told us that the title I program helped the United States to maintain its status as a primary supplier of wheat to Jamaica, competing with Canada for market share. However, U.S. market share has dropped since Jamaica stopped importing title I wheat in fiscal year 1993. On the basis of preliminary statistics, the U.S. share (volume) dropped from 66 percent in June 1992 to 57 percent in June 1994. USDA officials said that Jamaican millers prefer non-title I wheat because they want to reexport their processed and semiprocessed products—an export opportunity that is not permitted under the program for products derived from title I commodities. According to USDA officials, the Jamaican government is purchasing greater quantities of high-quality wheat at lower unit prices from Canada, Germany, and France. These USDA officials told us that the United States seemingly lacks an effective response to the threat to this U.S. market share. Jamaica is ineligible for GSM programs due to arrearages in its repayment schedule, and EEP cannot be activated unless the United States perceives unfair trading practices from European competitors.

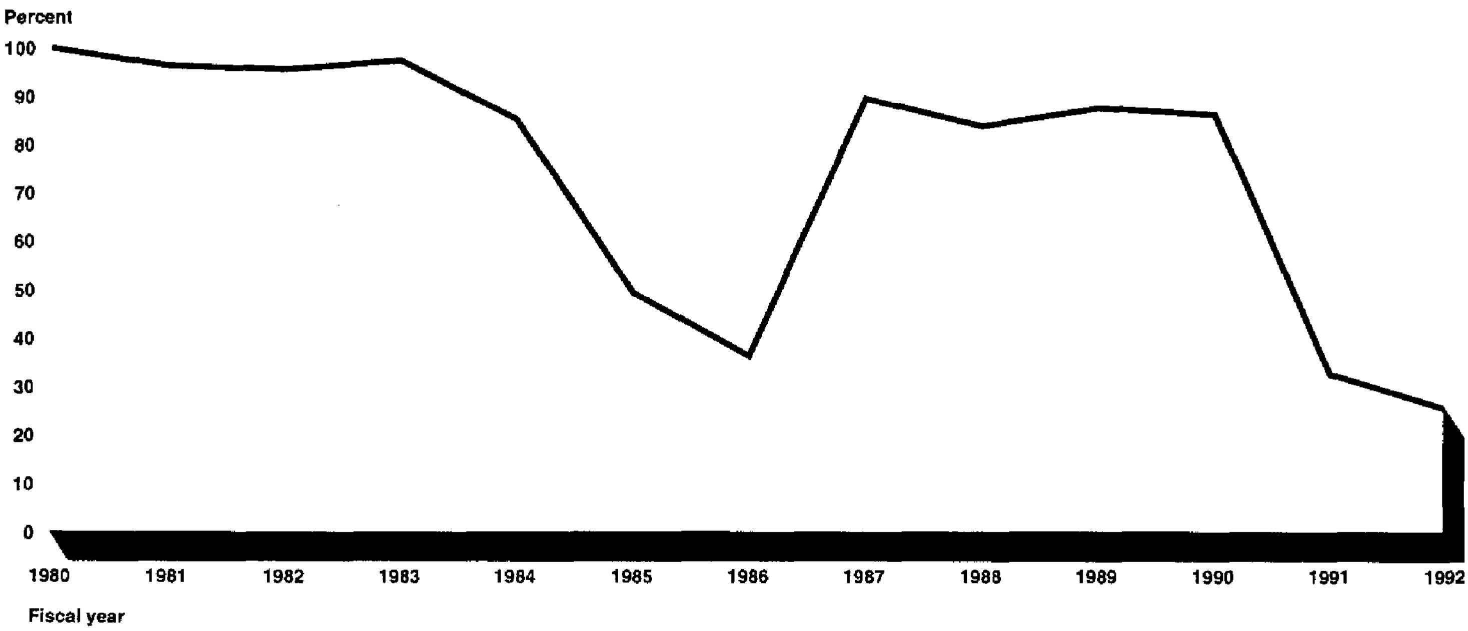
According to USDA and foreign government officials in Morocco, U.S. exports of vegetable oil under the title I program and EEP have helped the United States to maintain a share of Morocco's vegetable oil market. The country's import decisions are largely determined by price, according to the Moroccan government officials. These officials told us that although Moroccan oil refiners prefer soybean oil, a large portion of its vegetable oil imports comes from the European Union, which supplies less-expensive rapeseed oil. According to Moroccan government officials, the United States would need to export vegetable oil under EEP if the title I program were discontinued to compete with price-competitive rapeseed exports

[3]The European Union was formerly known as the European Community. In 1994, the European Union consisted of 12 member countries: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. In 1995, Austria, Finland, and Sweden became members of the European Union, increasing its membership to 15 countries.

from the European Union and soybean oil exports from Argentina and Brazil.

Although the United States still remains the primary supplier of cotton, wheat, and corn for South Korea, U.S. market shares established through concessional sales declined once title I assistance ended in 1981. Typical of trade in bulk and semiprocessed products, South Korea's buying decisions are largely influenced by price. For example, the market for feed corn in South Korea is extremely sensitive to price. The U.S. market share declined from nearly 100 percent in fiscal year 1980 to 36 percent in fiscal year 1986 due to increased competition for feedgrains, a feed corn substitute, and to other corn exporters such as Argentina, South Africa, and Thailand, according to USDA officials. The U.S. share of South Korea's corn imports increased substantially in the late 1980s due to a reduction in feedgrain and corn supplies from competitor countries. However, by fiscal year 1992, the U.S. market share dropped dramatically to 25 percent primarily because of competitively priced corn from China (see fig. 3.2).

