FOREIGN ASSISTANCE

Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid

The Web version of this report was reposted on April 16, 2007, to reflect a change to the text on page 47, in line 8 of the last paragraph, the “1.8 people” is revised to read “1.8 million people.”
Why GAO Did This Study

The United States is the largest global food aid donor, accounting for over half of all food aid supplies to alleviate hunger and support development. Since 2002, Congress has appropriated an average of $2 billion per year for U.S. food aid programs, which delivered an average of 4 million metric tons of food commodities per year. Despite growing demand for food aid, rising business and transportation costs have contributed to a 52 percent decline in average tonnage delivered over the last 5 years. These costs represent 65 percent of total emergency food aid, highlighting the need to maximize its efficiency and effectiveness. Based on analysis of agency documents, interviews with experts and practitioners, and fieldwork, this report examines some key challenges to the (1) efficiency of U.S. food aid programs and (2) effective use of U.S. food aid.

What GAO Recommends

GAO recommends that the Administrator of USAID and the Secretaries of Agriculture and Transportation enhance the efficiency and effectiveness of U.S. food aid by improving logistical planning, transportation contracting, and monitoring, among other actions. DOT supports the transportation initiatives GAO highlighted. While recognizing that improvements can be made, USAID and USDA did not directly respond to GAO’s recommendations but disagreed with some of GAO’s analysis.


To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas Melito at (202) 512-9601 or MelitoT@gao.gov.

What GAO Found

Multiple challenges hinder the efficiency of U.S. food aid programs by reducing the amount, timeliness, and quality of food provided. Specific factors that cause inefficiencies include (1) funding and planning processes that increase delivery costs and lengthen time frames; (2) ocean transportation and contracting practices that create high levels of risk for ocean carriers, resulting in increased rates; (3) legal requirements that result in awarding of food aid contracts to more expensive service providers; and (4) inadequate coordination between U.S. agencies and food aid stakeholders to track and respond to food and delivery problems. U.S. agencies have taken some steps to address timeliness concerns. The U.S. Agency for International Development (USAID) has been stocking or prepositioning food commodities domestically and abroad, and the U.S. Department of Agriculture (USDA) has implemented a new transportation bid process, but the long-term cost effectiveness of these initiatives has not yet been measured. In addition, the current practice of using food aid to generate cash for development projects—monetization—is an inherently inefficient use of resources. Furthermore, since U.S. agencies do not collect monetization revenue data electronically, they are unable to adequately monitor the degree to which revenues cover costs.

Selected Trends in U.S. Food Aid, Fiscal Years 2002 through 2006

U.S. dollars spent on program funding (U.S. dollars in millions)

Metric tons of food aid delivered (in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Funding</th>
<th>Tonnage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2003</td>
<td>2,000</td>
<td>4,000</td>
</tr>
<tr>
<td>2004</td>
<td>2,500</td>
<td>5,000</td>
</tr>
<tr>
<td>2005</td>
<td>1,500</td>
<td>4,000</td>
</tr>
<tr>
<td>2006</td>
<td>2,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Major emergencies:
- Afghanistan and southern Africa
- Iraq
- Sudan, Ethiopia, and Eritrea
- Sudan and Horn of Africa

Source: GAO analysis of USAID and USDA data.

Numerous challenges limit the effective use of U.S. food aid. Factors contributing to limitations in targeting the most vulnerable populations include (1) challenging operating environments in recipient countries; (2) insufficient coordination among key stakeholders, resulting in disparate estimates of food needs; (3) difficulty in identifying vulnerable groups and causes of their food insecurity; and (4) resource constraints on conducting reliable assessments and providing food and other assistance. Further, some impediments to improving the nutritional quality of U.S. food aid may reduce the benefits of food aid to recipients. Finally, U.S. agencies do not adequately monitor food aid programs due to limited staff, competing priorities, and restrictions on the use of food aid resources. As a result, these programs are vulnerable to not getting the right food to the right people at the right time.
# Contents

<table>
<thead>
<tr>
<th>Letter</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Results in Brief</td>
<td>3</td>
</tr>
<tr>
<td>Background</td>
<td>7</td>
</tr>
<tr>
<td>Multiple Challenges Hinder the Efficiency of U.S. Food Aid Programs</td>
<td>15</td>
</tr>
<tr>
<td>Various Challenges Reduce the Effective Use of Food Aid</td>
<td>42</td>
</tr>
<tr>
<td>Conclusions</td>
<td>60</td>
</tr>
<tr>
<td>Recommendations for Executive Action</td>
<td>61</td>
</tr>
<tr>
<td>Agency Comments and Our Evaluation</td>
<td>62</td>
</tr>
</tbody>
</table>

| Appendix I | Objectives, Scope, and Methodology | 65 |
| Appendix II | Program Authorities and Congressional Mandates | 68 |
| Appendix III | Ensuring Food Aid Reaches Intended Recipients Is Important to Avoid Market Distorting Effect of Food Aid | 71 |
| Appendix IV | Food Distribution Activities to Target Recipients of Food Aid | 74 |
| Appendix V | Comments from the U.S. Department of Transportation | 75 |
| | GAO Comment | 77 |
| Appendix VI | Comments from the U.S. Agency for International Development | 78 |
| | GAO Comments | 85 |
| Appendix VII | Comments from the U.S. Department of Agriculture | 88 |
| | GAO Comments | 94 |
Figure 14: Food Distribution Activities to Target Recipients of Food Aid
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APHIS</td>
<td>Animal and Plant Health Inspection Service, U.S. Department of Agriculture</td>
</tr>
<tr>
<td>BEHT</td>
<td>Bill Emerson Humanitarian Trust</td>
</tr>
<tr>
<td>CSB</td>
<td>corn soy blend</td>
</tr>
<tr>
<td>DOD</td>
<td>Department of Defense</td>
</tr>
<tr>
<td>DOT</td>
<td>U.S. Department of Transportation</td>
</tr>
<tr>
<td>DOT/MARAD</td>
<td>Department of Transportation/U.S. Maritime Administration</td>
</tr>
<tr>
<td>FACG</td>
<td>Food Aid Consultative Group</td>
</tr>
<tr>
<td>FAM</td>
<td>Food Aid Management</td>
</tr>
<tr>
<td>FAPC</td>
<td>Food Assistance Policy Council</td>
</tr>
<tr>
<td>FAS</td>
<td>Foreign Agricultural Service, U.S. Department of Agriculture</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
</tr>
<tr>
<td>ITSH</td>
<td>Internal Transportation, Storage, and Handling</td>
</tr>
<tr>
<td>KCCO</td>
<td>Kansas City Commodity Office U.S. Department of Agriculture</td>
</tr>
<tr>
<td>NGO</td>
<td>Nongovernmental organization</td>
</tr>
<tr>
<td>OFD</td>
<td>ocean freight differential</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>PRM</td>
<td>Bureau of Population, Refugees, and Migration (U.S. Department of State)</td>
</tr>
<tr>
<td>PSC</td>
<td>Personal Services Contractor</td>
</tr>
<tr>
<td>SENAC</td>
<td>Strengthening Emergency Needs Assessment Capacity</td>
</tr>
<tr>
<td>State</td>
<td>U.S. Department of State</td>
</tr>
<tr>
<td>TCP</td>
<td>tricalcium phosphate</td>
</tr>
<tr>
<td>TQSA</td>
<td>Total Quality Systems Audit</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>USAID</td>
<td>U.S. Agency for International Development</td>
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<tr>
<td>USDA</td>
<td>U.S. Department of Agriculture</td>
</tr>
<tr>
<td>WSB</td>
<td>wheat soy blend</td>
</tr>
<tr>
<td>WFP</td>
<td>World Food Program</td>
</tr>
</tbody>
</table>
April 13, 2007

The Honorable Tom Harkin
Chairman
The Honorable Saxby Chambliss
Ranking Republican Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate

The United States is the largest provider of food aid in the world, accounting for over half of all global food aid supplies intended to alleviate hunger and support development in low-income countries. Since its last reauthorization of the Farm Bill in 2002, Congress has appropriated an average of $2 billion per year in annual and supplemental funding for U.S. international food aid programs, which delivered an average of 4 million metric tons of agricultural commodities per year. In 2006, the largest U.S. food aid program, Title II of Public Law 480, benefited over 70 million people through emergency and development-focused projects. However, about 850 million people in the world are currently undernourished—a number that has remained relatively unchanged since the early 1990s, according to United Nations (UN) Food and Agriculture Organization (FAO) estimates. Furthermore, the number of food and humanitarian emergencies has doubled from an average of about 15 per year in the 1980s to more than 30 per year since 2000, due in large part to increasing conflicts, poverty, and natural disasters around the world. Despite the growing demand for food aid, rising transportation and business costs have contributed to a 52 percent decline in average tonnage delivered over the last 5 years. For the largest U.S. food aid program, these noncommodity costs now account for approximately 65 percent of program expenditures, highlighting the need to maximize the efficiency and effectiveness of U.S. food aid.

1 According to FAO’s 2006 The State of Food and Agriculture report, conditions in Asia have improved while those in Africa have worsened.

2 While we acknowledge that commodity prices also affect tonnage, there has been no clear trend in total average commodity prices for food aid programs from fiscal years 2002 through 2006.
To inform Congress as it begins the process of reauthorizing the food aid provisions of the Farm Bill in 2007, we examine in this report some key challenges to the (1) efficiency of U.S. food aid programs and (2) effective use of U.S. food aid.

To address these objectives, we analyzed food aid procurement and transportation data provided by the U.S. Department of Agriculture’s (USDA) Kansas City Commodity Office (KCCO) and food aid budget and expenditure data provided by USDA and the U.S. Agency for International Development (USAID). We determined that the food aid data obtained were sufficiently reliable for our purposes. We reviewed economic literature on the implications of food aid on local markets and recent reports, studies, and papers issued on U.S. and international food aid programs. We conducted structured interviews of 14 U.S.- and foreign-flag ocean carriers that transport over 80 percent of U.S. food aid tonnage. In Washington, D.C., we interviewed officials from USAID, USDA, the Departments of State (State) and Defense (DOD), the Department of Transportation Maritime Administration (DOT/MARAD), and the Office of Management and Budget (OMB). We also met with a number of officials representing nongovernmental organizations (NGO) that serve as implementing partners to USAID and USDA in carrying out U.S. food aid programs overseas, freight forwarding companies, and agricultural commodity groups. In Rome, we met with officials from the U.S. Mission to the UN Food and Agriculture Agencies, the UN World Food Program (WFP) headquarters, and FAO. We also conducted fieldwork in three countries that are recipients of food aid—Ethiopia, Kenya, and Zambia—and met with officials from U.S. missions, implementing organizations, and relevant host government agencies in these countries and South Africa. We visited a port in Texas from which food is shipped, two food destination ports in South Africa and Kenya, and two sites in Louisiana and Dubai where U.S. food may be stocked prior to shipment to destination ports. For the countries we visited, we also reviewed numerous documents on U.S. food aid, including all the proposals that USDA approved and approximately half of the proposals that USAID approved from fiscal years 2002 through 2006 for the food aid programs that they respectively

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3We define efficiency as the extent to which a program is acquiring, protecting, and using its resources in the most productive manner—in terms of the cost, time, and quality of food aid. We define effectiveness as the extent to which U.S. food aid programs achieve their goals and objectives.
administer.4 In January 2007, we also convened a roundtable of 15 experts and practitioners—including representatives from academia, think tanks, implementing organizations, the maritime industry, and agricultural commodity groups—to further delineate, based on GAO’s initial work, some key challenges to the efficient delivery and effective use of U.S. food aid and to explore options for improvement. We took the roundtable participants’ views into account as we finalized our analysis of these challenges and options. We conducted our work between May 2006 and March 2007 in accordance with generally accepted government auditing standards. (Appendix I provides a detailed discussion of our objectives, scope, and methodology.)

Results in Brief

Multiple challenges combine to hinder the efficiency of U.S. food aid programs. These challenges reduce the amount, timeliness, and quality of food provided. Specifically, factors that cause inefficiencies in food aid delivery include the following:

• Funding and planning processes that increase delivery costs and lengthen time frames. These processes make it difficult to time food procurement and transportation to avoid commercial peaks in demand, often resulting in higher prices than if such purchases were more evenly distributed throughout the year.

• Ocean transportation and contracting practices that differ from commercial practices and create high levels of risk for ocean carriers, increasing food aid costs. For example, food aid transportation contracts often hold ocean carriers responsible for logistical problems occurring at the load port, such as improperly filled containers, or costly delays at destination when the port or implementing organization is not ready to receive the cargo. Ocean carriers factor these costs into their freight rates, driving up the cost of food aid.

• Legal requirements that result in the awarding of food aid contracts to more expensive providers and contribute to delivery delays. For example, cargo preference laws require 75 percent of food aid to be shipped on U.S.-flag carriers, which are generally more costly than foreign-

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4USDA administers Public Law (P.L.) 480 Title I, Food for Progress, Section 416(b), and the McGovern-Dole International Food for Education and Child Nutrition programs. USAID administers P.L. 480 Title II.
flag carriers. DOT reimburses certain transportation costs, but the sufficiency of these reimbursements varies.

- Inadequate coordination between U.S. agencies and stakeholders in tracking and responding to food and delivery problems. For example, while food spoilage has been a long-standing concern, USAID and USDA lack a shared, coordinated system to systematically track and respond to food quality complaints.

To enhance the efficiency of food aid delivery, U.S. agencies have taken measures to improve their ability to provide food aid on a more timely basis. For example, USAID has been stocking food commodities, or prepositioning them, in Lake Charles (Louisiana) and Dubai (United Arab Emirates) for the past several years and is in the process of expanding this practice. Additionally, in February 2007, USAID and USDA implemented a new transportation bid process in an attempt to increase competition and reduce procurement time frames. Although both efforts may result in food aid reaching vulnerable populations faster in an emergency, their long-term cost-effectiveness has not yet been measured. Despite such initiatives to improve the process of delivering food aid, the current practice of using food aid as a means to generate cash for development projects—monetization—is an inherently inefficient use of resources. Monetization entails not only the costs of procuring, transporting, and handling food, but also the costs of marketing and selling it to generate cash for funding development projects. Furthermore, NGOs must maintain the expertise necessary to sell and market food aid abroad, which diverts resources from their core missions. In addition, U.S. agencies do not collect or maintain data electronically on the revenues generated from monetization. The absence of such electronic data impedes the agencies’ ability to adequately monitor the degree to which monetization revenues can cover the costs.

