

CHAPTER III

ECA Financing Operations

The Economic Cooperation Administration is primarily a financing agency. It does not undertake any procurement itself either on its own account or as an agent of the participating countries. Its activity consists of making funds available to the participating countries with which they can, largely through private trade channels, purchase the goods and services which they require.

In the first days of the European Recovery Program, the maintenance of an adequate flow of essential commodities and services to Europe took priority over the task of developing the best ECA procedures for authorizing procurement by participating countries. In the face of a pressing need to expedite the shipment of commodities vitally needed for European recovery, no approved program was yet available to furnish the basic pattern for ECA assistance. Therefore, to fulfill the immediate objective of furnishing an uninterrupted supply of goods to the participating countries, it was necessary for the ECA to authorize the financing of commodities or services after, rather than before, their procurement had been initiated by participating countries.

In the first two quarters of ECA operations, approximately half of the issued procurement authorizations (that is, the written authority issued by the ECA for designated procurement) originated in requests by a participating country for the financing of specific commodities or services which the country had already undertaken to purchase and which were, in many cases, already delivered to the country. The typical procurement authorization covered an individual transaction and contained such details as itemized specifications of the commodities or services, a unit and total price therefor, and the period of delivery.

This interim procedure, involving, in many cases, financing of completed transactions after the fact, did not provide adequate advance control and supervision by the ECA of the procurement of commodities and services by participating countries. Moreover, the procedure of gearing ECA operations to individual transactions was found to be needlessly cumbersome and detailed. In July 1948, the ECA began an exhaustive review of programming and procurement authorization procedures. The result was the introduction, beginning with the fourth calendar quarter of 1948, of ECA procedures for quarterly programming on a forward basis.

The revised mode of operation provides for the allotment to the participating countries of ECA funds well in advance of the quarter during which commodities to be procured with such funds will be delivered. This enables the ECA to maintain closer supervision of the

general composition of a participating country's program and to channel procurement efficiently in accordance with basic ECA policies. The new plan calls for the issuance of procurement authorizations which in general cover a quarterly program for a broad commodity grouping instead of referring to and authorizing specific transactions. The issuance of procurement authorizations in broader terms, with the concomitant placing of responsibility on the participating countries for making narrow sub-authorizations to their importers, facilitates a wider use, both in Europe and the United States, of private channels of trade and results in reduced interference with the normal documentation pattern of export-import trade. Another feature of the new procedure is the incorporation of reporting and accounting requirements designed for more effective control by the participating countries and the ECA over the procurement of commodities and services.

The first quarter of operations under the revised procedure was a transitional period, with some remnants of the old methods remaining. In the first calendar quarter of 1949, however, the plan is in full operation except that it has not yet been possible fully to meet the time schedule for issuance of allotments and procurement authorizations contemplated under the revised procedure.

A. SUMMARY OF THE PROCUREMENT AUTHORIZATION PROCEDURE.

Four months before the beginning of a calendar quarter the ECA reviews all available program material relating to the current status of the OEEC annual programs, including the latest studies made by ECA-Washington, the OSR, and the ECA country missions. On the basis of such review, the ECA establishes for each participating country a dollar allotment (issued to the country on Form ECA-201) to finance purchases of commodities and services to be delivered in the quarter. These quarterly allotments are installments on the annual allotments for the fiscal year as recommended by the OEEC and approved by the ECA. Proportionately smaller dollar allotments are simultaneously made to cover deliveries during the two or three succeeding calendar quarters, such allotments being designed to cover the cost of so-called "long-lead" items, such as heavy capital equipment, which must be ordered far in advance of delivery dates.

Within one month after the issuance of the dollar allotments (three months before the beginning of the quarter), each participating country submits (on Form ECA-202) to the ECA in Washington and to the ECA mission in the participating country an application for procurement authorizations to cover the commodities and services which it desires to have financed with its dollar allotments. Such applications are in terms of approximately 80 basic commodity code descriptions listed on the Form ECA-202, corresponding with those contained in the ECA Commodity Code Book. Typical codes, which give some indication of the breadth of the groupings, are bread grains, dairy products, tobacco and tobacco products, hides and skins, generators and motors, machine tools. In addition to the basic Form ECA-202, each partici-

pating country also files Form ECA-202A, which gives a breakdown in metric tons, for each area of source, of a limited number of given commodity groups, and Form ECA-202B, which contains more detailed area-of-source breakdowns for procurement from countries other than participating countries, the United States, Canada, and Newfoundland.