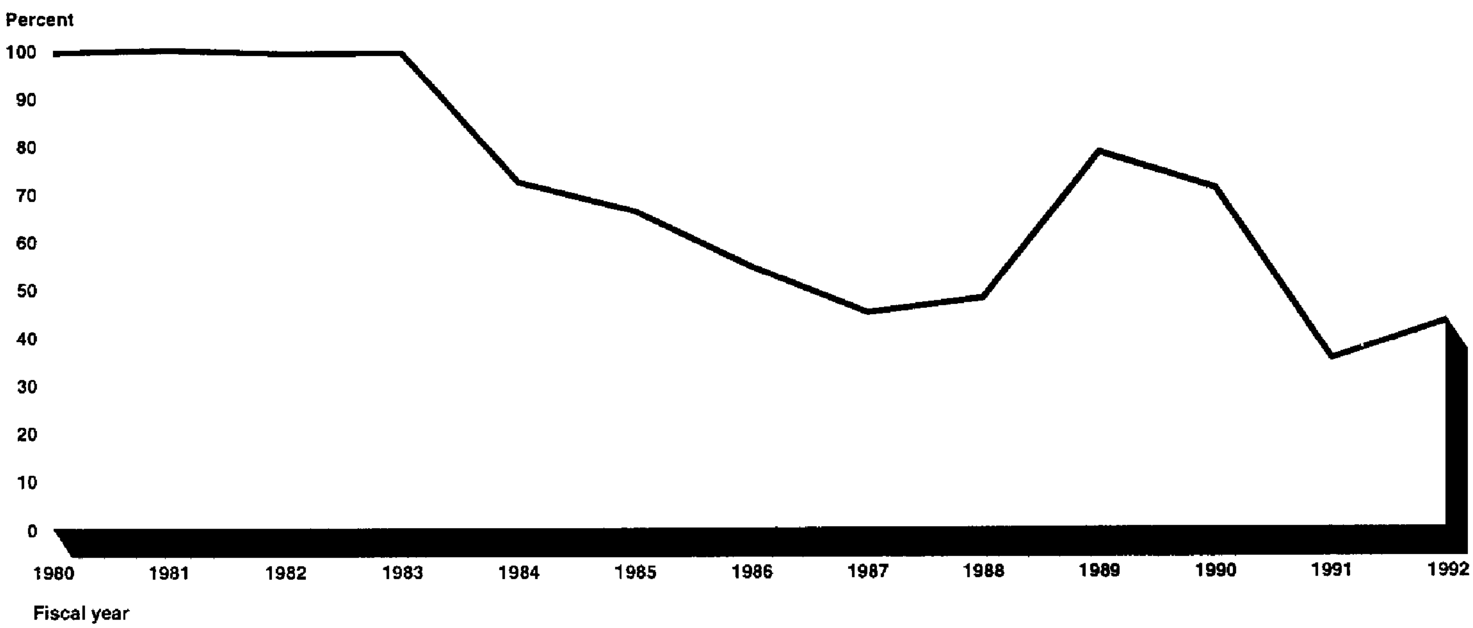
Figure 3.2: U.S. Share of South Korean Corn Market (Volume), **Fiscal Years 1980-1992**



Source: GAO analysis of United Nations' trade data.

While the United States remains the primary supplier of wheat to South Korea, it lost market share to Canada and Australia in the mid-1980s. At that time, the South Korean government gradually relinquished control of grain procurement decisions, and the market became increasingly sensitive to price and different wheat qualities. The U.S. share of South Korea's wheat imports dropped from 100 percent in 1980 to 43 percent in 1992 (see fig. 3.3).

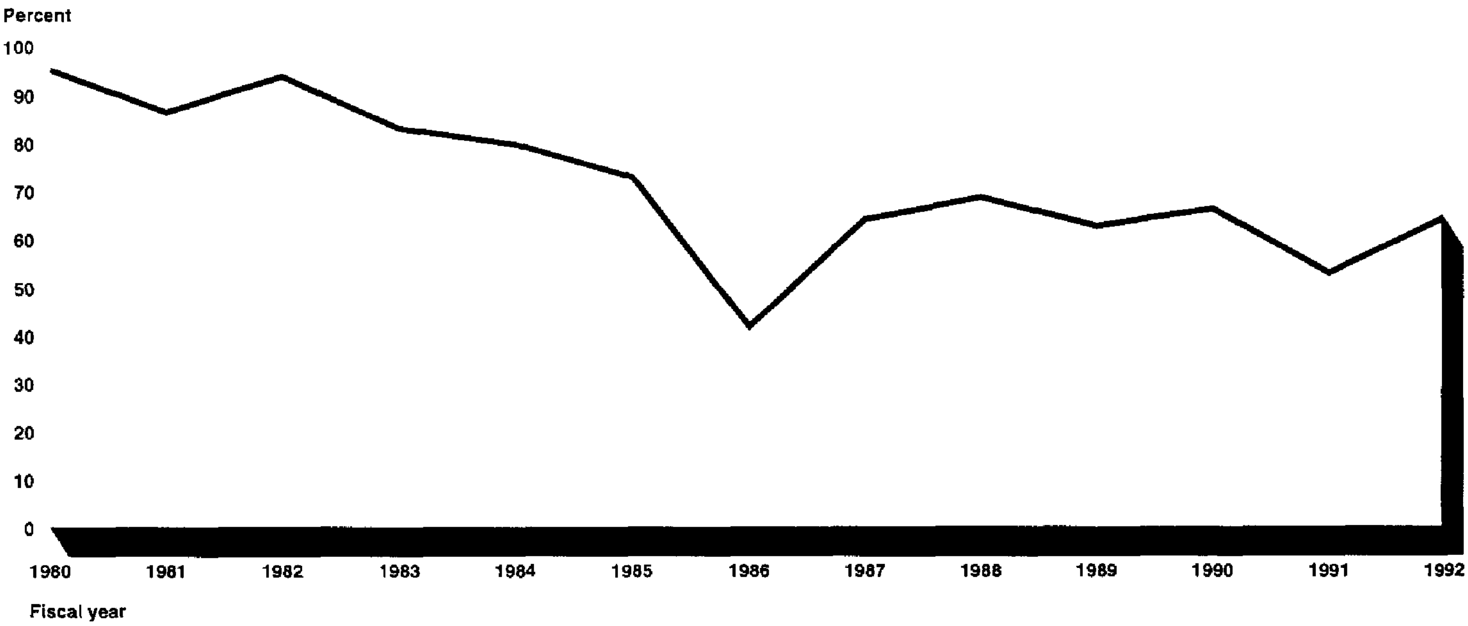
Figure 3.3: U.S. Share of South Korean Wheat Market (Volume), **Fiscal Years 1980-1992**



Source: GAO analysis of United Nations' trade data.