Various challenges limit the effective use of food aid to alleviate hunger. Given limited food aid resources and increasing emergencies, ensuring that food aid reaches the most vulnerable populations—such as poor women who are pregnant or children who are malnourished—is critical to enhancing its effectiveness and avoiding negative market impact in recipient countries. However, a number of factors limit effectiveness including the following:

- Challenging operating environments characterized by poor infrastructure and lack of physical safety and security in recipient countries that restrict access to populations in need and cause delays.
Limited recipient government participation has in some cases also contributed to insufficient or lack of timely coverage of vulnerable populations.

- **Insufficient coordination among key stakeholders, resulting in disparate estimates of food needs.** For example, separate assessments by host governments, WFP, and NGOs have resulted in significantly different estimates of food needs and numbers of intended recipients. Consequently, donor assistance has been delayed until the various stakeholders reach agreement on these estimates. Moreover, assessments may not be sufficiently used to inform proposed programs.

- **Difficulties in identifying the most vulnerable groups and understanding the causes of food insecurity.** For example, it has been challenging for implementing organizations to determine the causes of chronic food insecurity in people—such as poor health and water quality, in addition to lack of food—and provide appropriate assistance. Moreover, these difficulties have been exacerbated by insufficient use of best practices and institutional knowledge.

- **Resource constraints that adversely affect the timing and quality of assessments, as well as the quantity of food and other assistance.** U.S. food aid funding available to conduct assessments in advance of program implementation is limited. Furthermore, in cases where recipients do not receive sufficient complementary assistance, they may be forced to sell part of their food rations to buy other basic necessities and, therefore, may not get the full health benefits of food aid.

- **Impediments to improving the nutritional quality of U.S. food aid, including a lack of an interagency mechanism to update food aid products and specifications, that may result in recipients not receiving the most nutritious or appropriate food.** For example, although U.S. agencies have undertaken some measures to improve the nutritional quality of food aid, such as updating food aid product specifications with fortification enhancements, they have not fully addressed some key concerns.

Finally, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries, due to limited staff, competing priorities, and restrictions on the use of food aid resources. For example, although USAID had some non-Title II-funded staff assigned to monitoring, it had only 23 Title II-funded staff assigned to missions and regional offices in 10 countries to monitor programs costing about $1.7 billion in 55 countries in fiscal year 2006. USDA has even less of a field presence for
monitoring than USAID. As a result, U.S. agencies may not be accomplishing their goals of getting the right food to the right people at the right time.

This report makes recommendations to the Administrator of USAID, the Secretary of Agriculture, and the Secretary of Transportation to work to improve the efficiency of U.S. food aid delivery, including instituting measures to (1) improve food aid logistical planning, (2) modernize transportation contracting practices, (3) update reimbursement methodologies to minimize the cost impact of cargo preference regulations on food aid transportation expenditures, (4) track and resolve food quality complaints systematically, and (5) develop an information collection system to track monetization revenues and costs. Further, to improve the effective use of food aid, we recommend that the Administrator of USAID and the Secretary of Agriculture also work to (1) enhance the reliability and use of needs assessments; (2) determine ways to provide adequate nonfood resources, when appropriate; (3) develop a coordinated interagency mechanism to update food aid specifications and products; and (4) improve monitoring of food aid programs.

DOT, USAID, and USDA provided comments on a draft of our report. We have reprinted these agencies’ comments in appendixes V, VI, and VII, respectively, along with our responses to specific points. DOT stated that it strongly supports the transportation initiatives highlighted in our report, which it agrees could reduce ocean transportation costs. USAID stated that we did not adequately recognize its recent efforts to strategically focus resources to reduce food insecurity in highly vulnerable countries. Although food security was not a research objective of this study, we recognize the important linkages between emergencies and development programs and used the new USAID Food Security Strategic Plan for 2006-2010 to provide context, particularly in our discussion on the effective use of food aid. USDA took issue with a number of our findings and conclusions because it believes that hard analysis was lacking to support many of the weaknesses that we identified. We disagree. Each of our report findings and recommendations is based on a rigorous and systematic review of multiple sources of evidence, including procurement and budget data, site visits, previous audits, agency studies, economic literature, and testimonial evidence collected in both structured and unstructured formats. DOT, USAID, and USDA, along with DOD, State, FAO, and WFP, also provided technical comments and updated information, which we have included throughout this report as appropriate.
Background

Food aid comprises all food-supported interventions by foreign donors to individuals or institutions within a country. It has helped save millions of lives and improve the nutritional status of the most vulnerable groups, including women and children, in developing countries. Food aid is one element of a broader global strategy to enhance food security by reducing poverty and improving the availability of, access to, and use of food in low-income, less developed countries. Food aid is utilized as both a humanitarian response to address acute hunger in emergencies and a development-focused response to address chronic hunger. Large-scale conflicts, poverty, weather calamities, and severe health-related problems are among the underlying causes of both acute and chronic hunger.

Countries Provide Food Aid through In-kind or Cash Donations, with the United States the Largest Donor

Countries provide food aid through either in-kind donations or cash donations. In-kind food aid is food procured and delivered to vulnerable populations, while cash donations are given to implementing organizations to purchase food in local, regional, or global markets. U.S. food aid programs are all in-kind, and no cash donations are allowed under current legislation. However, the administration has recently proposed legislation to allow up to 25 percent of appropriated food aid funds to purchase commodities in locations closer to where they are needed. Other food aid donors have also recently moved from providing primarily in-kind aid to more or all cash donations for local procurement. Despite ongoing debates as to which form of assistance is more effective and efficient, the largest international food aid organization, the UN WFP, continues to accept both. The United States is both the largest overall and in-kind provider of food aid to WFP, supplying about 43 percent of WFP’s total contributions in 2006 (see fig. 1) and 70 percent of WFP’s in-kind contributions in 2005. Other major donors of in-kind food aid in 2005 included China, the Republic of Korea, Japan, and Canada.

Footnotes:

5 Food security exists when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life.

6 In-kind food aid usually comes in two forms: nonprocessed foods and value-added foods. Nonprocessed foods consist of whole grains like wheat, corn, peas, beans, and lentils. Value-added foods consist of processed foods that are manufactured and fortified to particular specifications and include milled grains, such as cornmeal and bulgur, and fortified milled products, such as corn soy blend (CSB) and wheat soy blend (WSB).

7 WFP relies entirely on voluntary contributions to finance its humanitarian and development projects, and national governments are its principal source of funding. More than 80 countries fund the humanitarian and development projects of WFP.
Most U.S. Food Aid Goes to Africa

In fiscal year 2006, the United States delivered food aid through its largest program to over 50 countries, with about 80 percent of its funding allocations for in-kind food donations going to Africa, 12 percent to Asia and the Near East, 7 percent to Latin America, and 1 percent to Eurasia (see fig. 2).

Of the 80 percent of the food aid funding going to Africa, 30 percent went to Sudan, 27 percent to the Horn of Africa, 18 percent to southern Africa, 14 percent to West Africa, and 11 percent to Central Africa.
Food aid is used for emergency and nonemergency purposes. Program design and implementation decisions for both emergency and nonemergency situations are informed by assessments that help determine the nature and scale of humanitarian crises and the type and scope of assistance needed. These assessments inform the selection of geographic areas to be targeted as well as criteria for the selection of intended recipients.

The majority of U.S. emergency food aid resources are distributed to affected communities and households that require food assistance to

\[8\] WFP defines emergencies as “urgent situations in which there is clear evidence that an event or series of events has occurred which causes human suffering or imminently threatens human lives or livelihoods and which the government concerned has not the means to remedy; and it is a demonstrably abnormal event or series of events which produces dislocation in the life of a community on an exceptional scale.”
survive an emergency and begin the process of recovery. Emergency needs assessments include analyses of various factors, among them the effects of the crisis on vulnerable populations, strategies used by these populations to deal with the crisis, and the outcome in terms of food insecurity. They are usually carried out as a joint effort by several organizations, including FAO, WFP, and NGOs, in response to a request from the government of an affected country. In addition to collecting primary data, assessors may use information from other sources, such as population estimates and agricultural data from recipient governments. Assessors may also rely on pre-crisis vulnerability assessments and information generated by early warning systems, such as the USAID-funded Famine Early Warning System Network and the FAO-funded Global International Early Warning System.

In nonemergency situations, U.S. commodities may be provided to address chronic hunger. In addition, U.S. law allows U.S. commodities to be sold—i.e., monetized—in developing countries to generate cash for development activities that address causes and symptoms of chronic food insecurity. For example, food may be provided in exchange for labor in poor communities to build agricultural infrastructure, or cash from monetization may be used to provide basic health services, nutrition education, and agricultural training. Assessments conducted during nonemergency situations help to identify vulnerable populations and the need for food aid interventions.

Nonemergency Funding for U.S. Food Aid Has Declined

Over the last several years, funding for nonemergency U.S. food aid programs has declined. For example, in fiscal year 2001, the United States directed approximately $1.2 billion of funding for international food aid programs to nonemergencies. In contrast, in fiscal year 2006, the United States directed approximately $698 million for international food aid programs to nonemergencies (see fig. 3).
U.S. food aid is funded under four program authorities and delivered through six programs administered by USAID and USDA; the programs serve a range of objectives, including humanitarian goals, economic assistance, foreign policy, market development, and international trade.

The authority for these U.S. international food aid programs is provided through P.L. 480 (the Agricultural Trade Development and Assistance Act of 1954, as amended, 7 USC § 1701 et seq.); the Food for Progress Act of 1985, as amended, 7 USC § 1736o; section 416(b) of the Agricultural Act of 1949, as amended, 7 USC § 1431; and the Farm Security and Rural Investment Act of 2002 (P.L. 107-171). Funding sources for U.S. international food assistance other than these six USAID- and USDA-administered food aid programs include (1) the International Disaster and Famine Assistance fund and (2) State’s Bureau of Population, Refugees, and Migration. (See app. II for a description of these sources of funding.)

(For a description of each of these programs, see app. II.) The largest program, P.L. 480 Title II, is managed by USAID and represents approximately 74 percent of total in-kind food aid allocations over the past 4 years, mostly to fund emergency programs (see fig. 4). In addition, P.L. 480, as amended, authorizes USAID to preposition food aid both domestically and abroad with a cap on storage expenses for foreign prepositioning sites of $2 million per fiscal year.

Figure 4: Average Shares of Total Funding for U.S. Food Aid by Program Authority from Fiscal Years 2002 through 2006

- Title I: 3%
- Food for Education: 4%
- Food for Progress: 9%
- Section 416(b): 10%
- Title II: 74%

Source: GAO analysis of USAID and USDA data.

*This includes the Bill Emerson Humanitarian Trust.*
Multiple U.S. Government Agencies and Stakeholders Coordinate U.S. Food Aid Programs through Various Forums

U.S. food aid programs also have multiple legislative and regulatory mandates that affect their operations. One mandate that governs U.S. food aid transportation is cargo preference, which is designed to support a U.S.-flag commercial fleet for national defense purposes. Cargo preference requires that 75 percent of the gross tonnage of all government-generated cargo be transported on U.S.-flag vessels. A second transportation mandate, known as the Great Lakes Set-Aside, requires that up to 25 percent of Title II bagged food aid tonnage be allocated to Great Lakes ports each month.\(^\text{11}\) Other mandates require that a minimum of 2.5 million metric tons of food aid be provided through Title II programs and that of this amount, a subminimum of 1.825 million metric tons be provided for nonemergency programs.\(^\text{12}\) (For a summary of congressional mandates for P.L. 480, see app. II.)


\(^\text{12}\)Due to increasing emergency food aid needs, the USAID Administrator has requested that Congress waive this subminimum requirement; as a result, this mandate has not been met since 1995.
U.S. food aid programs also involve many stakeholders, including donors, implementing organizations (also known as cooperating sponsors), agricultural commodity groups, and the maritime industry. U.S. agencies channel U.S. food aid contributions through organizations such as WFP, NGOs, and recipient country governments that serve as implementing partners. The level of contributions that each implementing partner receives varies for each food aid program. For example, between 2001 and 2006, WFP received the majority of U.S. Title II emergency food aid resources—approximately 78 percent—while NGOs received 94 percent of nonemergency Title II resources. Recipient country governments received considerable amounts of funding for USDA food aid programs. For example, the governments received 43 percent of funding for the Food for Progress program, while NGOs received 55 percent.

Stakeholders use various forums to discuss and coordinate U.S. food aid programs. The principal interagency forums are the Food Assistance Policy Council and the Food Aid Consultative Group. Led by USDA’s Under Secretary for Farm and Foreign Agricultural Services, the Food Assistance Policy Council includes representatives from USDA, USAID, and other key government agencies. The council oversees the Bill Emerson Humanitarian Trust, an emergency food reserve. The Food Aid Consultative Group, which includes various working groups, is led by USAID’s Office of Food for Peace. As stipulated by law, the Food Aid Consultative Group includes representatives from USAID, USDA, NGOs, and agricultural commodity groups. It meets at least twice a year and addresses issues concerning the effectiveness of the regulations and procedures that govern food assistance programs.

The Bill Emerson Humanitarian Trust, a reserve of up to 4 million metric tons of grain, can be used to help fulfill P.L. 480 food aid commitments to meet unanticipated emergency needs in developing countries or when U.S. domestic supplies are short. The Secretary of Agriculture authorizes the use of the trust in consultation with the Food Assistance Policy Council, which includes senior USAID representatives. The trust, as presently constituted, was enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385) and replaced the Food Security Wheat Reserve of 1980.