After receipt of the Forms ECA-202 from the participating countries and of recommendations from the ECA country missions, ECA commodity branches, in consultation with the Program Coordination Division, determine the dollar amount of each commodity to be authorized, based on an analysis of needs, availabilities, and other pertinent considerations. Sixty days before the beginning of the quarter, the ECA issues procurement authorizations (on Forms ECA-203). Each procurement authorization specifies a dollar amount authorized for the purchase of commodities or services within a designated ECA commodity code during a specified quarter from a specified area of source. In addition, a procurement authorization may contain special terms or conditions under which the authorization is issued (for example, the procurement may be limited to certain grades or types of commodities within the broad commodity code) and may also set forth additional documentation requirements, supplementing the normal documentation required for reimbursement by the ECA.

On receipt of the procurement authorizations, the participating country indicates acceptance by signing and returning one copy to the ECA. The country then makes sub-authorizations to its importers. Recognizing that the methods for authorizing imports, in terms of both timing and complexity of import license requirements, vary greatly from country to country, the ECA gives the participating country considerable latitude in the procedures to be followed in making sub-authorizations to its importers.

A basic requirement imposed by the ECA is that the country pass on to the importer the number of the procurement authorization against which the sub-authorization is made, and any additional information necessary to insure that the purchase conforms with all applicable terms and provisions of the procurement authorization. The procurement authorization number, which must be placed on all documents relating to the purchase, serves to identify the transaction as being ECA-financed under a particular procurement authorization. After sub-authorizations are made, the transactions move to the maximum extent practicable through normal commercial trade channels, although in some cases an agency of the participating country rather than a private importer may be authorized to do the procuring. In the case of a few commodities, such as certain agricultural products purchased through the Commodity Credit Corporation, procurement is made through United States Government agencies, in which event the ECA issues purchase authorizations and makes funds available directly to the procuring United States Government agency.

Each participating country is required to submit to the ECA a monthly report (on Form ECA-204) showing the extent to which sub-authorizations have been made against procurement authorizations. Such reports enable both the ECA and the participating country to keep

currently informed of the progress of procurement under each quarterly program.

If a participating country wishes to request a modification in an outstanding procurement authorization, such as the transfer of funds from one commodity to another or a change in the designated delivery quarter, it may submit to the ECA a Procurement Authorization Change Request (Form ECA-205). If such request is justified, the ECA will make necessary amendments in procurement authorizations. If the ECA's continuing review of general requirements and availabilities shows that modifications in procurement authorizations are desirable, it will make such modifications on its own initiative.

B. METHODS OF FINANCING.

Purchases under procurement authorizations, other than those in which a United States Government agency serves as the procuring agency, may be financed by reimbursement, by a letter of commitment, or by drafts drawn by the participating country on the ECA. In the case of reimbursement directly to a participating country, the country finances the transaction initially with its own dollars and is later reimbursed by the ECA for the amount of the expenditures. Under another method of financing, a letter of commitment is issued by the ECA to a banking institution in the United States or directly to a supplier of commodities or services. A recently introduced method of financing allows the participating country to draw drafts on the ECA against accounts established on the books of the Treasury Department.

The ECA requires under each of the above methods of financing, substantially the same documentation to support its expenditure of funds. The documentation normally required consists of a certified standard U. S. Government voucher; a certificate that copies of contracts or other documentation constituting the entire purchase agreement for the transaction have been submitted directly to the ECA in Washington; a detailed invoice bearing proof of payment to the supplier; an ocean bill of lading or other satisfactory evidence of proper shipment; and a certificate by the supplier relating to the price of the commodities and other vital aspects of the transaction. Procurement authorizations for certain types of goods, especially many agricultural commodities, may contain additional documentation requirements, such as independent certificates of weight and analysis and certified proof of country of origin.

1. Reimbursement.

In procurement financed by reimbursement to the participating country for initial outlay of its own dollars, the country originally makes the dollars available to its importer, who in turn pays the supplier by one of the methods commonly used in regular commercial transactions, for example, a letter of credit or sight draft. The foreign importer is instructed to secure the necessary documentation from the supplier for his government, which then prepares the standard United States Government voucher and submits the full documentation to ECA-Washington for payment.