As for South Korea's cotton market, factors other than price have helped to support U.S. cotton exports. According to cotton industry sources, despite the U.S. market share's dropping from 95 percent in fiscal year 1980 to 64 percent in fiscal year 1992 (see fig. 3.4), the United States was able to retain its lead position in South Korea because the United States had helped the country rebuild its spinning industry.

Figure 3.4: U.S. Share of South Korean Cotton Market (Volume), **Fiscal Years 1980-1992**



Source: GAO analysis of United Nations' trade data.

Title I Program Faces Barriers to Its Usefulness as a Market Development Tool

Important market development activities include differentiating products, establishing trade relations, exposing consumers to U.S. agricultural commodities, and familiarizing country traders with U.S. trade practices. The title I program's usefulness as a market development tool, however, is limited because of several legislatively mandated program specifications, such as cargo preference requirements, UMRs, export restrictions, and eligibility requirements that determine which commodities can be exported under the P.L. 480 programs. These program requirements impede the program's ability to respond to market opportunities and complicate trade transactions. The program requirements may also discourage future transactions. Moreover, the title I program may actually disrupt trade relations by replacing ongoing commercial transactions with government-to-government food aid programming.

Cargo Preference Rules Can Hamper Commercial Trade Relations

USDA's difficulties in implementing an effective strategy are compounded because the title I program is subject to U.S. cargo preference requirements. The title I program is intended to strengthen trade linkages between importers in the recipient country and U.S. suppliers, encouraging these importers to turn to U.S. suppliers for future commercial imports. However, cargo preference requirements, which are designed to support the U.S. merchant marine industry, can be obtrusive and undermine market development efforts. These requirements may also lead importers to believe that U.S. exporters provide inferior service. Cargo preference provisions require that at least 75 percent of food aid tonnage be shipped on U.S. flag ships. One of our earlier reviews, which specifically examined the impact of cargo preference rules on food aid programs, found that some recipients were forced to purchase a different variety of commodity than planned because their purchasing decisions were driven by the availability of U.S. flag ships, rather than the availability of the commodities.[4]

For example, during the cargo preference year ending March 31, 1994, for title I both El Salvador and Guatemala were interested in purchasing western white wheat, which is available from the West Coast of the United States. However, since very few U.S. flag ships were obtainable from the West Coast, the countries were unable to purchase this desired commodity. Instead, they were forced to purchase different varieties of wheat located where U.S. flag ships were available. According to a Guatemalan purchasing agent, the Guatemalan government sells the title I wheat to a private group of Guatemalan millers, which sells its products at market value in-country. To minimize their commodity costs, the millers want to purchase less expensive, high-quality western white wheat. However, Guatemala's agent explained that because of cargo preference requirements, when Guatemala puts together a purchasing plan for title I wheat to present to USDA, it must first consider the availability of U.S. flag ships, not what types of wheat it wants to buy. USDA officials stated that they believe that recipient countries that have had this type of unfavorable experience with the title I program are not likely to purchase agricultural products from the United States on a commercial basis in the future.

To comply with cargo preference requirements, some title I recipients have not been able to purchase a title I commodity at its lowest cost because U.S. flag ships were not available. This situation forces the recipient to purchase less of the commodity at a more expensive price. Our review of the impact of cargo preference rules on food aid programs found that, for a 1992 title I wheat purchase, Tunisia was unable to take advantage of the four lowest offers that specified particular loading ports,

[4]See Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, Sept. 29, 1994).

because U.S. flag ships were not available at these ports. Eventually, Tunisia was forced to purchase wheat offered at the seventh and eighth next-lowest price—and these prices were from $3.82 to $3.95 higher per metric ton for the almost 55,000 metric tons Tunisia finally purchased.

Food aid recipients are sometimes not able to purchase the title I commodities at their lowest price, even if a U.S. flag ship is available, because the vessel may not be the appropriate type or size to transport the commodity. For example, in a 1992 title I purchase, Estonia wanted to place both its corn and wheat purchases on one U.S. flag ship. However, the only U.S. flag ship that offered to carry these cargos was too large to be accommodated at the U.S. loading facilities that offered the lowest wheat prices. To use this U.S. flag ship, Estonia purchased higher-priced wheat from a supplier with loading facilities that could accommodate this ship.

We also reported in June 1993 testimony[5] that cargo preference requirements have forced USDA to transport title I corn on U.S. tankers, leading to excessive kernel breakage. This breakage, in turn, results in increased instances of insect infestation, mold growth, or other damage. Rather than export title I corn via bulk carriers, albeit foreign-owned, U.S. tankers were used to help meet the criteria that 75 percent of the title I export volume be transported using U.S. flag ships. Another problem, according to USDA officials, involves unloading a tanker at a developing country's port where appropriate equipment for unloading the grain may not be readily available. Furthermore, the tanker may be too large to enter the foreign port and may have to discharge its cargo to smaller vessels while at sea, increasing the amount of grain breakage and subsequent spoilage. According to USDA officials, the use of tankers to transport food commodities would not be tolerated by exporters or importers under normal trade circumstances.

P.L. 480 Docket Is Not Responsive to Market Opportunities

Driven by supply-oriented considerations, another program requirement restricts the types of commodities eligible for promotion under the title I program. Consequently, the title I program supports a limited range of agricultural commodities without regard to market demand. The P.L. 480 docket lists the types and amounts of agricultural commodities available for sale or donation under the P.L. 480 food aid programs.[6] With limited exceptions for urgent humanitarian needs, commodities are eligible for

[5]See U.S. Food Aid Exports: The Role of Cargo Preference (GAO/T-GGD-93-34, June 17, 1993).