Multiple Challenges Hinder the Efficiency of U.S. Food Aid Programs

Multiple challenges reduce the efficiency of U.S. food aid programs, including logistical constraints that impede food aid delivery and reduce the amount and quality of food provided as well as inefficiencies inherent in the current practice of using food aid to generate cash resources to fund development projects. While in some cases agencies have tried to expedite food aid delivery, most food aid program expenditures are for logistics, and the delivery of food from vendor to village is generally too time-consuming to be responsive in emergencies. Factors that increase logistical costs and time frames include uncertain funding and inadequate planning, ocean transportation contracting practices that disproportionately increase risks for ocean carriers (who then factor those risks into freight rates), legal requirements, and inadequate coordination to systematically track and respond to food delivery problems, such as food spoilage or contamination. While U.S. agencies are pursuing initiatives to improve food aid logistics—such as prepositioning food commodities—their long-term cost-effectiveness has not yet been measured. In addition, the current practice of selling commodities as a means to generate resources for development projects—monetization—is an inherently inefficient use of food aid. Monetization entails not only the costs of procuring, shipping, and handling food, but also the costs of marketing and selling it in recipient countries. Furthermore, the time and expertise needed to market and sell food abroad requires NGOs to divert resources away from their core missions. In addition, U.S. agencies do not collect or maintain an electronic database on monetization revenues and the lack of such data impedes the agencies’ ability to fully monitor the degree to which revenues can cover the costs related to monetization.

Food Aid Procurement and Transportation Are Costly and Time-Consuming

Transportation costs represent a significant share of food aid expenditures. For the largest U.S. food aid program (Title II), approximately 65 percent of expenditures are for transportation to the U.S. port for export, ocean transportation, in-country delivery, associated cargo handling costs, and administration. According to USAID, these noncommodity expenditures have been rising in part due to the increasing number of emergencies and the expensive nature of logistics in such situations. For all food aid programs, rising transportation and business costs have contributed to a 52 percent decline in average tonnage.
delivered over the last 5 years. To examine procurement costs (expenditures on commodities and ocean transportation) for all U.S. food aid programs, we obtained KCCO procurement data for fiscal years 2002 through 2006. KCCO data also suggest that ocean transportation has been accounting for a larger share of procurement costs, with average freight rates rising from $123 per metric ton in fiscal year 2002 to $171 per metric ton in fiscal year 2006 (see fig. 5). Further, U.S. food aid ocean transportation costs are relatively expensive compared with those of some other donors. WFP transports both U.S. and non-U.S. food aid worldwide at reported ocean freight costs averaging around $100 per metric ton—representing just over 20 percent of its total procurement costs. At current U.S. food aid budget levels, every $10 per metric ton reduction in freight rates could feed almost 850,000 more people during an average hungry season.

16Costs to transport food to the U.S. port for export are included in commodity and ocean transportation contracts.

17In addition to rising fuel prices and greater global demand for shipping, one factor contributing to the rise in freight rates is the rising share of U.S. tonnage sent to Africa, which had a slightly higher average cost of $180 per metric ton in 2006.

18World Food Program, WFP in Statistics (Rome, Italy: July 2006) and Review of Indirect Support Costs Rate, WFP/EB/A/2006/6-C/1 (Rome, Italy: May 2006).

19Based on USAID and USDA data, the fiscal year 2006 average commodity and transportation cost for 1 metric ton of food aid was $670. If that average cost had been reduced by $10 per metric ton through a reduction in ocean transportation freight rates or any other cost factor, the fiscal year 2006 food-aid budget could have funded an additional 43,900 metric tons—enough to feed almost 850,000 people during a peak hungry season, which typically lasts 3 months.
Figures 5: U.S. Food Aid Ocean Transportation Costs

Note: Total procurement costs include commodity and ocean transportation costs. Costs incurred to transport the cargo to the U.S. port for export are included in the commodity and ocean transportation costs, dependent on contract terms.

Delivering U.S. food aid from vendor to village is also a time-consuming task, requiring on average 4 to 6 months. Food aid purchasing processes and sample time frames are illustrated in figure 6. While KCCO purchases

Sources: GAO analysis of Kansas City Commodity Office data; GAO (photos).
food aid on a monthly basis, it allows implementing partner orders to accumulate for 1 month prior to purchase in order to buy in scale. KCCO then purchases the commodities and receives transportation offers leading to awards of transportation contracts over the following month. Commodity vendors bag the food and ship it to a U.S. port for export during the next 1 to 2 months. After an additional 40 to 50 days for ocean transportation to Africa, for example, the food arrives at an overseas port, where it is trucked or railroaded to the final distribution location over the next few weeks. While agencies have in some cases tried to expedite food aid delivery, the entire logistics process often lacks the timeliness required to meet humanitarian needs in emergencies and may at times result in food spoilage. Additionally, the largest tonnage of U.S. food aid is purchased during August and September. Average tonnage purchased during the fourth quarter of the last 5 fiscal years has exceeded that purchased during the second and third quarters by more than 40 percent. Given a 6-month delivery window, these food commodities do not arrive in country in most cases until the end of the peak hungry season (from October through January in southern Africa, for example).

KCCO data suggest that there is some variation in the time required from the contract award date until the commodity reaches a U.S. port for export. For example, for fiscal years 2002 through 2006, this time period varied from less than 30 days for several shipments to more than 90 days for several others.

Ocean transportation time frames may include loading and unloading of vessels.

**Figure 6: An Example of a U.S. Food Aid Purchase and Its Delivery from Vendor to Village**

<table>
<thead>
<tr>
<th>Months</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example of a regular monthly food aid purchase</td>
<td>Cooperating sponsors are given 1 month to place food orders</td>
<td>KCCO collects food and transportation bids (2 weeks)</td>
<td>KCCO awards food and transportation contracts (1 week)</td>
<td>Food is processed and bagged (4-6 weeks)</td>
<td>Food arrives at U.S. port for shipment 10-12 weeks after order was placed</td>
<td>Food reaches and is unloaded at destination port overseas 3-5 months after order was placed</td>
<td></td>
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<td></td>
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<tr>
<td>Example of processes upon arrival at destination port</td>
<td>Food is dispatched to primary warehouse (about 1 week)</td>
<td>Food is dispatched to secondary warehouse (1-9 days)</td>
<td>Food arrives at final distribution sites 4-6 months after order was placed</td>
<td></td>
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<tr>
<td>Hungry and harvest seasons in southern Africa</td>
<td>Peak of hungry period</td>
<td>Green harvest</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Sources: GAO analysis of USAID and USDA data; GAO and Art Resources (photos).
Food aid logistics are costly and time-consuming for a variety of reasons. First, uncertain funding processes for emergencies can result in bunching of food aid purchases, which increases food and transportation costs and lengthens delivery time frames. Many experts, officials, and stakeholders emphasized the need for improved logistical planning. Second, ocean transportation contracting practices—such as freight and payment terms, claims processes, and time penalties—further increase ocean freight rates and contribute to delivery delays. Third, legal requirements such as cargo preference can increase delivery costs. Although DOT reimburses food aid agencies for certain transportation expenditures, the sufficiency of reimbursement levels varies and officials disagree on whether the levels are sufficient to cover the additional costs of such requirements. Fourth, when food delivery problems arise, such as food spoilage or contamination, U.S. agencies and stakeholders lack adequately coordinated mechanisms to systematically track and respond to complaints.

Uncertain funding processes, combined with reactive and insufficiently planned procurement, increase food aid delivery costs and time frames. Food aid emergencies are increasingly common and now account for 70 percent of USAID program expenditures. To respond to sudden-onset emergencies—such as Afghanistan in 2002; Iraq in 2003; Sudan, Eritrea, and Ethiopia in 2005; and Sudan and the Horn of Africa in 2006—U.S. agencies largely rely on supplemental appropriations and the Bill Emerson Humanitarian Trust (BEHT) to augment annual appropriations by up to a quarter of their budget. Figure 7, for example, illustrates that USAID supplemental appropriations and other funding in addition to its annual appropriations have ranged from $270 million in fiscal year 2002 and $350 million in fiscal year 2006 to over $600 million annually in fiscal years 2003 and 2005. Agency officials and implementing partners told us that the uncertainty of whether, when, and at what levels supplemental appropriations would be forthcoming hampers their ability to plan both emergency and nonemergency food aid programs on a consistent, long-term basis and to purchase food at the best price. Although USAID and USDA instituted multiyear planning approaches in recent years, uncertain supplemental funding has caused them to adjust or redirect funds from prior commitments, according to agency officials.
Agencies and implementing organizations also face uncertainty about the availability of BEHT funds. As of January 2007, BEHT held about $107.2 million in cash and around 915,350 metric tons of wheat valued at $133.9 million—a grain balance that could support two major emergencies based on an existing authority to release up to 500,000 metric tons per fiscal year and another 500,000 of commodities that could have been, but were not, released from previous fiscal years. Although the Secretary of Agriculture and the USAID Administrator have agreed that the $341 million combined value of commodity and cash currently held in BEHT is more than adequate to cover expected usage over the current authorization period, the authorization is scheduled to expire on September 30, 2007. Resources have been drawn from BEHT on 12 occasions since 1984 (see fig. 8). For example, in fiscal year 2005, $377 million from the trust was used to procure 700,000 metric tons of commodities for Ethiopia, Eritrea, and Sudan. However, experts and stakeholders with whom we met noted that the trust lacks an effective replenishment mechanism—withdrawals from BEHT must be reimbursed by the procuring agency or by direct appropriations for reimbursement,
and legislation establishing BEHT capped the annual amount of reimbursement from P.L. 480 at $20 million.  

Figure 8: Bill Emerson Humanitarian Trust Commodity Balances (1984 to 2006)

Inadequately planned food and transportation procurement reflects the uncertainty of food aid funding. As previously discussed, KCCO purchases the largest share of food aid tonnage during the last quarter of each fiscal year.

23 Additionally, Congress can appropriate funds to augment BEHT. The Emergency Wartime Supplemental Appropriations Act, 2003 (P. L. 108-11) appropriated $69 million for that purpose.
year. This bunching of procurement occurs in part because USDA requires 6 months to approve programs and/or because funds for both USDA and USAID programs may not be received until the middle of a fiscal year (after OMB has approved budget apportionments for the agencies) or through a supplemental appropriation. USAID officials stated that they have reduced procurement bunching through improved cash flow management. Although USAID has had more stable monthly purchases in fiscal years 2004 and 2005, total food aid procurement has not been consistent enough to avoid the higher prices associated with bunching. Higher food and transportation prices result from procurement bunching as suppliers try to smooth earnings by charging higher prices during their peak seasons and as food aid contracts must compete with seasonally high commercial demand. According to KCCO data for fiscal years 2002 through 2006, average commodity and transportation prices were each $12 to $14 per metric ton higher in the fourth quarter than in the first quarter of each year. Procurement bunching also stresses KCCO operations and can result in costly and time-consuming congestion for ports, railways, and trucking companies.

While agencies face challenges to improving procurement planning given the uncertain nature of supplemental funding in particular, stakeholders and experts emphasized the importance of such efforts. For example, 11 of the 14 ocean carriers we interviewed stated that reduced procurement bunching could greatly reduce transportation costs. When asked about bunching, agency officials, stakeholders, and experts suggested the following potential improvements:

- **Improved communication and coordination.** KCCO and WFP representatives suggested that USAID and USDA improve coordination of purchases to reduce bunching. KCCO has also established a web-based system for agencies and implementing organizations to enter up to several years’ worth of commodity requests. However, implementing organizations are currently only entering purchases for the next month. Additionally, since the statute that established the Food Aid Consultative

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24 USAID has taken steps to improve its management of (1) committed and anticipated cash outflows for development and emergency programs, prepositioning, and other accounts and (2) anticipated cash inflows from annual and supplemental budgets, DOT reimbursements, and other carryover accounts. According to a KCCO study, while both USDA and USAID experience an upsurge in purchasing at the end of the year (particularly in September), USDA’s is more pronounced.

25 These figures exclude prices for nonfat dry milk and vegetable oil.
Group does not specify including transportation stakeholders, DOT officials and ocean carriers strongly recommended establishing a formal mechanism for improving coordination and transportation planning.\footnote{To improve coordination on transportation, DOT officials and ocean carriers suggested that food aid programs include groups similar to DOD’s Expert Working Group and Joint Planning Advisory Group.}

- **Increased flexibility in procurement schedules.** USAID expressed interest in an additional time slot each month for food aid purchases. Several ocean carriers expressed interest in shipping food according to cargo availability rather than through preset shipping windows that begin 4 weeks and 6 weeks after each monthly purchase. Although KCCO has established shipping windows to avoid port congestion, DOT representatives believe that carriers should be able to manage their own schedules within required delivery time frames.

- **Increased use of historical analysis.** DOT representatives, experts, and stakeholders emphasized that USAID and USDA should increase their use of historical analysis and forecasting to improve procurement. USAID has examined historical trends to devise budget proposals prepared 2 years in advance, and it is now beginning to use this analysis to improve timing of procurement. However, neither USAID nor USDA has used historical analysis to establish more efficient transportation practices, such as the long-term agreements commonly used by DOD.\footnote{Several years ago, USAID asked DOD to calculate the cost for a sample set of food aid shipments using long-term transportation agreements managed by DOT. This analysis indicated a lack of potential savings. However, DOD and DOT officials subsequently found that the analysis contained flaws and recommend that a new analysis be conducted. DOT officials suggested that USAID conduct a pilot program using DOD’s Universal Service Contract. DOT officials indicated that cost savings could be realized if USAID were to manage its own contracts and that they had offered to assist USAID in doing so. DOT also provided examples of contracts that would not discourage cargo consolidation or reduce competition.} For example, WFP is now using forecasting to improve purchasing patterns through advanced financing but is unable to use this financing for U.S. food aid programs due to legal and administrative constraints.
Ocean Transportation Contracting Practices Increase Delivery Costs and Contribute to Delays

Ocean transportation contracting practices are a second factor contributing to higher food aid costs. DOT officials, experts, and ocean carriers emphasized that commercial transportation contracts include shared risk between buyers, sellers, and ocean carriers. In food aid transportation contracts, risks are disproportionately placed on ocean carriers, discouraging participation and resulting in expensive freight rates. Examples of costly contracting practices include the following.