2. Letter of Commitment to a Banking Institution.

In financing procurement by means of a letter of commitment to a United States banking institution, a participating country requests the ECA to issue such a letter to a United States bank selected by the country. The letter of commitment which is issued under and within the terms of a designated procurement authorization, represents an undertaking by the ECA to reimburse the bank for payments by it, in accordance with instructions issued by the participating country, for commodities or services furnished in accordance with the terms stated in the letter of commitment and the applicable procurement authorization. Upon direction of the participating country or its agents, the bank issues and makes payment against letters of credit or otherwise makes payment to suppliers against the documentation required by the ECA. The bank is reimbursed by the ECA for such payments upon submission of the required documentation to the ECA.

3. Letter of Commitment to a Supplier.

The letter of commitment to a supplier is, as its name indicates, issued directly to the supplier of the commodities or services to be financed by the ECA. It is used mainly to finance purchases of industrial equipment and is especially useful in transactions involving the making of progress payments. Payments under a letter of commitment to a supplier are made directly to the supplier upon submission of the required documentation to the ECA.

4. Drafts on the ECA.

In mid-January the ECA instituted still another method of financing procurement. Like the letter of commitment, this method enables a participating country to procure commodities and services without use of its own United States dollars. It introduces the use of a revolving fund account which the ECA establishes for the country on the books of the Treasury Department. The country is allowed to draw drafts on the ECA against such account in order to make payment to suppliers. To obtain payment under a draft so drawn, the supplier must sign an indorsement containing all significant provisions of the supplier's certificate normally required for ECA transactions, and the participating country must furnish all other documentation ordinarily required for reimbursement within three months after drawing the draft. The procedure, which was evolved by the ECA in close collaboration with the Treasury Department and the Federal Reserve Bank of New York, will facilitate financing pending the receipt of complete documentation.

5. Procurement by United States Government Agencies.

When procurement of ECA commodities or services is to be made by a United States Government agency, the ECA advances funds to the procuring agency to cover the cost of the authorized procurement. The ECA receives reports of completed transactions. The documentation for the transaction is customarily the same as that obtained by the

agency for non-ECA procurement and is retained by the procuring agency for accounting to the General Accounting Office.

C. EXPENDITURE CONTROLS.

Under the interim procurement authorization procedure utilized in early ECA operations, the procurement authorization normally specified the method of financing to be used for the procurement. This was possible since the procurement authorization was tied to individual transactions, which were usually sufficiently developed at the time of the issuance of the procurement authorization so that the desired method of financing was known. Under the present ECA mode of operation, which involves the issuance of procurement authorizations covering quarterly programs for broad commodity groups, the method of financing is not specified in the procurement authorization.

As an adjunct to the broader type of procurement authorization, the ECA has developed procedures for recording and controlling methods of financing which enable a participating country to use any or all of the various methods of ECA financing under a single procurement authorization. Upon the issuance of each procurement authorization, a credit is established in the ECA Controller's Office against which are charged the disbursements made by the ECA directly to a participating country for transactions initially financed with non-ECA dollars; the total dollar amount of letters of commitment issued to banks or suppliers under the procurement authorization; and any allocation made to United States Government agencies for procurement under the procurement authorization. When the total liability for payments under any or all of the methods of financing equals the amount of the procurement authorization, ECA makes no additional disbursements except against already issued letters of commitment or against other obligations already charged to the procurement authorization total.

Disbursements by the ECA under any of the methods of financing are made on the basis of a limited audit of the required documentation. This policy is followed so that normal commercial relationships are not slowed by the period required for a detailed and searching audit. ECA interests are protected by the fact that all payments under procurement authorizations are subject to the requirement that the participating country repay promptly to the ECA upon demand any amount disbursed whenever the ECA determines that the documentation submitted is inadequate or that the payment made was improper for any other reason, such as non-compliance with the price limitations or other provisions of the ECA legislation or regulations. The ECA can thus make prompt initial payment and later, after a complete post-audit, require repayment of any disbursement determined to have been improperly made.