[6]See chapter 1, page 20, for a further description of how the P.L. 480 docket is formulated.

export under the P.L. 480 food aid programs only when they are considered "surplus," that is, when domestic production exceeds what is needed to meet U.S. domestic consumption and reserve requirements, as well as anticipated commercial export opportunities. As a result, many commodities available for export under the title I program are not purchased by recipient countries through the program.

For example, in fiscal year 1993, 18 categories of commodities were eligible for export under the title I program; however, commodities associated with only 6 of the categories were actually exported. As illustrated by figure 3.1 (see p. 60), these commodities were wheat, rice, corn, vegetable oil, tallow, and soymeal. Since commodities are not placed on the P.L. 480 docket because of their market potential, many commodities available for export under the title I program face narrow market opportunities. USDA has had little success exporting certain items on the P.L. 480 docket, such as legumes, soyproducts, peanuts, dry nonfat milk, and butter/butteroil, under the title I program. Instead, these commodities are usually donated under the other food aid programs. In one case-study country, the Philippines, a government official stated that periodically there is no match between what country officials want to import and what is available on the P.L. 480 docket. Figure 3.5 illustrates the types of commodities that were eligible for export under the P.L. 480 food aid programs for fiscal years 1983 through 1993 and which ones were actually exported under the title I program.

Figure 3.5: Agricultural Commodities on the P.L. 480 Docket, Fiscal Years 1983-1993

Docket items	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Wheat	●	●	●	●	●	●	●	●	●	●	●
Wheat flour	●	●	●	●	●	●	●	●	●	●	○
Rice	●	●	●	●	●	●	●	●	●	●	●
Corn[a]	●	●	●	●	●	●	●	●	●	●	●
Edible vegetable oil	●	●	●	●	●	●	●	●	●	●	●
Tallow, edible/inedible	○	○	●	●	●	●	●	●	●	●	●
Cotton	●	●	●	●	●	●	●	●	●	●	○
Soymeal[b]						○		○	●	●	●
Solid wood products					○	○	●	●	○	○	○
Legumes	○	○	○	○	○	○	○	○	○	○	○
Soyfood products[c]	○	○	○	○	○	○	○	○	○	○	○
Nonfat dry milk	○	○	○	○	○	○			○	○	○
Butter/butteroil	○	○	○	○	○					○	○
Cheese	○	○	○	○	○						
Dry raisins		○	○	○	○						
Potatoes[d]				○						○	○
Atlantic fish[e]										○	○
Peanuts										○	○
Sunflower seeds						○					○
Pink salmon										○	
Pork											○

Legend

● = Commodities on the P.L. 480 docket that were exported under the title I program.

○ = Commodities on the P.L. 480 docket that were not exported under the title I program, but possibly donated under other food-aid programs.

☐ = Commodities not on the P.L. 480 docket.

[a]May include small amounts of other feedgrains.

[b]May include small amounts of other plant proteins.

[c]Includes soyfood products other than oils.

[d]Includes raw and dehydrated potatoes.

[e]Atlantic mackerel and dogfish.

Source: USDA.

Several case-study countries preferred to restrict the import of certain bulk and semiprocessed goods to support their own domestic production or processing industries. According to USDA and AID officials in the Philippines and Sri Lanka, these countries do not import rice under the title I program to protect their domestic production. In Jamaica, a country with a high level of fish consumption, USDA officials offered to export mackerel under the title I program. However, Jamaican officials declined the offer because they believed the import of U.S. mackerel would have disrupted the country's own domestic fishing industry.

While some commodities appear regularly on the P.L. 480 docket each year, other commodities appear inconsistently. USDA officials in two of our seven case-study countries, Jamaica and the Philippines, told us that it is difficult to introduce new types of title I commodities in recipient countries when USDA cannot guarantee that the commodity will be available through the title I program the next year. According to USDA's long-term agricultural trade strategy, being a consistent supplier is an important component of having a successful marketing strategy.

USDA officials in several of our case-study countries told us that the title I program would be more effective as a market development tool if the program were able to support a greater range of high-value products, especially consumer-oriented products.[7] These officials told us that some high-value products may have strong market development potential in recipient countries with "two-tier" economies, that is, developing countries with pockets of mature markets and prosperous citizens, such as Jamaica and Guatemala. Although these recipient countries do not have foreign exchange to import a large variety of high-value products on a commercial basis, there is a thriving portion of the countries' population that has the purchasing power, if the goods were made available. These USDA officials stated that the title I program, with its concessional terms, would be a useful market development tool for introducing high-value products into these countries.

[7]Agricultural products can be classified into three major categories: bulk, intermediate, and consumer-oriented. The latter two categories are often grouped together and labeled as high-value products. Intermediate products are principally semiprocessed grains and oilseeds. Consumer-oriented products require little or no additional processing for consumption and include fresh and processed meats, vegetables, and fruits. Consumer-oriented products represent the leading growth sector in world agricultural trade, constituting about 51 percent of the world agricultural export value in 1993.

Program Requirements Discourage Potential Imports

Other program requirements discourage countries from importing U.S. commodities under the title I program. For example, program provisions prohibit recipient countries from reexporting title I commodities ("export restrictions") and may prevent or limit recipients from exporting domestically produced commodities similar to those imported under the title I program ("export limitations"). While these provisions are intended to ensure that title I commodities are not used to increase the commercial exports of the recipient countries, they limit USDA's ability to take advantage of market opportunities. For instance, USDA offered Poland title I assistance to import U.S. cotton in fiscal year 1991. However, Polish officials refused the assistance because title I reexport restrictions would have limited the country's ability to export its domestically produced textiles—an important source of foreign exchange. Also, in fiscal year 1993, Jamaican officials decided to stop importing wheat under the title I program because they wanted to be free of the program's reexport restrictions, according to USDA officials in Jamaica.

Title I agreements also include UMR rules[8] that limit the amount of each commodity exported under the program to ensure that the recipient's normal production, import, and marketing patterns are not disrupted. According to USDA officials overseas and in Washington, D.C., UMRs are one of the main reasons why the amount and types of title I exports to recipient countries have been restricted. In Jamaica, for example, UMR rules prevented USDA from exporting corn under the title I program even though the country specifically requested the commodity during its fiscal year 1993 title I negotiations. Since UMR rules prohibited the concessional sale, USDA donated the corn to Jamaica under another food aid program.