- **Noncommercial and nonstandardized freight terms.** Food aid contracts often define freight terms differently than commercial contracts and place increased liability on ocean carriers. For example, many food aid contracts hold ocean carriers responsible for logistical problems such as improperly filled containers that may occur at the load port before they arrive. Many food aid contracts also hold ocean carriers responsible for logistical problems, such as truck delays or improper port documentation, that may occur at the discharge port after they arrive. One carrier reported financial losses of around $1 million for an instance where, to be able to deliver food aid to a port in Madagascar, the carrier was required to wait almost 60 days for a vessel already at port to finish unloading and to assist the government in repairing port discharging equipment. Further, several carriers reported that food aid contracts are not sufficiently standardized. Although USDA and USAID created a standard contract for nonbulk shipments, contracts for bulk shipments (which accounted for 63 percent

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28While various factors distinguish food aid shipments from commercial shipments, including cargo preference and the percentage of cargo that is shipped bulk or packaged, KCCO data suggest that food aid freight rates from the Gulf of Mexico to Djibouti, East Africa averaged over $150 per ton in 2006. Commercial freight rates from the Gulf of Mexico to Djibouti in 2006 averaged around one-third the price at $55 per ton.

29International commercial (InCo) terms are internationally accepted terms defining responsibilities of exporters and importers in shipments. For example, InCo terms define free alongside ship (FAS) as a contract where cargo is placed at the load port under the seller's responsibility and any vessel loading charges, freight, and other costs incurred, including “detention and demurrage” (costs for detaining a vessel or equipment at a discharge port longer than specified in the contract), are the buyer's responsibility. For both USAID and USDA food aid programs that ship packaged cargo, FAS contracts specify that cargo is loaded and discharged at the carrier's time, risk, and expense. When USDA ships bulk cargo, however, contracts include a prenegotiated demurrage rate.

30The vessel that was delivering food aid to Madagascar was carrying one shipment for a USDA program and one shipment for a USAID program. Estimated financial losses reported by this carrier were for the USAID program shipment, for which its contract did not allow demurrage or detention.

31This standard contract is called the Food Aid Booking Note and is based on recommendations from a booking note committee that included agency officials, ocean carriers, implementing organizations, and freight forwarders.
of total food aid tonnage in fiscal year 2006) have not yet been standardized. To account for risks that are unknown or outside their control, carriers told us that they charge higher freight rates.\(^{32}\)

- **Impractical time requirements.** Food aid contracts may include impractical time requirements, but agencies disagree on how frequently this occurs. Although USAID officials reviewed contract time requirements and described them as reasonable, they also indicated that transportation delays often result from poor carrier performance and the diminishing number of ocean carriers participating in food aid programs.\(^{33}\) Several implementing organizations also complained about inadequate carrier performance. WFP representatives, for example, provided several examples of ocean shipments in 2005 and 2006 that were more than 20 days late. While acknowledging that transportation delays occur, DOT officials indicated that these delays often result from problems at a discharge port on the vessel’s previous food aid voyage. DOT officials also stated that although contract time requirements are being made more reasonable, some contracts still include requirements that are impossible for carriers to meet. For example, one carrier complained about a contract that required the same delivery date for four different ports. When carriers do not meet time requirements, they must often pay costly penalties.\(^{34}\) Carriers reported that they review contracts in advance and, where time requirements are deemed implausible, factor the anticipated penalty into

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\(^{32}\)The net cost impact of shifting risk from ocean carriers to other food aid stakeholders, such as commodity suppliers or implementing organizations, has not been studied. However, savings could potentially arise through aligning the fiduciary responsibility for food delivery risks with those stakeholders that can better assess and manage those risks. Under the current approach, ocean carriers are held responsible for certain food delivery risks that they have no direct ability to manage. Ocean carriers generally insure themselves against these risks by increasing their freight rates for all deliveries. Moreover, by realigning the cost of risk to those who manage it during each step of the process, food aid stakeholders would have additional incentives to make sure the process goes right.

\(^{33}\)The number of vessels participating in food aid programs varies over time due to global market opportunities. We reported in 2004 that between fiscal years 1999 and 2003, an annual average of 108 U.S.-flag vessels participated in U.S. food aid programs (see **GAO-04-1065**). According to DOT estimates, 87 U.S.-flag vessels participated in food aid programs in fiscal year 2006. Due to fleet changes, USAID officials estimate that there are now even fewer U.S.-flag vessels available to carry U.S. food aid.

\(^{34}\)Contracts for USDA programs rarely include penalties for delayed delivery. Such penalties are included in contracts for USAID programs.
the freight rate.\textsuperscript{35} While agencies do not systematically collect data on time requirements and penalties associated with food aid contracts, DOT officials examined a subset of contracts from December 2005 to September 2006 and estimated that 13 percent of them included impractical time requirements. Assuming that the anticipated penalties specified in the contracts analyzed were included in freight rates, food aid costs may have increased by almost $2 million (monies that could have been used to provide food to more than 57,000 additional beneficiaries during a typical hungry season).

- **Lengthy claims processes.** Lengthy processes for resolving transportation disputes discourage both carriers and implementing organizations from filing claims. According to KCCO officials, obtaining needed documentation for a claim can require several years, and disputed claims must be resolved by the Department of Justice. USAID’s Inspector General reported that inadequate and irregular review of claims by USAID and USDA has also contributed to delayed resolution.\textsuperscript{36} Currently, KCCO has over $6 million in open claims, some of which were filed prior to fiscal year 2001. For ocean carriers, the process is burdensome and encourages them to factor potential losses into freight rates rather than pursue claims. Incentives for most implementing organizations are even weaker given that monies recovered from claims reimburse the overall food aid budget rather than the organization that experienced the loss.\textsuperscript{37} According to KCCO and WFP officials, transportation claims are filed for less than 2 percent of cargo. However, several experts and implementing organizations suggested that actual losses are likely higher. In 2003, KCCO proposed a new administrative appeals process for ocean freight claims that would establish a hearing officer within USDA and a 285-day time frame. While DOT and some carriers agreed that a faster process was needed, DOT officials suggested that the claims review process should include hearing officers outside of USDA to ensure independent findings. To date, KCCO’s proposed process has not been implemented.

\textsuperscript{35}Various stakeholders questioned whether penalties are effective. USAID officials emphasized that penalties are their most practical tool to compel ocean carrier performance because Federal Acquisition Regulations make it very difficult to suspend carriers from participating in food aid programs if they perform poorly.


\textsuperscript{37}WFP handles food aid claims independently through an insurance program.
• **Lengthy payment time frames and burdensome administration.**

Payment of food aid contracts is slow and paperwork is insufficiently streamlined. When carriers are not paid for several months, they incur large interest costs that are factored into freight rates. While a new electronic payment system has enabled USDA to provide freight payments within a few weeks, several ocean carriers complained that USAID often requires 2 to 4 months to provide payment, though USAID officials dispute this claim. USAID officials also asserted that the electronic payment system used by USDA is too expensive, and they are considering other payment options.  

In addition to payment issues, a few carriers suggested that paperwork in general needs streamlining and modernization. The 2002 Farm Bill required both USDA and USAID to pursue streamlining initiatives that the agencies are implementing. KCCO officials indicated that they are updating food aid information technology systems (to be in place in fiscal year 2009).

In structured interviews, ocean carriers confirmed the cost impact of food aid transportation contracting practices. Figure 9 shows that depending upon the practice, between 9 (60 percent) and 14 (100 percent) of the carriers reported increased costs, with “liabilities outside the carriers’ control” as the most significant factor. To quantify the impact, two carriers estimated that nonstandardized freight terms increase costs by about 5 percent (about $8 per metric ton), while another carrier suggested that slow payment increases costs by about 10 percent (about $15 per metric ton). Figure 9 also shows that a large percentage of carriers strongly recommended actions to address contracting practices.

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38This system is entitled PowerTrack and is also currently used by DOD and State. According to DOD and DOT, PowerTrack has provided the government with visibility of payment history and has reduced administrative and handling costs and expedited vendor payments. However, ocean carriers are responsible for paying transaction fees and USAID officials believe these fees—which are a percentage (seven-tenths of 1 percent) of the contract value—may be too expensive for large contracts. They are researching whether they can find a similar service with a flat transaction fee.
Legal Requirements Can Increase Delivery Costs and Time Frames

Legal requirements governing food aid procurement are a third factor that can increase delivery costs and time frames, with program impacts dependent on the sufficiency of associated reimbursements. In awarding contracts, KCCO must meet various legal requirements, such as cargo preference and the Great Lakes Set-Aside. Each requirement may result in higher commodity and freight costs. Cargo preference laws, for example, require 75 percent of food aid to be shipped on U.S.-flag carriers, which are generally more expensive than foreign-flag carriers by an amount.

Figure 9: Carriers Views on Costly Food Aid Ocean Transportation Practices and Recommended Improvements

Costly transportation practices/Recommended improvements

- Liabilities outside the carriers' control
- Nonstandardized freight terms/requirements
- Standardize freight terms
- Impractical time requirements and penalties
- Use achievable required delivery dates
- Inefficient claims processes
- Establish an independent claims process
- Burdensome administrative processes
- Simplify and streamline paperwork

Source: GAO analysis of structured interviews with ocean carriers.

Note: GAO asked ocean carriers to rate (1) the extent to which various transportation conditions increase costs and (2) how strongly they would recommend various improvements based on each option's potential to reduce costs. For this figure, we are illustrating those transportation conditions that reflect contracting practices—and improvements that are clearly linked with each condition.
known as the ocean freight differential (OFD).\(^3\) The total annual value of this cost differential between U.S.- and foreign-flag carriers averaged $134 million from fiscal years 2001 to 2005 (see fig. 10). DOT reimbursements have varied from $126 million in fiscal year 2002 to $153 million in fiscal year 2005.\(^4\) However, USAID officials expressed concern that the OFD calculations do not fully account for the costs of cargo preference or the uncertainties regarding its application. For example, several U.S. agency and port officials believe that cargo preference regulations discourage foreign-flag participation in the program due to the small percentage of cargo that can be shipped on foreign-flag vessels. OFD reimbursements do not include shipments for which a foreign-flag vessel has not submitted a bid or for the additional costs of shipping on U.S.-flag vessels that are older than 25 years (about half of the vessels).\(^5\) USAID officials estimated that for Title II programs, the actual cost of cargo preference in fiscal year 2003 exceeded the total OFD cost by about $50 million due to these factors. DOT officials estimated these additional costs for Title II at about $34 million in fiscal year 2004 and about $56 million in fiscal year 2005. Finally, USAID and DOT officials have not yet agreed on whether cargo preference applies to shipments from prepositioning sites.

\(^{3}\)U.S.-flag rates are subject to DOT's Fair and Reasonable Rate guidelines, which take into account operating and capital costs, cargo handling costs, and depreciation. See 46 C.F.R. 382.3.

\(^{4}\)The Food Security Act of 1985 requires DOT to reimburse food aid agencies for a portion of the OFD cost and for ocean transportation costs that exceed 20 percent of total program costs. Reimbursement methodologies are governed by a 1987 interagency memorandum of understanding. According to DOT officials, the OFD cost was relatively low in fiscal year 2005 due to high global demand for freight services and relatively high foreign-flag freight rates. These factors raised ocean transport costs as a percentage of program costs, so that DOT's total reimbursement was higher as well.

\(^{5}\)USAID and USDA are required to apply cargo preference regulations for vessels of any age. However, total OFD costs are based on an average OFD for vessels that are 25 years or older or have been rebuilt within the past 5 years and are certified by the Secretary of Transportation as having a useful life of at least 5 years after that rebuilding. USAID officials argue that the cost difference between U.S.-flag and foreign-flag rates is larger for older vessels. Further, since opportunities for foreign-flag participation are limited, USAID argues that it is not reimbursed for the higher cost of shipping on a U.S.-flag vessel when foreign-flag bids are not received. Using KCCO data, we found that 14 percent of food aid commodity requests in fiscal year 2005 received no foreign-flag bid.
Inadequate Coordination Limits Agency and Stakeholder Response to Food Delivery Problems

U.S. agencies and stakeholders do not coordinate adequately to respond to food and delivery problems when they arise. USAID and USDA lack a shared, coordinated system to systematically track and respond to food quality complaints.\(^{42}\) Food quality concerns have been long-standing issues.

\(^{42}\)GAO uses the term food quality to refer to the degree of food spoilage, infestation, contamination and/or damage that can result from factors such as inadequate fumigation, poor warehouse conditions, and transportation delays.
for both food aid agencies and the U.S. Congress. In 2003, for example, USAID’s Inspector General reported some Ethiopian warehouses in poor condition, with rodent droppings near torn bags of corn soy blend (CSB), rainwater seepage, pigeons flying into one warehouse, and holes in the roof of another. Implementing organizations we spoke with also frequently complained about receiving heavily infested and contaminated cargo. For example, in Durban, South Africa, in October 2006, we saw 1,925 metric tons of heavily infested cornmeal that arrived late in port after it had been erroneously shipped to the wrong countries first. As shown in figure 11, we found live and dead insects in bags of cornmeal, along with their nests. NGOs noted that some of the food had been in containers for as long as 78 days. This food could have fed over 37,000 people during a typical hungry season. When food arrives heavily infested, NGOs hire a surveyor to (1) determine how much is salvageable for human consumption or for use as animal feed and (2) destroy what is deemed unfit.

Figure 11: Delays Led to Contamination of U.S. Food Aid in Durban, South Africa

43In the Senate report accompanying H.R. 5522, the 2007 Department of State, Foreign Operations, and Related Programs Appropriations Act, the Senate Foreign Relations Committee stated its concern about reports that food aid distribution overseas had been disrupted, suspended, and in some instances rejected due to quality concerns and indicated its support of efforts by USAID and other agencies to investigate these concerns. (S. Rept. 109-277, 61). GAO has also reported on food quality issues. See Foreign Assistance: U.S. Food Aid Program to Russia Had Weak Internal Controls, GAO/NSIAD/AIMD-00-329 (Washington, D.C.: Sept. 29, 2000).
U.S. agencies and food aid stakeholders face a variety of coordination challenges in addressing such food delivery problems, including the following:

- KCCO, USDA and USAID have disparate quality complaint tracking mechanisms that monitor different levels of information. As a result, they are unable to determine the extent of and trends in food quality problems. In addition, because implementing organizations track food quality concerns differently, if at all, it is difficult for them to coordinate to share concerns with each other and with U.S. government agencies. For example, since WFP—which accounts for approximately 60 percent of all U.S. food aid shipments—individually handles its own claims, KCCO officials are unable to track the quality of food aid delivery programwide. Agencies and stakeholders have suggested that food quality tracking and coordination could be improved if USAID and USDA shared the same database and created an integrated food quality complaint reporting system.