The detailed post-audit includes close checking of the required documentation with the procurement authorization under which the transaction was financed, comparing the description of the commodity, amounts, and value. The invoice price and commodity descriptions must be in accord with the contract or purchase order. The proof of payment must be adequate and the bill of lading must cover the designated quantity and show delivery to a proper port. Similarly, the

supplier's certificate and standard United States Government voucher are examined for completeness and proper execution. A check is also made to insure compliance with any special provisions or limitations to which the transactions were subjected by the terms of the procurement authorization. To date post-auditing has revealed few material defects, and these have been satisfied for the most part by requesting and receiving additional or corrected documentation.

D. FUNDS.

For the first 12 months of ECA operations (April 1948 through March 1949), \$5 billion was made available directly by the Congress and \$10 million was carried forward from the Interim Aid Program (Public Law 389). For the second calendar quarter of 1949, an additional \$1.15 billion is required to complete the aid program for the fiscal year 1948/49 and for non-program expenses. For the fiscal year 1949/50, \$4.2 billion of program funds and \$80 million of non-program funds are requested as shown in Table 1. In addition, the ECA is requesting authorization to obligate \$150 million to finance the purchase of capital goods and other long production items which will not be transferred to the participating countries until the fiscal year 1951.

TABLE 1. ECA FUNDS
(In millions of dollars)

	April 1948- March 1949 (actual)	April 1949- June 1949 (proposed)	July 1949- June 1950 (proposed)
Program funds	4,953.0	1,138.5	4,200.0
Strategic materials	2.6	2.0	32.0
Ocean freight on relief packages	11.5	4.0	15.0
Technical assistance	3.0	2.0	15.0
Investment guaranties	27.7	—	—
Administration	12.0	3.5 *	17.5
Confidential fund	0.2	—	0.5
TOTAL	5,010.0	1,150.0	4,280.0

* Actual administrative expenses for this quarter are estimated at \$4.5 million. The difference will be met from funds previously appropriated for this purpose.

E. ALLOTMENTS.

Although the making of a quarterly allotment to a participating country by the ECA does not constitute a commitment of ECA funds, it has great importance in the programming work of the agency and of the participating countries. It is the sum of money which governs the value of the procurement authorizations which will be issued to a participating country each quarter. The early determination of both the fiscal year aid allotments and the quarterly allotments permits each country to develop and carry out, with the approval of the ECA, a

consistent and steady procurement program and to maintain through the year a level of imports which will not exceed available financial resources.

To date, allotments have been made to permit the issuance of procurement authorizations by the ECA and the commitment of funds by participants in the second, third and fourth calendar quarters of 1948 and in the first calendar quarter of 1949. These allotments have now reached a total equal to the available program funds. With the exception of the second calendar quarter allotments of 1948 (which were divided into only two categories: loan and grant), allotments have been divided into three categories: loan, grant and conditional aid.

Tables 2 and 3 show the division by countries and by loans, direct grants and conditional aid of the allotments made for the second calendar quarter of 1948, the allotments already made in the fiscal year 1949, and the remaining allotments to be made to complete the current fiscal year subject to the appropriation of the necessary funds by the Congress.

The total allotments for each country proposed for the fiscal year 1949, as shown in Table 3, are lower than the ones originally recommended by the OEEC. The reductions made by the ECA are minor in magnitude and largely technical in nature. The more important of these are explained in Chapter I above.

TABLE 2. ALLOTMENTS FOR APRIL-JUNE 1948
(In millions of dollars)

Country	Total allotment (1)	Loan (2)	Direct grant (3)
Austria	62.0		62.0
Belgium-Luxemburg and Belgian dependent overseas territories	20.0	17.0	3.0
Denmark	20.0	10.0	10.0
Free Territory of Trieste	4.0		4.0
France and dependent overseas territories	335.0	75.0	260.0
Germany: Bizone ^a	109.0		109.0 ^a
French Zone ^a	20.0		20.0 ^a
Greece	50.0		50.0
Iceland	2.3	2.3	
Ireland	10.0	10.0	
Italy	158.0	25.0	133.0
Netherlands and dependent overseas territories	115.0	27.5	87.5
Norway	20.0	15.0	5.0
Sweden			
Turkey	10.0	10.0	
United Kingdom	400.0	100.0	300.0
Total	1,335.3	291.8	1,043.5

^a Direct aid to Western Germany remains a charge against Germany, subject to eventual settlement, and is, therefore, not necessarily a direct grant.