While USDA officials told us that the title I program helps the United States build trade relations with countries of Eastern Europe and the former Soviet Union, title I's ability to advance this particular market development goal has not been demonstrated. Because of dissatisfaction with the title I program, several of these title I recipients, such as Bulgaria, Latvia, Poland, and Slovakia, declined to participate in the fiscal year 1994 program, according to USDA and State Department officials. The countries cited high prices, reexport constraints, and additional debt as some of the reasons for their declinations.

[8]See chapter 2, page 50, for more information on the UMR rules and title I agreements.

Program Requirements Can Weaken Private Sector Trade Relations

While the title I program is intended to introduce importers to U.S. export practices, it may actually disrupt the development of trade relations by replacing existing private sector trade that is based on commercial transactions with government-to-government food aid programming. According to USDA officials, the title I program in El Salvador, Honduras, and Guatemala has increased the recipient governments' role in trade relationships that were once predominately in the private sector. USDA officials also told us that the private sector importers in these countries do not like to import title I wheat because the importers cannot always get the right specifications (e.g., type or protein content), the quality of title I wheat is generally low, and the title I wheat cannot be processed and reexported. USDA officials in two of our case-study countries, Morocco and Sri Lanka, questioned the wisdom of replacing private sector trade with government-to-government export assistance, especially if the United States cannot consistently export the chosen commodity under the title I program each year or offer competitive prices after the program is discontinued. In addition, the USDA official in Morocco was reluctant to promote wood under the title I program because he did not want to disrupt the country's fledgling private sector trade, and importing title I wood would have required the intervention of the recipient government.

Conclusions

The importance of title I as a long-term market development tool has not been demonstrated. To the extent that title I contributes to BBS development and expands the recipient's economy, the program may lead to an increase in U.S. agricultural exports. However, the link between title I assistance, BBS development, and increased U.S. agricultural exports is tenuous. Our analysis indicates that many factors affect economic growth: even in the best-case scenario, South Korea, we could not determine a strong link between title I assistance, BBS development, and increased U.S. agricultural exports. In addition, in chapter 2 we concluded that the primary way in which title I could contribute to BBS development would be by providing the recipient country with some foreign exchange savings. However, we determined that the amount of foreign exchange relief derived from title I assistance was small and thus its contribution to BBS development was limited. Paradoxically, title I's primary assistance to market development comes through its contribution to long-term economic development, which occurs with the foreign exchange savings that can take place only if title I exports displace commercial sales.

While title I may help the U.S. maintain a market presence by offering concessional financing to developing countries with foreign exchange constraints, these concessional market shares will not necessarily transform into commercial market share once the title I program is discontinued. Many of the commodities exported under the title I program are price sensitive such that price has a greater influence on purchasing decisions than a commodity's unique characteristics or quality. Unless the United States could offer exports with competitive prices and financing, the United States would more than likely lose market share for these price-sensitive commodities when title I export assistance is discontinued.

In the short term, the title I program moves U.S. agricultural commodities. However, as discussed in chapter 1, the importance of title I as an export program has diminished substantially since the program's inception. The title I program once represented a significant share of total value of U.S. agricultural exports, but its importance decreased as new USDA programs were created to support the export of U.S. agricultural goods.

Requirements such as cargo preference provisions, commodity eligibility criteria, and reexport restrictions are built into the title I program to serve stated as well as unstated objectives. These requirements impede the program's ability to act as a useful market development tool. The title I program does not manifest many of the attributes associated with a successful market development program. A successful program would normally not contain requirements that restrict USDA's ability to respond to customer needs and that impose confining conditions on the buyer. A successful market development program would normally offer a wide range of products selected for their long-term market potential. Also, the products' availability under the program would be certain from year to year so as to create a consumer preference and establish the United States as a consistent supplier.

Management Improvements Have Not Eliminated Structural Barriers to Effectiveness

The 1990 act streamlined program management by eliminating the interagency administration of the title I program and simplifying the implementation requirements overseas. Although never put into practice, a new program was established by the 1990 act that authorized USDA to accept repayment of title I loans in local currencies and to use these local currencies for projects that support U.S. trade and agricultural development in-country. And, while the 1990 act made changes to the management of the title I program, the program continues to support multiple, and sometimes competing, objectives that are difficult for USDA to integrate into an effective program strategy. The process for selecting countries to participate in the title I program illustrates the difficulty in implementing a coherent strategy that effectively supports a diverse set of objectives.

Program Management Has Been Streamlined

The 1990 act streamlined P.L. 480 program management by abolishing the cumbersome interagency administration of the title I and other P.L. 480 programs. The act clarified program management responsibility by assigning title I to USDA and titles II and III to AID. This clearer delineation of title I program authority simplified the program's administration by reducing the potential for ongoing agency debate. In addition, the 1990 act eased the implementation of the title I program overseas by eliminating several program requirements pertaining to the execution of title I agreements. However, the 1990 act also created a new program within the title I program, called section 104, that could add significantly to USDA's administrative responsibilities, if ever implemented.

Interagency Administration Eliminated, but Interagency Coordination Continues

Before the 1990 act, the Development Coordination Committee (DCC), an interagency body, met regularly to make decisions about the allocation and implementation of P.L. 480 assistance. DCC was comprised of five agencies (USDA, AID, OMB, and the Departments of State and the Treasury). DCC working-level groups met on a biweekly basis to plan and approve the P.L. 480 programs as they operated in each country. No one agency had lead responsibility, and decisions were reached by consensus. DCC members' interests usually reflected the P.L. 480 objective that most closely agreed with their agency's views. In 1990, we found that, when differences of opinion arose among agencies over the proposed P.L. 480 objectives or policies with respect to a particular country, the DCC decision-making process was cumbersome and time-consuming and would cause delays in the negotiation and signing of a country agreement.[1]

The role of the interagency body in managing the P.L. 480 programs changed substantially when the 1990 act assigned USDA direct program responsibility for the title I program and AID direct responsibility for titles II and III. In February 1991, DCC was replaced by the Food Assistance Policy Council (FAPC), which is an interagency body consisting of senior representatives from USDA, AID, the State Department, and OMB. FAPC oversees rather than administers the P.L. 480 programs. A presidential executive order established FAPC to (1) ensure policy coordination of the assistance provided under the Agricultural Trade Development Act of 1954 (P.L. 83-480), as amended, and the Food for Progress Act, as amended (7 U.S.C. 1736o); (2) advise the president on appropriate policies under the act; and (3) coordinate the decisions on allocations and other policy issues.