- Agency country offices are often unclear about their roles in tracking food quality, creating gaps in monitoring and reporting. For example, USAID found that some missions do not clearly understand their responsibilities to independently verify claims stemming from food spoilage and often rely on the implementing organization to research the circumstances surrounding losses. One USAID country office also noted that rather than tracking all food quality problems reported, it only recorded and tracked commodity losses for which an official claim had been filed. Further, in 2004, USAID’s Inspector General found that USAID country offices were not always adequately following up on commodity loss claims to ensure that they were reviewed and resolved in a timely manner. To improve food quality monitoring, agencies and stakeholders have suggested updating regulations to include separate guidance for complaints, as well as developing a secure Web site for all agencies and their country offices to use to track both complaints and claims.

- When food quality issues arise, there is no clear and coordinated process to resolve problems. For example, WFP officials stated that they experienced coordination issues with USAID in 2003 when they received 4,200 metric tons of maize from USAID in Angola and found a large quantity to be wet and moldy. Although USAID officials maintain that their response was timely, WFP officials stated that USAID did not provide timely guidance on how WFP would be reimbursed for testing and destruction of cargo that was not fit for consumption and how USAID would replace the quantity lost. WFP officials claim that WFP lost over $640,000 in this case, including testing and destruction costs and the value
of the commodity, and no replacement cargo was provided by USAID. Although KCCO established a hotline to provide assistance on food quality complaints, KCCO officials stated that it was discontinued because USDA and USAID officials wanted to receive complaints directly, rather than from KCCO. Agencies and stakeholders have suggested that providing a standard questionnaire to implementing organizations would ensure more consistent reporting on food quality issues.

To improve timeliness in food aid delivery, USAID has been prepositioning commodities in two locations and KCCO is implementing a new transportation bid process. Prepositioning enabled USAID to respond more rapidly to the 2004-2005 Asian tsunami emergency than would have been possible otherwise. KCCO’s bid process is also expected to reduce delivery time frames and ocean freight rates. However, the long-term cost-effectiveness of both initiatives has not yet been measured.

USAID has prepositioned food aid on a limited basis to improve timeliness in delivery.\(^44\) USAID has used warehouses in Lake Charles (Louisiana) since 2002 and Dubai (United Arab Emirates) since 2004 to stock commodities in preparation for food aid emergencies, and it is now adding a third site in Djibouti, East Africa. USAID has used prepositioned food to respond to recent emergencies in Lebanon, Somalia, and Southeast Asia, among other areas. Prepositioning is beneficial because it allows USAID to bypass lengthy procurement processes and to reduce transportation time frames. USAID officials told us that diverting food aid cargo to the site of an emergency before it reaches a prepositioning warehouse further reduces response time and eliminates storage costs.\(^45\) When the 2004 Asian tsunami struck, for example, USAID quickly provided 7,000 metric tons of food to victims by diverting the carrier at sea, before it reached the Dubai warehouse. According to USAID officials, prepositioning warehouses also offer the opportunity to improve logistics when USAID is able to begin the procurement process before an emergency occurs or if it is able to

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\(^44\)P.L. 480 authorizes USAID to preposition food aid both domestically and abroad with a cap on storage expenses of $2 million per fiscal year.

\(^45\)Purchases for the Lake Charles prepositioning site must reach the warehouse and may not be diverted in advance.
implement long-term agreements with ocean carriers for tonnage levels that are more certain.\textsuperscript{46}

Despite its potential for improved timeliness, USAID has not studied the long-term cost-effectiveness of prepositioning. Table 1 shows that over fiscal years 2005 and 2006, USAID purchased about 200,000 metric tons of processed food for prepositioning (around 3 percent of total food aid tonnage), diverted about 36,000 metric tons en route, and incurred contract costs of about $1.5 million for food that reached the warehouse (averaging around $10 per metric ton). In addition to contract costs, ocean carriers generally charge higher freight rates for prepositioned cargo to account for additional cargo loading or unloading, additional days at port, and additional risk of damage associated with cargo that has undergone extra handling. USAID officials have suggested that average freight rates for prepositioned cargo could be $20 per metric ton higher.

<table>
<thead>
<tr>
<th>Table 1: USAID Tonnage and Costs for Prepositioning, Fiscal Years 2005 through 2006</th>
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<tbody>
<tr>
<td><strong>Lake Charles</strong></td>
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<tr>
<td>Tonnage purchased for prepositioning sites</td>
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<tr>
<td>Tonnage shipped to prepositioning site</td>
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<tr>
<td>Tonnage diverted before reaching prepositioning site</td>
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<tr>
<td>Contract costs for storage and cargo handling services</td>
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</tbody>
</table>

Source: USAID.

Legend: MT = metric ton

In addition to the costs of prepositioning, agencies face several challenges to their effective management of this program, including the following:

- Food aid experts and stakeholders expressed mixed views on the appropriateness of current prepositioning locations.\textsuperscript{47} Only 5 of the 14 USAID representatives said they might consider pursuing a long-term transportation agreement for prepositioned tonnage to Djibouti. KCCO officials suggested that as part of such a program, reduced bunching of purchases could also reduce commodity prices. In addition to considering long-term transportation agreements, USAID officials stated that they are expanding their practice of specifying transportation contracts that include multiple discharge port options in order to reduce costs associated with high-seas diversions.

\textsuperscript{46} USAID representatives said they might consider pursuing a long-term transportation agreement for prepositioned tonnage to Djibouti. KCCO officials suggested that as part of such a program, reduced bunching of purchases could also reduce commodity prices. In addition to considering long-term transportation agreements, USAID officials stated that they are expanding their practice of specifying transportation contracts that include multiple discharge port options in order to reduce costs associated with high-seas diversions.
ocean carriers we interviewed rated existing sites positively, and most indicated interest in alternative sites. KCCO officials and experts also expressed concern with the quality of the Lake Charles warehouse and the lack of ocean carriers providing service to that location. For example, many carriers must move cargo by truck from Lake Charles to Houston before shipping it. Relative to other ports, shipping out of the Lake Charles prepositioning site can add as much as 21 days for delivery.

- Inadequate inventory management increases the risk of cargo infestation. KCCO and port officials suggested that USAID had not consistently shipped older cargo out of the warehouses first. USAID officials emphasized that inventory management has been improving but that limited monitoring and evaluation funds constrain their oversight capacity. For example, the current USAID official responsible for overseeing the Lake Charles prepositioning stock was able to visit the site only once in fiscal year 2006—at his own expense.

- Agencies have had difficulties ensuring phytosanitary certification for prepositioned food because they do not know the country of final destination when they request phytosanitary certification from APHIS. According to USDA, since prepositioned food is not imported directly from a U.S. port, it requires either a U.S.-reissued phytosanitary certificate or a foreign-issued phytosanitary certificate for re-export. USDA officials told us they do not think it is appropriate to reissue these certificates—once a food aid shipment leaves the United States, they cannot make any statements about the phytosanitary status of the commodities, which may not meet the entry requirements of the destination country. USDA officials are also concerned that USAID will store commodities for a considerable period of time during which their status may change, thus making their certificate invalid. Although USDA and USAID officials are willing to allow foreign government officials to issue these certificates, U.S. inspection officials remain concerned that the foreign officials might not have adequate resources for inspection or be willing to certify these commodities. Without phytosanitary certificates, food aid shipments could be rejected, turned away, or destroyed by recipient country governments.

47 USAID awards these contracts based on three factors: (1) storage and warehouse costs; (2) technical criteria such as the port’s plan of operations, port personnel capacity, and the frequency of service provided by ocean carriers; and (3) past performance.

48 USAID is considering building inventory management into warehouse contracts and establishing standard operating procedures.

49 A phytosanitary certificate is a document required by many states and foreign countries for the import of nonprocessed plant products. As specified by the importing country or state, exported products must meet various plant health requirements pertaining to pests, plant diseases, chemical treatments and weeds.
• Certain regulations applicable to food aid create challenges for improving supply logistics. For example, food aid bags must include various markings reflecting contract information, when the commodity should be consumed, and whether the commodity is for sale or direct distribution. Marking requirements vary by country (some require markings in local languages), making it difficult for USAID to divert cargo. Also, due to the small quantity of total food aid tonnage (around 3 percent) allocated for the prepositioning program, USAID is unable to use the program to consistently purchase large quantities of food aid earlier in the fiscal year.

New Transportation Bid Process Could Reduce Procurement Time Frames

In addition to prepositioning, KCCO is implementing a new transportation bid process to reduce procurement time frames and increase competition between ocean carriers. In the prior two-step system, during a first procurement round, commodity vendors bid on contracts and ocean carriers indicated potential freight rates. Carriers provided actual rate bids during a second procurement round once the location of the commodity vendor had been determined. In the new one-step system, ocean carriers will bid at the same time as commodity vendors. KCCO expects the new system to cut 2 weeks from the procurement process and provide potential annual savings of around $25 million. KCCO expects this new bid process to also reduce cargo handling costs as cargo loading becomes more consolidated. When asked about the new system, several carriers reported uncertainty about its future impact and expressed concern that USDA’s testing of the system had not been sufficiently transparent.

Monetization Is an Inefficient Practice and the Lack of Electronic Data Impedes Agencies’ Ability to Monitor

Despite efforts to improve the efficiency of the delivery of U.S. food aid, the current use of food aid as a means to raise cash to fund development projects—a practice known as monetization—is inherently inefficient. Besides procurement and shipping costs, NGOs involved in monetization programs often incur additional costs for marketing food commodities in recipient countries. Furthermore, NGOs must maintain the expertise necessary to sell and market food aid abroad, which diverts resources from their core missions. The permissible use of monetization revenues has expanded beyond its original intent over the years. Although monetization was initially established to fund expenses related to direct food aid delivery for humanitarian purposes, it now funds projects ranging from rural financing to health services. Additionally, U.S. agencies do not collect data electronically, and the lack of such data impedes their ability to monitor the extent to which monetization revenues can cover the costs.
## Monetizing Food to Fund Development Projects Is Inherently Inefficient

Monetizing food to fund development projects is an inherently inefficient use of food aid. Monetization requires food to be procured, shipped, and eventually sold—incuring costs at each step in the process. Furthermore, although bulk products comprise a larger proportion of monetized food aid, they have higher transportation costs relative to their market price in recipient countries than nonbulk (processed) products.\(^50\) For example, the ratio of transportation cost to market price for bulk wheat is more than three times that of vegetable oil.

In addition to shipping and handling costs, the process of generating cash from selling food is inefficient because it also requires NGOs to maintain the capacity necessary to sell and market food aid, diverting them from their core missions. In its 2001 report to Congress on Food Aid Monetization,\(^51\) USDA stated that the increasing involvement of NGOs in implementing food aid programs has required these organizations to seek expertise in all facets of commodity sales and cope with price, exchange rate, and other uncertainties, which has affected the way in which they operate. Noting that NGOs have differing missions and backgrounds and vary in size and scope of operations, the USDA report stated that some NGOs view the monetization process as “inconvenient but necessary to generate program development funds.” However, some NGOs would prefer to end their involvement in monetization. For example, CARE, one of the major NGOs engaged in the practice, decided to transition out of it by 2009 partly because “monetization requires intensive management and is fraught with risks. Procurement, shipping, commodity management, and commercial transactions are management intensive and costly. Experience has shown that these transactions are also fraught with legal and financial risks.”\(^52\) Some participants at the GAO roundtable on food aid stated that they recognize that monetization is not an efficient way to raise development money, but they pointed out that it is the only available resource to supplement food aid and enhance food security and other development projects.

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\(^{50}\)From 1996 to 2005, processed, fortified, or bagged commodities accounted for less than 20 percent of Title II monetization—much less than the requirement that 75 percent of food aid be value-added.


\(^{52}\)CARE USA, *White Paper on Food Aid Policy* (June 6, 2006).
The permissible use of monetization revenues and the minimum level of monetization allowed by the law have expanded, contributing to an increasing use of monetization as a means to generate cash for development projects. While monetization was initially established to pay for administrative costs related to direct food distribution, monetization revenues now fund development activities beyond food distribution that aim to improve food security. Examples include the following.

- **Title II monetization revenues** can be used to implement income-generating, community development, health, nutrition, cooperative development, agricultural, and other development activities. Revenues can also be invested, and any interest earned on such investments may be used for the same purposes.

- **Food for Progress monetization revenues** can be used for private sector agricultural development through improved agricultural techniques, marketing systems, farmer education, and cooperative development; enhanced food processing capacity; introduction of new foods; or agricultural-related business growth.

Monetization has also been used on rare occasions to achieve objectives that may be beyond the scope of direct food delivery. USAID officials informed us of a case in which monetization was intentionally used to help increase access to food for the urban poor in Zimbabwe. The program involved subsidized sales of sorghum meal in poor areas of a few selected cities. The main goal was not to generate revenue but to provide affordable staple foods to households in urban areas where conventional food aid distribution programs were not practical or appropriate.\(^{53}\)

The monetization rate for Title II nonemergency food aid has far exceeded the minimum requirement of 15 percent,\(^{54}\) reaching close to 70 percent in 2001 but declining to about 50 percent in 2005. This decline is due to both increasing demand for emergency food aid and OMB's 2002

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\(^{53}\)Because of this objective, sales prices were deliberately set at less than market values. Participating retailers were required to sell at predetermined prices that allowed them a reasonable margin and were considered generally affordable to most low-income consumers.