TABLE 3. ALLOTMENTS FOR 1948/49

(In millions of dollars)

	Proposed Gross Allotment Fiscal 1948/49 (1)	Allotments to date, July 1948-March 1949				Proposed April-June 1949 Allotment (6)
		Total Allotment (2)	Loan (3)	Direct Grant (4)	Conditional Aid (5)	
Austria	215.2	158.8		154.4	4.4	56.4
Belgium-Luxemburg and Belgian depend- ent overseas territories	247.9	196.0	40.4		155.6	51.9
Denmark	109.1	80.0	21.0	55.2	3.8	29.1
Free Territory of Trieste	17.8	14.2		14.2		3.6
France and dependent overseas territories	980.9	723.5	97.0	619.2	7.3	257.4
Germany: Bizone ^a	410.6	307.1		225.5 ^a	81.6	103.5
French Zone ^a	99.2	72.3		61.2 ^a	11.1	26.9
Greece	144.8	122.0		122.0		22.8
Iceland ^b	5.2	5.2			5.2	
Ireland	78.3	78.3	78.3			
Italy	555.5	422.7	42.0	345.3	35.4	132.8
Netherlands and dependent overseas territories	469.6	368.0	119.2	240.3	8.5	101.6
Norway	83.3	61.8	20.0	29.4	12.4	21.5
Sweden	46.6	40.4	21.6		18.8	6.2
Turkey ^b	39.7	34.8	28.0		6.8	4.9
United Kingdom	1,239.0	919.1	213.0	473.8	232.3	319.9
Commodity Reserve	13.5	13.5		13.5		
TOTAL	4,756.2	3,617.7	680.5	2,354.0	583.2	1,138.5

^a Direct aid to Western Germany remains a charge against Germany, subject to eventual settlement, and is, therefore, not necessarily a direct grant.^b Loan-grant amounts are subject to change after consultation with the National Advisory Council.^c In addition, a loan of \$4.5 million is under discussion with Iceland.

F. LOANS AND GUARANTIES.

The Congress provided \$1 billion for the purpose of making loans and investment guaranties. Of this amount \$27.7 million has been set aside for investment guaranties and the balance of \$972.3 million is being allocated to the Export-Import Bank, after consultation with the National Advisory Council, as the ECA completes its loan negotiations with the participating countries. Loans have been made and loan agreements signed with all participants receiving aid excepting Austria, the Western Zones of Germany, Greece and Trieste.

After consultation with the National Advisory Council, the following terms and conditions were established applicable to these credits:

- (1) Maturity of Loan—Up to 35 years from December 31, 1948.
- (2) Interest Rate of 2.5 percent.
- (3) No interest to be charged for the period through June 30, 1952; no amortization of principal for a minimum period through June 30, 1952, and a maximum period through June 30, 1956.
- (4) The inclusion in the loan agreement of a clause permitting postponement of payments of interest or principal with the agreement of both parties.

The dollar value of applications for investment guaranties approved or pending has been only \$10 million (industrial projects about \$6 million; informational media about \$4 million). The primary reason for the low volume of applications appears to be the uncertain conditions in Western Europe, which are not attractive to new dollar investments even with a guaranty of convertibility. A secondary factor affecting the magnitude of applications to date is the relatively short period since the inauguration of the investment guaranty program.

G. CONDITIONAL AID.

Conditional aid consists of ECA grant funds advanced to participants on condition that they advance equivalent aid in their own currencies to other participants. According to the Agreement for Intra-European Payments and Compensations of October 1948, participants finance bilateral imbalances of trade by the establishment of drawing rights in European currencies by each creditor in favor of each debtor in each bilateral relationship. ECA aid is conditioned on the actual extension of such drawing rights. In three cases (Belgium, Sweden and Turkey), conditional aid is equivalent only to the net drawing rights extended, i.e. gross drawing rights extended minus gross drawing rights received. In three other cases, the ECA extends no conditional aid: Ireland, a member of the Sterling Area, handles its monetary relationships with other European countries through London; Greece is exclusively a recipient of drawing rights; Trieste, forming part of the lira area, has arrangements with Italy for financing its European currency needs.