Once actively involved in administrating the P.L. 480 programs, the role of the interagency body, FAPC, is now primarily limited to approving the country selection and program allocations proposed by USDA and AID. FAPC meets annually to review and approve the initial program allocations. Midyear changes to the P.L. 480 program allocations are generally made by the responsible agency after consultation with individual member agencies. FAPC also serves as the "court of last resort" for interagency disputes that cannot be resolved directly among the agencies involved. Since February 1991, FAPC has met about 10 times on an ad hoc basis to respond to a variety of interagency issues. For example, in September 1993, an FAPC meeting was convened to address the impact of potential congressional budget cuts on the P.L. 480 programs and discuss a food aid strategy for countries of the former Soviet Union. FAPC also met on another occasion to discuss the transfer of P.L. 480 funds between the title I and title III programs.

Overall, the officials from the four agencies believed the level of interagency competition was reduced substantially when program responsibility for the three titles was divided between USDA and AID. The officials agreed that FAPC has a much simpler review and approval process than DCC and that the interagency process is much less time-consuming. In general, agency officials believed that the consultation process, along with

[1]See Status Report on GAO's Reviews on P.L. 480 Food Aid Programs (GAO/T-NSIAD-90-23, Mar. 21, 1990).

the ad hoc FAPC meetings, provides the necessary degree of communication to coordinate program implementation.

Program Implementation Overseas Simplified

Many of the extensive program requirements that directed the implementation of the title I program overseas were also eliminated under the 1990 act. In general, USDA and recipient government officials in our seven case-study countries expressed their satisfaction with the new title I program, often citing its reduced administrative burden. Before the 1990 act when AID managed the title I program, many factors complicated the agency's efforts to negotiate and implement title I agreements in the recipient country. AID and recipient governments often engaged in lengthy negotiations to develop self-help measures that were "specific and measurable" and in addition to activities already undertaken by the country.

When proposed self-help measures or the use of sales proceeds were especially controversial, the negotiation of the title I agreement tended to delay its signing and implementation. As discussed in chapter 2, we and AID's Office of the Inspector General found that AID representatives in-country were not adequately monitoring adherence to title I self-help measures and use of the commodity sales proceeds. In addition, a number of recipient countries resented the increasing U.S. government auditing and monitoring requirements for these local currencies that were not owned by the United States, according to a 1990 planning document prepared by USDA.

Under the 1990 act, many of these implementation requirements were simplified. In part, the provisions of the title I program were revised in recognition of the difficulties in negotiating and administering development activities supported by local currencies owned by the recipient government. Presently, USDA does not have to negotiate specific and measurable development activities as part of the title I agreements. Instead, the 1990 act requires only that the title I agreements contain a statement on how title I assistance and the commodity sales proceeds will be integrated into the overall development plans of the country to improve its food security. As described in chapter 2, most of the agreements in our seven case-study countries for fiscal years 1991 and 1992 contained general and broadly worded development statements that did not specify measurable outcomes.

In addition, the 1990 act does not require USDA to monitor a country's (1) use of the local currency generated from the sale of title I commodities and (2) progress on its development plans. Overall, we found that USDA did not extensively monitor the title I agreements in our seven case-study countries. According to USDA officials overseas, they monitor the program's implementation through a variety of mechanisms, such as regular contact with recipient government officials, reviews of IMF and World Bank reports, and interagency meetings at the U.S. embassy level.

USDA generally requires recipient countries to submit an annual progress report on their country development plans. To minimize reporting burdens, recipient countries can satisfy reporting requirements by giving USDA copies of relevant reports submitted in compliance with other U.S. government and international financial institutions. Despite the reduced reporting requirements, we found that more than 43 percent of the recipient countries had not prepared the requested annual reports for fiscal years 1992 and 1993. According to a USDA official, while USDA posts overseas attempt to collect these reports on a timely basis, the program does not provide enough leverage to motivate recipients to submit them. This is especially true once the country has dropped out of the title I program.[2] For the 22 recipients in fiscal year 1992, only 11 submitted reports, 3 of which were on time; the others were late by 6 to 19 months. In fiscal year 1993, of the 21 recipients[3] who were required to prepare annual progress reports, 12 recipients submitted reports, 4 of which were on time; the others were late by 1 to 8 months.

New Local Currency Program Not Implemented

While the 1990 act simplified title I program management in general, it also authorized a local currency program within the title I program that, if implemented, could increase USDA's administrative responsibilities. Section 104 of the 1990 act authorizes USDA to accept repayment of title I loans in local currency, instead of dollars, and to use the local currencies for projects that promote U.S. trade and agricultural development in the recipient country. That portion of the loan, which is repaid to USDA in local currency, is never repaid to the U.S. Treasury.

[2]Four recipient countries (Estonia, Guyana, Latvia, and Sierra Leone) in fiscal year 1992 and three recipient countries (Bulgaria, Romania, Turkmenistan) in fiscal year 1993 did not participate in the title I program the following year. These countries have not prepared their required annual reports and the prospects of collecting them are unlikely, according to a USDA official.

[3]Sri Lanka, one of the 22 recipient countries in fiscal year 1993, was not required to prepare an annual progress report because the USDA post in-country and the recipient government had worked closely throughout the year on implementing portions of the title I agreement, according to a USDA official.