\(^{54}\)In 1990, Congress increased the minimum monetization rate to 10 percent and the permissible use of monetized revenues was expanded to include broad development purposes, including agricultural development. In 1996, the minimum monetization level was further increased to 15 percent for non-emergency Title II.
recommendation to decrease monetization, according to USAID officials. OMB pointed out that monetization can impede U.S. commercial exports, lower market prices, induce black market activity, and thwart market development for U.S. farm products. OMB also raised questions about the economic efficiency of the practice. Furthermore, in 2002 The President’s Management Agenda suggested that directly feeding the hungry, rather than providing food for development, should be the primary goal of U.S. food aid programs. Figure 12 shows the average share of nonemergency food aid funding different programs used for monetization from fiscal years 2001 through 2006.

Figure 12: Use of Monetization by Program Authority

Percentage of funds used for monetization and direct distribution

**USAID**
- Title II
  - FY2002-2006
  - Monetization 49%<sup>a</sup>
  - Direct distribution
  - Nonemergency
  - Emergency

**USDA**
- Section 416(b)
  - FY2001-2005
- Food for Progress
  - FY2001-2006
- McGovern-Dole
  - International Food for Education and Child Nutrition
  - FY2003-2006

Source: GAO analysis of USAID and USDA data.

<sup>a</sup>Monetization percentage is based on data from fiscal years 2002 through 2005.

**Agencies’ Ability to Adequately Monitor Monetization Cost Recovery Impeded by Lack of Electronic Data**

U.S. agencies do not electronically collect data on monetization revenues. Without such data, the agencies’ ability to adequately monitor the degree to which revenues cover costs is impeded. USAID used to require that monetization revenues cover at least 80 percent of costs associated with delivering food to recipient countries, but this requirement no longer...
exists. Neither agency was able to provide us with data on the revenues generated through monetization. The agencies told us that the information should be in the results reports, which are in individual hard copies and not available in any electronic database. We have expressed similar concerns about the limited oversight of monetization revenues in our 2002 review of the McGovern-Dole Food for Education program.\textsuperscript{56}

USAID officials told us that they believe NGOs have incentives to generate the maximum amount of resources possible from monetization and, therefore, the officials are not concerned about monitoring revenue data. However, some NGOs may not have sufficient expertise in commodity trading to ensure that they are selling food at the best possible price. In addition, due to insufficient market expertise or delivery delays, monetization revenues can also be reduced when NGOs sell the commodity at a time when market supplies have grown. For example, selling Title I- and Title II-funded wheat simultaneously in Mozambique in 2002 flooded the market and decreased food prices, resulting in reduced monetization revenues.\textsuperscript{57}

### Various Challenges Reduce the Effective Use of Food Aid

A number of challenges reduce the effectiveness of food aid in alleviating hunger. Since food aid is limited, it is important that donors and implementers use it effectively by ensuring that it reaches the most vulnerable populations and does not cause negative market impact. However, a number of factors limit efforts to develop reliable estimates of food needs and respond to crises in a timely manner. These include challenging operating environments in recipient countries, insufficient coordination among stakeholders and use of noncomparable assessment methods, difficulties in identifying vulnerable groups (such as chronic versus transitory food-insecure populations) and understanding the causes of food insecurity, and resource constraints that adversely affect the quality of assessments and quantity of food and other assistance. Consequently, estimates of food needs have differed significantly and, in some cases, have resulted in delays in appropriately responding to crises with sufficient food and complementary assistance. Furthermore, some impediments to improving the nutrition quality of U.S. food aid, including


\textsuperscript{57}A USDA official told us that the coordination between USAID and USDA in Mozambique has improved since then.
the lack of interagency coordination to update food aid products and specifications, may prevent the most nutritious or appropriate food from reaching intended recipients. Despite these concerns, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries, as they have limited staff and competing priorities and face legal restrictions on the use of food aid resources.

Ensuring That Food Aid Reaches the Most Vulnerable Populations Is Critical to Enhancing Its Effectiveness and Avoiding Negative Market Impact

U.S. food aid assists only about 11 percent of the estimated hungry population worldwide. In light of the significant need for food aid, it is critical that this assistance be used effectively by ensuring that the right food reaches the right people at the right time. Generally, the most food-insecure populations include poor households with elderly people, young children (especially those under 5 years of age), pregnant and lactating women, and the chronically sick (e.g., people with HIV/AIDS). To provide food to these vulnerable populations, agencies and stakeholders target food aid resources. Targeting involves assessments of needs, program planning to reach vulnerable households with adequate food, implementing the distribution of food, and monitoring these programs. (Figure 13 illustrates these elements of the targeting process). The timing of food delivery is a key factor that impacts targeting effectiveness. Timely provision of food aid will not only save lives during an emergency, but also help to avert crises that may result from increasing vulnerability. To focus on the vulnerability of food insecure populations, USAID discussed the concept of development relief in its Food Security Strategic Plan for 2006-2010, whereby programs dealing with emergencies would also address the underlying causes of emergencies and development programs would help vulnerable people improve their ability to prevent and cope with future emergencies. Enhancements to early warning systems, such as the USAID-funded Famine Early Warning System Network, and efforts to better understand the livelihoods of vulnerable populations have contributed to improved information on the needs of vulnerable populations, according to officials from implementing organizations and USAID.
Figure 13: Targeting Process to Ensure That Food Reaches the Most Vulnerable Populations

Assessment and analysis
- Assess the context, extent, and magnitude of needs arising from current or impending food insecurity
- Prioritize assistance to affected population groups and geographical areas

Planning
- Decide recipient eligibility process and approach, such as
  - administrative
  - community-based
  - self-targeting
- Determine ration size and types of food
- Select food distribution activity, such as
  - general distribution
  - food for work
  - school feeding

Implementation
- Community-based
- Self-targeting
- Ration size
- Food for work
- School feeding

Monitoring
- Ensure that food is reaching intended recipients
- Modify program to improve effectiveness and efficiency

Sources: GAO analysis, adapted from WFP information; GAO (photos).
In addition to ensuring effective use of food aid resources, accurate targeting can reduce the potential adverse impact of food aid on recipient country markets.\textsuperscript{58} (See app. III for more information on the impact of food aid on local markets.) When food aid is distributed during a food shortfall to people who would not otherwise be able to purchase food, markets may remain unaffected. In the case of food shortfalls, food aid may actually serve to bring supply back to levels that would have occurred in the absence of the shortage and help limit price increases. However, when food aid is sent in response to a food shortfall but arrives while food is readily available—such as after the hungry season—and is distributed to people who can otherwise purchase food, it increases total food supplies above normal market levels. Additionally, in such cases, the food aid may decrease market prices and the incomes of food producers in recipient countries.\textsuperscript{59} These low prices could decrease agricultural investments and reduce the return on labor allocated to agriculture.\textsuperscript{60} While food aid may lower prices, it may also increase income for recipients. For example, according to one study, distribution of food aid to households in northern Ethiopia during the hungry season actually increased household purchasing power and contributed to increased agricultural productivity.\textsuperscript{61}

Various factors limit the ability of U.S. agencies to ensure that food aid is directed to the most vulnerable populations. First, challenging operating environments, characterized by poor infrastructure and concerns about physical safety and security, have limited access to vulnerable groups and caused delays in providing food aid. Inadequate recipient government participation and human resource constraints also contribute to insufficient assistance to vulnerable people. Second, weak in-country

\textsuperscript{58}Studies investigating the impact of food aid on markets have been largely inconclusive, according to a number of reviews that have examined empirical studies on market impact. In part, this is because the effect of food aid on the production, prices, and consumption of food depends on factors specific to particular situations.

\textsuperscript{59}For example, according to one study, the poorly timed arrival of maize food aid close to the harvest season in Mozambique resulted in a drop in the market prices of maize. D. Tschirly, C. Donovan, and M. T. Weber, "Food Aid and Food Markets, Lessons from Mozambique," \textit{Food Policy}, Vol. 21, No. 1 (1996), 189-209.

\textsuperscript{60}The impact of food aid on recipient country markets also depends on the extent to which local markets are integrated into national, regional, and global markets. For well integrated markets, the effects of any one food aid distribution may dissipate quickly.

\textsuperscript{61}Christopher B. Barrett, \textit{Food Aid's Unintended Consequences}, ESA Working Paper No. 06-05, FAO (May 2006).
coordination among key stakeholders and the use of noncomparable methods in assessing food needs have resulted in significantly different estimates and delays in donor assistance. Additionally, assessments have not been used sufficiently to inform food aid programs. Third, difficulties in identifying vulnerable populations and understanding the causes of their food insecurity contributed to the lack of timely and appropriate response in some instances. For example, it has been challenging for implementing organizations to determine the causes of chronic food insecurity and provide appropriate assistance. Fourth, resource constraints have affected the quality and timeliness of assessments as well as the quantity of food and other related assistance provided to vulnerable populations. Difficult operating environments characterized by poor infrastructure and physical safety, as well as the limited participation and capacity of recipient governments, have impeded access to and the timely delivery of food aid to the most vulnerable populations. In 2003, we reported on the southern Africa food crisis, noting that long-standing weaknesses in transportation infrastructure across the region hampered timely delivery of food aid where it was needed. Access to intended recipients in villages was further hindered during the rainy seasons when many village roads became impassable. Due to concerns about physical safety and security, the timely provision of food aid to recipients has been especially difficult in regions experiencing war and conflict. We recently reported that frequent violence and continued conflict and an increase in attacks on humanitarian staff in the Darfur region of Sudan limited the ability of implementing organizations to access parts of the region and provide food and other assistance to vulnerable populations, such as internally displaced persons. As a result, approximately 460,000 people in northern Darfur were cut off from emergency food aid in July 2006, and 355,000 people still did not receive food aid in August 2006, according to UN sources.

Limited recipient government participation has contributed to insufficient coverage of vulnerable populations. In late 2006, while donors were providing assistance to support the food needs of Zambians, the government continued to hold large quantities of its food stocks—

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approximately 350,000 metric tons—in its emergency reserve, according to Zambian officials. Even in cases where recipient governments are participating, lack of human resources and financial capacity can limit overall efforts to target vulnerable populations. For example, while the governments of Ethiopia and Kenya are involved in coordinating the food aid efforts of donors and implementers, several implementing organizations expressed concerns about the governments’ human resource capacity at the district and village level to effectively contribute to planning and implementing food aid programs. According to a number of USAID-approved proposals for Ethiopia, a lack of government staffing and skills combined with high turnover rates posed a significant challenge to implementing food aid projects. USAID officials acknowledged these concerns and noted that the government of Ethiopia is addressing these deficiencies by providing training to staff at all levels of the government. Additionally, all Title II-funded NGOs in Ethiopia have received resources for capacity building and training as part of their agreements with USAID.

Insufficient coordination among key stakeholders and the use of noncomparable methods has resulted in disparate assessments of food needs and numbers of recipients, although some efforts are under way to improve coordination. Officials of various implementing organizations we interviewed in Ethiopia, Kenya, Zambia, and South Africa identified lack of coordination on assessments, especially with recipient governments, as one of the key challenges to accurately assessing the needs of vulnerable populations. According to an NGO official in Zambia, the Zambian government and NGOs conducted two parallel but separate assessments in 2005 that resulted in significantly different estimates. This discrepancy led to a 6-month delay in declaring an emergency while the difference in assessment results was resolved.

Some recipient governments have increased their efforts to ensure coordination on assessments between stakeholders; however, estimates of food needs have sometimes differed significantly because the stakeholders use different methods and estimating assumptions. For example, although the Ethiopian government’s Disaster Prevention and Preparedness Agency coordinates with donors and implementing organizations in conducting assessments of food needs, their assessments varied significantly in 2004. Specifically, WFP estimated that 1.8 million people would need food assistance, while the government of Ethiopia estimated that 700,000 fewer people (1.1 million) would need assistance. Donors we interviewed in Ethiopia stated that the host government has tended to lower food need estimates based on its view of what donors are likely to fund. They noted that an earlier assessment in 2006, which was led by the
government but involved other stakeholders, underestimated the number
of potential beneficiaries by 1 million people. This significant
underestimation created a humanitarian crisis, according to a senior UN
official, and more emergency food was eventually requested.
Implementing organizations have had to resort to measures, such as
reducing ration size or shortening the duration of assistance, to provide
food aid to a larger than estimated number of vulnerable households.

Various implementing organizations have attributed a proliferation of
assessment methods and approaches to a lack of coordination that can
result in different estimates and delay donor response, especially during
emergencies. Although USAID and NGOs have noted that multiple
assessment methods and approaches are required to respond to different
circumstances, noncomparable methods have resulted in disparate food
need estimates. Donors and implementing organizations do not agree on
definitions and common approaches to conducting assessments;
according to USAID officials, this has resulted in inconsistent estimates
that prevent timely donor responses, especially during emergencies. WFP’s
Strengthening Emergency Needs Assessment Capacity (SENAC) initiative,
launched in 2004, is aimed at addressing some of these concerns by
developing better methods and guidance for assessments conducted
during emergencies. However, USAID and other officials have expressed
concerns about the limited involvement of NGOs in the SENAC process
and its implementation in selected countries. Moreover, there is a lack of
coordination among various NGOs, which tend to assess food needs
differently, according to U.S. government officials. Some GAO roundtable
participants stated that peer learning and information-sharing among
implementing organizations had been further hampered by the dissolution

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64WFP and the FAO’s Crop and Food Supply Assessment Missions focus on both macro-
level conditions, such as the national food balance, and household data on food insecurity,
including food consumption and dietary diversity of households in selected areas. WFP’s
Vulnerability Analysis and Mapping—as well as various methods used by NGOs such as
CARE, Save the Children, and Catholic Relief Services—also focus on livelihood areas and
household-level assessments.

65The SENAC initiative aims to improve the accuracy and credibility of assessments by
(1) enhancing their transparency, (2) developing better methods and guidance,
(3) improving the availability of precrisis information in countries exposed to repeated
emergencies, and (4) strengthening WFP’s field capacity by deploying assessment
specialists in its six regional bureaus.
Additionally, assessments have not been used sufficiently to inform food aid programs. According to WFP and NGO officials, estimates resulting from needs assessments have not, in many cases, driven donor response to impending or existing crises. Other factors—such as donors’ foreign policy objectives or media attention to a crisis—tend to determine the timing and level of donor assistance, according to these officials. However, donors and GAO roundtable participants have expressed concerns about the independence of assessors, because organizations such as WFP and NGOs generally conduct assessments and also implement programs based on their results. According to GAO roundtable participants, NGOs generally conduct assessments and propose projects in areas where they are already operating, which may introduce geographical gaps in the delivery of assistance and prevent food aid from reaching the most vulnerable areas.