H. DIRECT GRANTS.

Direct grants have been made to all countries requiring dollar aid additional to, or instead of, loans and conditional aid—that is to all

participating countries except Iceland, Ireland, Sweden, and Turkey. Belgium received a small direct grant only for the second calendar quarter of 1948 and no direct grants in 1948/49. In the case of Western Germany, the terms of aid will be determined by the peace settlement at a later date.

I. PROPOSED LOAN POLICY FOR 1949/50.

In the illustrative aid figures shown in Chapter I for 1949/50, no amount of loans has been specified either in total or by countries. The ECA does not believe that loans should be made next year in as large amounts as during its first twelve months of operations. The European countries have already accumulated a substantial indebtedness to the United States as a result of the war settlements and the post-war credits which the United States has extended, in addition to the loans under the first year of the ERP. In 1948/49, it is estimated that interest and amortization payments to the United States Government and on other dollar obligations will absorb about one-eighth of all of the dollar earnings of the participating countries; during 1949/50, such payments will amount to nearly \$230 million. It is becoming increasingly evident that a further large charge upon their future dollar receipts would in all likelihood be a deterrent to the achievement of the objectives of the recovery program. International lending agencies and private investors will scrutinize with particular concern the imposition of further claims against European dollar earnings by the United States Government and may well become reluctant to lend if interest and amortization payments to the United States Government continue to grow. Moreover, the growth in these charges leaves a smaller and smaller margin of flexibility in the international accounts of the debtor countries. Fluctuations in their dollar earnings, therefore, require disproportionate adjustments in vital merchandise imports because the capital repayment items are fixed. The problem is not dissimilar to that of a business enterprise with heavy fixed capital charges in a period of fluctuating and uncertain receipts.

Certainly the fundamental objectives of the European Recovery Program would not be furthered by the emergence of a situation in which payments to the United States on loans extended during the recovery program necessitated reductions in the levels of consumption or investment which had been obtained through United States assistance in the course of the four-year program.

The risk of an excessive debt burden must be given serious consideration. This does not mean that ECA should not continue to make loans to some participating countries, but the addition of a further large dollar debt to Western Europe's present dollar charges might absorb so much of its capacity to borrow as to throw serious obstacles in the path of private American investment in Western Europe at the end of the program, when such investment should play a strategic role.

J. COMMITMENTS.

In the second calendar quarter of 1948 procurement authorizations issued totalled only \$738.5 million; in the third quarter \$1,191.8 million

(including post-facto authorizations for the second quarter); and in the fourth quarter \$2,114.5 million (including post-facto authorizations for the second and third quarters). Authorizations issued in the nine-month period April through December 1948 thus totalled \$4,044.8 million. In January 1949, \$249 million of procurement authorizations were issued. During the last two months of the first quarter of 1949, it is estimated that the remaining \$659 million of the available programming funds of \$4,953 million will be authorized, except for that minimum which is carried forward from one business day to the next in the ECA authorizing procedures for making minor amendments to outstanding procurement authorizations. A proposal for a legislative amendment has been submitted to the Congress to assure that such operating carry-overs are not unjustifiably lost to the participating countries after the close of an appropriation period.

Of the procurement authorized in 1948, \$3,707 million was provided to the European countries for the purchase of commodities, \$337 million for the costs of ocean freight and \$1.2 million for technical services. Procurement authorized in the United States totalled \$2,299 million—almost two-thirds of all commodity purchases authorized in the year 1948. Canada, Newfoundland, and Latin America together were to supply one-fourth of the goods. Only 7 percent was to be bought in the participating countries themselves, since ECA authorized such procurement prior to October 1, pending the institution of the Intra-European Payments Plan and the substitution of European currencies for dollars in intra-European trade. Non-participating countries outside the Western Hemisphere were to provide the remaining 6 percent of ECA-financed commodities.

The following table shows the procurement authorizations issued by the ECA through December 31, 1948, by broad types of commodities:

Commodity Group	Procurement Authorizations (In millions of dollars)
Food, feed and fertilizer.....	1,384.3
Fuel	561.8
Raw materials and semi-finished products	1,038.8
Machinery and vehicles.....	576.8
Miscellaneous and unclassified.....	145.2
	<hr/> 3,706.9