To begin the section 104 program, USDA solicited project proposals from its post overseas, eventually collecting proposals from three posts[4] to include with its fiscal year 1993 budget submission. These proposals, however, were not included in USDA's final and approved fiscal year 1993 budget submission. OMB officials raised questions about whether USDA would be able to manage a local currency program and whether some of the proposals would meet the market development criteria. OMB officials were also concerned that the section 104 program would increase the subsidy cost of the title I program because the program is essentially a grant program within a credit program.[5] Since no repayments are made to the U.S. Treasury under section 104, there would be an increase in the total subsidy value. This circumstance would require a parallel increase in the budget authority for the title I program. In addition to these concerns, a hiring freeze imposed on USDA during the budget negotiation process caused USDA to reconsider its ability to adequately manage a section 104 program. According to officials at USDA and OMB, staff resources at USDA in Washington, D.C., and overseas were already being stretched because USDA had assumed responsibility for two additional food aid programs (Food for Progress and section 416(b) of the Agricultural Act of 1949). On the basis of these events and concerns, the section 104 program was not put in place.

Some of the USDA officials in two of our seven case-study countries, Egypt and the Philippines, stated that they would like to undertake market development activities in-country using local currencies generated through a section 104 program. However, we interviewed other USDA officials overseas who raised concerns that the problems associated with administering a local currency program may exceed its potential benefits. In one of our case-study countries, Egypt, representatives from a U.S. trade association told us that they declined an opportunity to submit a section 104 proposal because it anticipated tremendous administrative troubles based on their past experience with similar programs. Most USDA and AID officials we met with overseas believed that it would be very difficult for USDA to administer such a program, given its current level of staff resources abroad. Also, at embassies in our two case-study countries that submitted section 104 proposals, the Deputy Chiefs of Mission believed that USDA did not have the administrative capabilities to manage a local currency program in-country. These officials preferred that AID, with its expertise and prior experience, manage any local currency programs in-country.

[4]The three USDA posts were located in Costa Rica, Egypt, and the Philippines.

[5]See chapter 1, page 23, for discussion on the subsidy value of title I loans.

In its budgets submission for fiscal year 1996, USDA requested $10 million to support proposed section 104 projects related to technical cooperation. Unlike in its fiscal year 1993 budget submission, USDA did not solicit section 104 proposals from its posts overseas; instead, the proposed projects were developed by USDA officials in Washington, D.C., and expected to be administered by headquarters officials. According to an OMB official, USDA's final budget for fiscal year 1996 did not include the proposed section 104 projects for reasons similar to those given when the proposed projects were not included in USDA's final budget for fiscal year 1993.

Competing Objectives Hinder Development of an Effective Program Strategy

The objectives of the P.L. 480 legislation are intended to support U.S. foreign policy and U.S. trade interests, as well as humanitarian and BBS development objectives overseas. While these objectives can complement each other, they can also work at cross-purposes, impeding the development of an effective program strategy. The process for selecting countries to participate in the title I program demonstrates USDA's difficulties in implementing a cohesive strategy that supports a diverse set of objectives.

Country Selection Reflects Competing Objectives

Rather than reflecting the execution of a strategic plan, the process of selecting countries for title I assistance is a conglomeration of several separate events representing attempts to accomplish the different program objectives. While the provision of title I aid to some countries has simultaneously fulfilled several of the program's multiple objectives, sometimes one objective conflicts with another. These conflicts may result in title I aid being provided to a country to accomplish one objective at the expense of achieving progress on other objectives.

According to the 1990 act, a developing country is considered to be eligible for title I assistance if it has a shortage of foreign exchange earnings and difficulty in meeting all of its food needs through commercial channels. The act further directs USDA to give priority to countries that

- demonstrate the greatest need for food;
- are undertaking measures for economic development purposes to improve food security and agricultural development; alleviate poverty; and promote broad-based, equitable, and sustainable development; and
- demonstrate potential to become commercial markets for competitively priced U.S. agricultural commodities.

In general, the universe of potential title I recipients is based on per capita gross national product (GNP) criteria. In fiscal year 1993, developing countries with a per capita GNP greater than $635 in 1991 were considered eligible for title I assistance. Those countries with a per capita GNP of $635 or less met the poverty criterion of the World Bank's Civil Works Preference List and were considered eligible for title III assistance in fiscal year 1993.[6] Although per capita GNP is used as a cutoff for determining which countries will receive title I or title III assistance, there is nothing to prohibit USDA from providing title I aid to countries eligible for title III assistance.

Once the list of potential title I recipients was established, USDA's country selection process gave priority to market development considerations. USDA selected its candidates for title I assistance on the basis of a separate and internal planning exercise nicknamed "spigots." First, USDA estimated the amount of commodities that countries expect to import in the coming year and then identified the various USDA export programs available to assist with these exports, such as GSM-102, GSM-103, EEP, and P.L. 480 food aid programs. On the basis of its "spigots" exercise, USDA estimated the amount of title I assistance needed to help meet export goals in eligible countries. In its estimates, USDA also considered how much assistance went to which recipients in the preceding year, collected input from its attaches overseas, and assessed the amount by which a country may be behind in its title I payments, if any. In general, USDA's allocation process focused on moving commodities rather than developing new markets for title I commodities.

The State Department and AID also have influenced the selection of title I recipients. The recommendations of these two agencies for title I allocations sometimes coincide with USDA's. For example, both USDA and the State Department supported title I programs for countries of the former Soviet Union; however, their recommendations were based on fulfilling different objectives. The State Department intends to provide title I assistance to support foreign policy objectives, while USDA hopes to support market development objectives. On the other hand, there have been occasions when an agency's primary objective has hampered progress on other title I objectives. For example, U.S. foreign policy and economic development objectives in Central America prompted the State Department's and AID's support for title I assistance to Honduras despite

[6]The 1990 act outlines selection criteria for title III recipients; one of these criteria is the poverty criterion established by the World Bank.

USDA concerns about displacing commercial sales. Until fiscal year 1993, the State Department also succeeded in allocating title I assistance to Sierra Leone even though USDA argued that Sierra Leone, a country with little market development potential, was eligible for title III grants.