According to a USAID-funded study on Title II development food aid programs in 2002, although program assessments had advanced considerably and proposals described critical country-level food security problems, quantitative data collection and analysis at the local level were deficient. Our review of USAID- and USDA-approved proposals indicates that some proposed programs were based on assessments that identified specific criteria to target food aid, whereas other proposals justified programs based on general statements of need. For example, while proposals for a nationwide safety net program in Ethiopia generally identified districts based on high levels of chronic vulnerability, proposals for some other countries did not include adequate assessment information on the extent or severity of needs in areas proposed for food aid programs.

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66According to USAID officials, originally FAM received funding as part of an implementing organization’s grant agreement with USAID. This organization also contributed some resources towards FAM’s operations. Subsequently, FAM received funding through highly competitive institutional capacity-building grants. The decision to stop funding FAM was made after a detailed technical review of the FAM proposal, which was competing with 19 other proposals and was ranked low among the proposals seeking renewed funding. Additionally, according to USAID, the implementing organizations did not adequately explain their reasons for not funding FAM on their own.

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<th>Difficulties in Identifying Vulnerable Populations Have Limited Effective Targeting</th>
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Accurately identifying various types of vulnerable populations and the causes of their vulnerability has been difficult due to the complexity of factors—such as poverty, environmental degradation, and disease—that contribute to food insecurity. According to WFP officials in southern Africa, identifying people with HIV/AIDS who need food aid has been very difficult because the social stigma associated with the disease may discourage intended recipients from getting tested for it. It is also difficult to assess whether deterioration in health is due to hunger or the disease itself.

Insufficient understanding of the causes of malnutrition and chronic food insecurity, as well as the role of local markets, has in some cases resulted in inaccurate assessment of and response to crises.⁶⁸ According to WFP and USAID, assessments have focused too narrowly on food availability (such as food production in vulnerable countries) and not enough on factors that determine access to food (such as food prices in local markets) and effective use of food (such as health and sanitation practices). The 2005 food crisis in Niger, where about 1.8 million people received food aid, illustrated such a limitation in focus. According to WFP's evaluation, donors as well as implementers focused too narrowly on food production and deficits and analyzed the causes of malnutrition insufficiently.⁶⁹ As a result, the cause of the crisis was misdiagnosed as

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⁶⁸Chronic vulnerability to food insecurity refers to the risk of experiencing persistent food shortages over a long period of time. This condition is strongly associated with structural disadvantages that are difficult to reverse quickly. On the other hand, transitory vulnerability to food insecurity involves a temporary inability to meet food needs or smooth consumption levels. This condition is primarily due to seasonal income fluctuations, adverse price movements, and temporary shocks. (Timothy R. Frankenberger, Nancy Mock, and Paul Jere, Vulnerability Assessment Methodology Review, a report prepared by TANGO International, Inc., for the Southern Africa Development Community: Food, Agriculture, and Natural Resources, Regional Vulnerability Assessment Committee, October 2005.)

⁶⁹Cross-border trade between Nigeria and Niger also exacerbated food shortages in Niger, according to WFP and USAID assessments, because the large market in Nigeria created incentives to grow commercial crops rather than food crops for Niger's bordering areas. The indebtedness of households in this area also increased because laborers often took loans of grain from traders during the hungry season, when the monetary value of grain was at its highest, and repaid them at the same monetary value after the harvest, when grain tended to be much cheaper, according to the USAID assessment. To better understand the role of local and regional markets, WFP has begun to examine ways to incorporate information on local and regional markets into needs assessments as part of its SENAC initiative. Since households depend on markets for their livelihoods and needs, improved understanding of the effect of emergencies and food aid on markets is important to assess needs and determine appropriate responses to crises.
lack of food availability, when in fact it was caused by factors affecting the
effective use of food, such as health and sanitation problems and poor
water quality, according to a USAID analysis. Donors did not respond until
May 2005, 3 months after the crisis reached emergency proportions in
February 2005. Moreover, insufficient understanding of the causes of the
crisis initially led to a disagreement between the recipient government and
WFP on how to respond to the situation. As a result, the request for aid
was revised seven times in the next 3 months, from May to August, and
recipients finally received food in August 2005.

Difficulties in the targeting process related to determining eligibility of
recipients and appropriate food distribution activities have also been
exacerbated because implementers have not developed or optimally used
best practices and institutional knowledge. According to USAID officials
in Kenya, there has been very limited analysis of which targeting
approaches and activities are more appropriate to provide food aid in
certain situations and how long these should be used. 70 (See app. IV for
food distribution activities to target different vulnerable groups.)
According to a WFP evaluation of its targeting practices during emergency
and relief operations, a more systematic analysis of WFP’s experience in
targeting recipients is necessary to resolve recurring issues and improve
this practice. Furthermore, WFP’s targeting approaches tend to depend on
individual staff experience rather than organizationwide experience,
according to the review. In part, this is because WFP had not yet
developed a consolidated policy 71 and comprehensive guidance material
on targeting.

Despite these limitations, there is some evidence that with experience,
accuracy in providing food to intended recipients has generally improved
at the country and program level. 72 For example, according to several
implementing organization officials in Ethiopia, during the first year of

70 According to this WFP evaluation, WFP operations tend to use multiple targeting
modalities or mechanisms as a matter of practice rather than assessing the need and
effectiveness of these mechanisms to address a given situation. According to this study,
indiscriminate use of multiple targeting mechanisms can result in double coverage of
populations and place excessive administrative demands on WFP and its partners.

71 In response to a joint statement by 11 donors, including the United States, WFP’s
Executive Board issued a draft policy on targeting in emergencies in February 2006.

72 See Assessing the Effectiveness of Community-Based Targeting of Emergency Food Aid
in Bangladesh, Ethiopia, and Malawi, International Food Policy Research Institute and
World Food Program Brief (Washington, D.C., 2005).
implementing a nationwide food and cash assistance program, targeting the most vulnerable populations was challenging because implementers did not adequately understand the eligibility criteria for recipients and selected better-off people in many cases. In the second year, however, targeting improved as program goals were more clearly communicated to implementers, who applied the recipient selection criteria more accurately.

Limitations on the amount and use of resources have adversely affected the quality and timing of assessments, particularly for Title II-funded programs. According to USAID, NGO, and WFP officials we interviewed in the field, lack of sufficient resources is one of the main constraints to conducting accurate and reliable assessments. The U.S. agencies provide very limited or no resources to conduct assessments prior to the implementing organizations’ submission of proposals requesting food aid. This is because requests for cash for materials or activities related to U.S. food aid funding, such as assessments, must accompany requests for food commodities. Since cash is in effect tied to requests for commodities, the U.S. government cannot provide assistance for activities such as needs assessments that may enhance the use of food aid but may not require commodities at the same time. Due to such constraints, U.S. agencies have not provided financial assistance for WFP’s major initiative to improve needs assessments, although they have provided technical assistance. According to WFP officials we spoke with in South Africa, this lack of adequate financial support for assessments diminishes U.S. influence and input on how assessments are conducted. USAID officials stated that they would like to fund assessments using P.L.480 Title II resources, but

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The Ethiopian government-led Productive Safety Net Program provides food and cash assistance to chronically vulnerable people. In 2005, its first year of operation, the program provided assistance to about 5 million people. By 2006, the program had expanded to cover 7.2 million people.

USAID provides NGOs limited funding through institutional capacity-building grants that are not directly linked to proposals requesting food for projects. Additionally, in some cases, USAID has provided resources other than Title II to undertake assessments and data collection efforts. For example, the USAID mission in Ethiopia provided almost $20 million to build capacity and conduct baseline surveys to inform assessments of the Disaster Prevention and Preparedness Agency’s Livelihood Integration Unit.

According to WFP officials, the European Commission’s Humanitarian Office provided about $20 million for the SENAC project. WFP South Africa officials noted that other donors, such as the United Kingdom’s Department for International Development, are funding assessments in the region.
they are unable to do so because of legal restrictions related to such use of these funds.

In addition to their impact on assessments, resource constraints have also limited the quantity of food and other complementary assistance that is provided to intended recipients. In 2003, we reported that due to the lack of adequate donor funding in Afghanistan, food rations to refugees and internally displaced persons were reduced to a third of the original planned amount, and program implementation was delayed by up to 10 weeks in some cases. During our fieldwork, we found instances where insufficient complementary assistance to meet basic needs in addition to food has also limited the benefits of food aid to recipients. For example, people with HIV/AIDS receiving food aid in Wukuru, Ethiopia, informed us that they sold part of their food rations to pay for other basic necessities because they lacked other assistance or income. Similarly, Somali and Sudanese refugees in Kenya sold approximately 4 percent of their food rations to buy basic items (such as fuel, cooking utensils, and clothes) or supplementary foods, according to a 2004 food consumption survey by WFP and the UN High Commission for Refugees. These refugees suffered from poor nutrition as a result of insufficient food consumption and other factors, such as poor hygiene.

**Impediments to Improving Nutritional Quality Reduce the Benefits of Food Aid**

Some impediments to improving nutritional quality further reduce the effectiveness of food aid. Although U.S. agencies have made efforts to improve the nutritional quality of food aid, the appropriate nutritional value of the food and the readiness of U.S. agencies to address nutrition-related quality issues remain uncertain. Further, existing interagency food aid working groups have not resolved coordination problems on nutrition issues. Moreover, USAID and USDA do not have a central interagency

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76 To ensure that limited food aid resources are targeted to areas where they are most needed, USAID identified 15 priority countries in 2006 for nonemergency or development programs. According to USAID officials, focusing resources on the most vulnerable countries will help to build their resilience and ensure that food aid will be less necessary in the future.

mechanism to update food aid products and their specifications. As a result, vulnerable populations may not be receiving the most nutritious or appropriate food from the agencies, and disputes may occur when either agency attempts to update the products.

Although U.S. agencies have made efforts to improve the nutritional quality of food aid, challenges remain with quality control mechanisms and interagency coordination on these issues. Past micronutrient assessments of U.S. food aid have also found that commodities are produced containing low and inconsistent levels of micronutrients, and gaps exist in nutrition quality control procedures.

According to the World Health Organization, deficiencies in iron, vitamin A, and zinc rank among the top 10 leading causes of death from disease in developing countries, and micronutrient fortification of food aid is considered one of the most cost-effective approaches to addressing widespread deficiencies.

Despite efforts to update food aid nutritional quality control mechanisms, the quality of U.S. food aid and U.S. agencies’ readiness to address quality issues remains uncertain. USDA attempted to improve its quality control procedures by introducing a Total Quality Systems Audit (TQSA) program to verify a supplier’s capability of producing products that meet program requirements. The TQSA program is responsible for examining commodity suppliers’ quality control mechanisms, such as management processes and procedures for food aid production, to ensure that they are operating according to U.S. food aid standards. However, the TQSA program is not responsible for overseeing the nutritional quality of the

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78Food aid commodity specifications include specific requirements that the commodity vendor must follow to meet USDA’s contracts for producing and delivering the commodities. The specifications contain standards relating to the quality, appearance, and delivery of the product; conditions under which it is to be grown or produced; explicit descriptions regarding its nutrient content; and details of the inspection process.

79Micronutrient assessments are important to determine the levels of fortificants used in different commodities and different contexts as different formulas are needed to target the nutritional needs of various recipients—i.e., children under 5 years of age and people with HIV/AIDS.

80TQSA is a method implemented by USDA’s Farm Service Agency to verify suppliers’ established quality management systems for providing commodities and other products that meet USDA specifications. Using TQSA’s checklist and guidelines, auditors review and assess a firm’s documented quality management system and assign it a numerical rating. A minimum TQSA score, set by KCCO, is required for a commodity supplier to be considered for a bid on a food aid contract.
product itself. It was only recently given more funding in this area in response to a 2005 incident involving CSB food aid that was found to be overfortified with iron. Because food with iron overfortification can be toxic when consumed by vulnerable groups in large quantities, USAID and USDA suspended distribution of 1,100 metric tons of CSB food aid donations while WFP suspended distribution of 16,000 tons of U.S.-donated CSB to Ethiopia. It was not until after this incident that the TQSA program was provided with funding to test CSB fortification, but it was given only enough resources to cover the costs of sampling and testing CSB and no other processed commodities. USDA has recently requested additional funding to develop quality sampling and testing protocols for each blended or processed food aid product, but this proposal has yet to be approved. USDA officials have stated that they are still struggling to verify the nutritional quality of U.S. food aid.

Insufficient coordination also limits agencies’ abilities to improve the nutritional quality of food aid commodities. First, existing food aid commodity working groups have not resolved interagency coordination problems. While U.S. government agencies have begun to jointly discuss ways to improve nutrition issues in the FACG’s Commodity Working Group, the group has yet to implement any of their suggested improvements. And while interagency forums such as the Commodity Working Group exist, coordination problems still occur. For example, USAID approached USDA officials to collaborate on exploring ways to deliver fortified and enriched food aid commodities to beneficiaries at a competitive cost. USDA’s Agriculture Research Service declined, citing its mission to address problems for U.S. agriculture and food supply and its lack of authority to study nutritional needs in other countries. Second, USAID and USDA do not have a central interagency mechanism to update products and their specifications. As a result, food aid recipients may not be receiving the most nutritious or appropriate food from the agencies, and disputes may occur when either agency attempts to update the products. Examples include the following:

- Although USDA has taken some steps to improve its food aid product specifications, there is still no central system in place to ensure that the product specifications are consistently updated. USDA recently made fortification improvements and updated the specifications to comply with Federal Acquisition Regulations and also requested resources to review the specifications. However, commodity suppliers complain that food aid product specifications are not as clear and consistent as in the commercial sector and that some requirements for food aid commodities are outdated and no longer necessary. One commodity supplier questioned the need for
a current requirement of 50 ash for all USDA food aid flour purchases, noting that other countries have different ash specifications or none at all.\footnote{Ash refers to the ash mass that remains after a sample of flour is incinerated in a laboratory oven. This is an easy way to verify the fraction of the whole grain that ended up in the flour.}

- KCCO officials have stated that most of the food aid products in use today were first developed in the 1960s and that they do not have a system in place to evaluate and update them. Therefore, KCCO officials may not be using the most cost-effective products to address food aid nutrition needs. One commodity supplier noted that products should be updated every 5 to 6 years and that it would be more cost-effective for the U.S. government to update products as technology develops.