According to USDA officials, foreign policy considerations have also influenced program allocations to Jordan, where title I aid was intermittent between fiscal years 1966 and 1993 because of its political alignments in the Middle East. Further, according to USDA officials, title I assistance to Pakistan was reinstated in fiscal year 1993 after a 2-year suspension because of U.S. concerns over the country's nuclear armament capabilities. While the on-again off-again nature of title I assistance in response to foreign policy considerations is contrary to sustaining important components of a successful market development strategy (i.e., demonstrate a long-term commitment and be a consistent supplier), the over-arching goal of the 1990 act—to promote U.S. foreign policy objectives—is being fulfilled.

In addition to the market development and economic development objectives and foreign policy considerations, another objective of the food aid program is to combat hunger and malnutrition and their causes. "Demonstrating the greatest need for food" is one of the conditions a country must demonstrate to receive priority when USDA selects countries for title I assistance. Using a 1992 food security index developed by AID,[7] we determined that title I assistance in fiscal year 1993 went to eight countries considered "borderline" or "most food insecure" (see table 4.1). The amount allocated to these countries represented about 44 percent of the $332.8 million in title I funds allocated that year. However, at least 37 percent of the title I funds went to eight countries considered "relatively food secure." Food security data were not available for the six countries of the former Soviet Union that received 20 percent of all title I funds in fiscal year 1993 (listed in table 4.1 as "status unknown"). With the exception of Tajikistan, it is likely that these countries would be considered "relatively food secure" because of their relatively higher per capita GNPs. For example, estimated 1992 GNP per capita statistics for these five countries of the former Soviet Union ranged from $1,230 to $2,930[8] compared to

[7]AID's food security index is based on a 3-year average of five indicators: domestic food production, gross foreign exchange earnings, GNP, daily calorie supply, and child mortality. Although the index has been criticized on the basis of timeliness and quality of the data, no alternative has been recommended.

[8]Estimates for economies of the former Soviet Union are subject to more than usual range of uncertainty and should be regarded as very preliminary, according to the World Bank's 1994 World Development Report.

those title I recipient countries considered relatively food secure, whose per capita GNP ranged from $1,030 to $1,960. Therefore, as much as 53 percent of the title I funds may have gone to countries considered "relatively food secure." Several USDA officials told us that they believed that donations under the title II or III programs are more appropriate for delivering food aid to countries for humanitarian purposes than the title I concessional sales program.

Table 4.1: Food Security Status of Title I Recipients, Fiscal Year 1993

Food security status			
Relatively secure	Borderline	Most insecure	Status unknown
Bulgaria	Côte d'Ivoire	El Salvador	Belarus
Costa Rica	Philippines	Guatemala	Lithuania
Jamaica	Zimbabwe	Sri Lanka	Moldova
Jordan		Pakistan	Tajikistan
Morocco		Yemen	Turkmenistan
Romania			Ukraine
Suriname			
Tunisia			

Source: The World Food Day Report, October 16, 1992, published by AID, Bureau for Humanitarian Response, Office of Program Planning and Evaluation (Washington, D.C.).

Conclusions

While the 1990 Agricultural Development and Trade Act streamlined program management and simplified implementation requirements overseas, the revised structure of the title I program did not improve the program's ability to accomplish its objectives. Multiple and sometimes competing objectives, along with certain program requirements, continue to encumber the title I program, making it difficult to create and implement an effective program strategy. For example, as discussed in chapter 2, legislative requirements designed to ensure that food aid does not displace commercial sales impede the program's ability to achieve its sustainable development objectives through foreign exchange savings. Chapter 3 provides examples of how USDA efforts to develop long-term markets for U.S. agricultural goods are hampered by legislatively mandated program requirements. These incude requirements to carry title I cargo on U.S. flag ships, reexport restrictions that impose constraints on recipient countries, and rules that determine which commodities are eligible for export under the P.L. 480 programs. In addition, the process for selecting countries to participate in the title I program illustrates the difficulty in implementing a coherent strategy that effectively supports a diverse set of objectives.

Conclusions, Matters for Congressional Consideration, and Agency Comments

Conclusions

When the P.L. 480 food aid legislation was enacted in 1954, its objectives were to encourage the export of large amounts of U.S. surplus agricultural commodities and serve U.S. international policy goals. Today, however, title I is less important in terms of reducing U.S. agricultural surpluses, and title I's share of U.S. agricultural exports and world food aid has decreased significantly. While the 1990 act streamlined program management and simplified implementation requirements overseas, the revised structure of the title I program did not improve the program's ability to accomplish its objectives. Multiple and sometimes competing objectives, along with certain program requirements, continue to encumber the title I program, making it difficult to create and implement an effective program strategy to achieve either its sustainable economic development or long-term market development objectives.

We found that the title I program has not significantly advanced either the sustainable economic development or market development objectives of the 1990 act. Title I aid has had minimal impact on broad-based, sustainable development because the amount of foreign exchange a country can potentially save through using the title I program is small relative to its overall development needs. Also, title I provides the United States with relatively little leverage to influence development activities or initiate policy reforms, and other title I objectives sometimes take priority in shaping the title I programs in recipient countries. We also found that title I's importance to long-term market development has not been demonstrated. The link between title I assistance, economic development, and increased U.S. agricultural exports is tenuous. In addition, title I commodities tend to be price-sensitive, and it is difficult to retain market share once the food aid program has been discontinued unless the United States can offer competitive prices and financing.

Matters for Congressional Consideration

The size and importance of the P.L. 480 title I program have declined, and the program as currently structured does not significantly advance either the economic development or the market development objectives of the 1990 act. Thus, if Congress wants to continue to support these objectives and devote resources to achieving them, it may want to consider alternative approaches to doing so. Among the alternatives available to Congress are (1) refocusing the program on more specific economic and/or market development objectives by eliminating some of the multiple and competing requirements of the present framework; (2) restructuring the program to concentrate on a single objective, such as market development; (3) eliminating the program and transferring its resources to