- U.S. government agencies are currently attempting to discuss recipients’ nutritional needs in the Commodity Working Group and have started to explore the introduction of new food aid products that address health issues related to HIV/AIDS in young children and nutritional deficiencies in young mothers. USDA has also recently requested resources to conduct a long-term study on the present composition and use of food aid commodities. However, the agencies have yet to (1) agree on what products to update and (2) implement a central system to ensure that such updates are put into practice when they do reach an agreement.

- USDA and USAID disagree on a proposed update to product specifications. USDA reviewed micronutrient fortification and enrichment of Title II commodities in 1994 and recommended that tricalcium phosphate (TCP) be reduced by 25 percent. According to USDA, this reduction would result in an annual savings of over $1.5 million, which would increase funds available for Title II program commodities without compromising their nutritional value. However, USAID did not agree with the recommended reduction and chose not to reduce TCP in any Title II commodities due to its concern about the effect of the reduction on malnourished food aid recipients. The agencies have disagreed about the nutritional effect of TCP reductions since 2004 and have yet to reach an agreement.

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<th>U.S. Agencies Do Not Sufficiently Monitor Food Aid Programs</th>
<th>Although USAID and USDA require implementing organizations to regularly monitor and report on the use of food aid, these agencies have undertaken limited field-level monitoring of food aid programs. Agency inspectors general have reported that monitoring has not been regular and</th>
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systematic, that in some cases intended recipients have not received food aid, or that the number of recipients could not be verified. Our audit work also indicates that monitoring has been insufficient due to various factors including limited staff, competing priorities, and legal restrictions on the use of food aid resources.

USAID and USDA require NGOs and WFP to regularly monitor food aid programs.\textsuperscript{82} USAID Title II guidance for multiyear programs requires implementing organizations to provide a monitoring plan, which includes information such as the percentage of the target population reached and midterm and final evaluations of program impact. USDA requires implementing organizations to report semiannually on commodity logistics and the use of food. According to WFP’s agreement with the U.S. government, WFP field staff should undertake periodic monitoring at food distribution sites to ensure that commodities are distributed according to an agreed-upon plan. Additionally, WFP is to provide annual reports for each of its U.S.-funded programs.

In addition to monitoring by implementing organizations, agency monitoring is important to ensure that targeting of food aid is adjusted to changes in conditions as they occur and to modify programs to improve their effectiveness, according to USAID officials. However, various USAID and USDA Inspectors General reports have cited problems with agencies’ monitoring of programs. For example, according to various USAID Inspector General reports on nonemergency programs in 2003, food aid was generally delivered to intended recipients, but USAID officials did not conduct regular and systematic monitoring.\textsuperscript{83} One assessment of direct distribution programs in Madagascar, for example, noted that as a result of insufficient and ad hoc site visits, USAID officials were unable to detect an NGO reallocation of significant quantities of food aid to a different district; combined with the late arrival of U.S. food aid, this resulted in severe shortages of food aid for recipients in a USAID-approved district. The

\textsuperscript{82}According to USAID, NGOs are required to undertake monitoring to comply with OMB Circular A-110 and USAID regulations (22 C.F.R. 226.51).

\textsuperscript{83}USAID Inspector General, Audit of USAID/Madagascar’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program (Washington, D.C., September 2003). See also Audit of USAID/Ghana’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program (Dakar, Senegal: October 2003); and Audit of USAID/Ethiopia’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program (Pretoria, South Africa: November 2003).
Inspector General’s assessment of food aid programs in Ghana stated that the USAID mission’s annual report included data, such as the number of recipients, that were directly reported by implementing organizations without any procedures to review the completeness and accuracy of this information over a 3-year period. As a result, the Inspector General concluded, the mission had no assurance as to the quality and accuracy of this data.

Limited staff and other demands in USAID missions and regional offices have constrained their field-level monitoring of food aid programs. In fiscal year 2006, although USAID had some non-Title II-funded staff assigned to monitoring, it had only 23 Title II-funded USAID staff assigned to missions and regional offices in 10 countries to monitor programs costing about $1.7 billion in 55 countries. For example, USAID’s Zambia mission had only one Title-II funded foreign national and one U.S. national staff member to oversee $4.6 million in U.S. food aid funding in fiscal year 2006. Moreover, the U.S. national staff member spent only about one-third of his time on food aid activities and two-thirds on the President’s Emergency Plan for AIDS Relief program.

USAID regional offices’ monitoring of food aid programs has also been limited. These offices oversee programs in multiple countries, especially where USAID missions lack human resource capacity. For example, USAID’s East Africa regional office, which is located in Kenya, is responsible for oversight in 13 countries in East and Central Africa, of which 6 had limited or no capacity to monitor food aid activities.

As part of the 2002 Farm Bill, the Congress directed USAID to streamline program management as well as procedures and guidelines, including “information collection and reporting systems by identifying critical information that needs to be monitored and reported on by eligible organizations.” In its report to the Congress in 2003, USAID identified actions to help achieve legislative directives, which included a re-examination of its staffing and human resources requirements to ensure timeliness and efficiency, especially due to the workload imposed by the $1.4 billion Title II program. However, USAID did not systematically assess the workload and staffing requirements of the Office of Food for Peace to determine appropriate levels required to monitor its operations in over 50 countries.

In addition to Title II-funded positions, USAID missions and regional offices have positions that are funded through other sources, such as development assistance or operating budgets for these offices. Although staff in these positions may participate in monitoring food aid programs, they also administer other development assistance programs.
according to USAID officials. This regional office, rather than USAID's Kenya mission, provided monitoring staff to oversee about $100 million in U.S. food aid to Kenya in fiscal year 2006. While officials from the regional office reported that their program officers monitor food aid programs, an implementing organization official we interviewed told us that USAID officials have visited the project site only three times in 1 year. USAID officials told us that they may be responsible for multiple project sites in a given country and may monitor selected sites based on factors such as severity of need and level of funding. Monitoring food aid programs in the Democratic Republic of Congo (DRC) from the USAID regional office had been difficult due to poor transportation and communication infrastructure, according to USAID officials. Therefore, USAID decided to station one full-time employee in the capital of the DRC to monitor U.S. food aid programs that cost about $51 million in fiscal year 2006.

Field-level monitoring is also constrained by limited resources and restrictions on their use. Title II resources provide only part of the funding for USAID’s food aid monitoring activities, and there are legal restrictions on the use of these funds for nonemergency programs. Other funds, such as those from the agency’s overall operations expense and development assistance accounts, are also to be used for food aid activities, such as monitoring. However, these additional resources are limited due to competing priorities, and their use is based on agencywide allocation decisions, according to USAID officials. As a result, resources available to hire food aid monitors are limited. For example, about five U.S. national and five foreign national staff are responsible for monitoring all food aid programs in seven countries in southern Africa, according to a USAID food aid regional coordinator. Moreover, because its operations expense budget is limited and Title II funding allows food monitors only for emergency programs, USAID relies significantly on personal services contractors (PSC)—both U.S. national and foreign national hires—to

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86In 2005, USAID’s East Africa regional office had oversight responsibilities for $1.3 billion in food aid distributed in the region, including about $377 million from the Bill Emerson Humanitarian Trust, to meet emergency needs in Ethiopia, Eritrea, and Sudan.

87In contrast, while USAID’s mission in Ethiopia also comes under the purview of USAID’s East Africa regional office, it has its own staff to monitor its food aid programs. Specifically, two U.S. national and four foreign national staff manage and monitor U.S. food aid programs in Ethiopia, funded at $143 million in fiscal year 2006.
monitor and manage food aid programs in the field. For example, while PSCs can use emergency food aid project funds for travel, USAID’s General Schedule staff cannot. Restrictions on the use of Title II resources for monitoring nonemergency programs further reduce USAID’s monitoring of these programs.

USDA administers a smaller proportion of food aid programs than USAID and its field-level monitoring of food aid programs is more limited. In March 2006, USDA’s Inspector General reported that USDA’s Foreign Agricultural Service (FAS) had not implemented a number of recommendations made in a March 1999 report on NGO monitoring. Furthermore, several NGOs informed us that the quality of USDA oversight from Washington, D.C., is generally more limited than USAID’s. USDA has fewer overseas staff, and they are usually focused on monitoring agricultural trade issues and foreign market development. For example, the agency assigns a field attaché—with multiple responsibilities in addition to food aid monitoring—to the U.S. mission in some countries. However, FAS officials informed us that in response to past USDA Inspector General and GAO recommendations, a new monitoring and evaluation unit was recently established with an increased staffing level to monitor the semiannual reports, conduct site visits, and evaluate programs.

Without adequate monitoring from U.S. agencies, food aid programs may not effectively direct limited food aid resources to those populations most in need. As a result, agencies may not be accomplishing their goal of getting the right food to the right people at the right time.

**Conclusions**

U.S. international food aid programs have helped hundreds of millions of people around the world survive and recover from crises since the Agricultural Trade Development and Assistance Act (P.L. 480) was signed into law in 1954. Nevertheless, in an environment of increasing emergencies, tight budget constraints, and rising transportation and business costs, U.S. agencies must explore ways to optimize the delivery and use of food aid. U.S. agencies have taken some measures to enhance their ability to respond to emergencies and streamline the myriad

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88USAID hires foreign nationals and U.S. citizens under personal service contracts to complement its workforce of U.S. foreign service and civil service personnel. These PSCs serve in USAID’s overseas offices or missions and are generally considered to be more cost-effective by the agency.
processes involved in delivering food aid. However, opportunities for further improvement in such areas as logistical planning and transportation contracting remain. Inadequate coordination among food aid stakeholders has hampered ongoing efforts to address some of these logistical challenges. Furthermore, inefficiencies inherent in current monetization practices best illustrate the complex challenges that face U.S. food aid programs today. In addition, the lack of comparable and reliable needs assessments, insufficient complementary assistance, and impediments to improving the nutritional quality of food aid commodities raise questions about the effectiveness of the use of food aid. Finally, U.S. agencies’ lack of sufficient monitoring leaves U.S. food aid programs vulnerable to wasting increasingly limited resources, not putting them to their most effective use, or not reaching the most vulnerable populations on a timely basis.

Recommendations for Executive Action

To improve the efficiency of U.S. food aid—in terms of its amount, timeliness, and quality—we recommend that the Administrator of USAID and the Secretaries of Agriculture and Transportation take the following five actions:

- improve food aid logistical planning through cost-benefit analysis of (1) supply-management options, such as long-term transportation agreements, and (2) prepositioning, including consideration of alternative methods, such as those used by WFP;

- work together and with stakeholders to modernize ocean transportation and contracting practices to include, to the extent possible, commercial principles of shared risks, streamlined administration, and expedited payment and claims resolution;

- seek to minimize the cost impact of cargo preference regulations on food aid transportation expenditures by updating implementation and reimbursement methodologies to account for new supply practices, such as prepositioning, and potential costs associated with older vessels or limited foreign-flag participation;

- establish a coordinated system for tracking and resolving food quality complaints; and

- develop an information collection system to track monetization transactions.
To improve the effective use of food aid, we recommend that the Administrator of USAID and the Secretary of Agriculture take the following four actions:

- enhance the reliability and use of needs assessments for new and existing food aid programs through better coordination among implementing organizations, make assessments a priority in informing funding decisions, and more effectively build on lessons from past targeting experiences;

- determine ways to provide adequate nonfood resources in situations where there is sufficient evidence that such assistance will enhance the effectiveness of food aid;

- develop a coordinated interagency mechanism to update food aid specifications and products to improve food quality and nutritional standards; and

- improve monitoring of food aid programs to ensure proper management and implementation.

Agency Comments and Our Evaluation

DOT, USAID, and USDA—the three U.S. agencies to whom we direct our recommendations—provided comments on a draft of our report. We have reprinted their comments in appendixes V, VI, and VII, respectively, along with our responses to specific points. These agencies—along with DOD, State, FAO, and WFP—also provided technical comments and updated information, which we have incorporated throughout this report as appropriate.

DOT stated that it strongly supports the transportation initiatives highlighted in the draft report and that full and effective implementation of these initiatives—in particular, modernizing transportation and contracting practices and updating reimbursement methodologies—offers the potential to reduce costs for ocean transportation. DOT commented that legal requirements (such as cargo preference) that increase delivery costs are not borne by food aid programs and have minimal impact on the amount of food available for distribution. While we recognize that DOT reimbursements have improved, the impact of cargo preference on the amount of food aid tonnage provided depends on the sufficiency of reimbursements to cover cargo preference costs. Our analysis shows that compared with the estimated costs of cargo preference, the level of DOT reimbursements varied—falling short in fiscal years 2001 through 2004 when taking into account the costs included in the current reimbursement
formula and the additional costs associated with older vessels and shipments where there was no foreign-flag vessel bid.

USAID’s comments suggest that we did not adequately address some of the challenges facing U.S. food aid programs or take into account the considerable improvements USAID has made in a number of areas, such as transportation and contracting practices. USAID raised two key overarching points: (1) the crucial relationship between emergencies and development and the need to address the linkages between chronic and acute vulnerabilities discussed in the new USAID Food Security Strategic Plan for 2006-2010 and (2) the need for additional analysis of the magnitude and perspective of the recommendations in relation to program size and the number of beneficiaries reached. While we recognize the important linkages between emergencies and development programs, these issues primarily relate to food security, which was not a research objective of this study. However, we used the strategic plan to provide contextual information, particularly in our discussion of the effective use of food aid. We also provided information throughout this report to indicate the potential magnitude and impact of savings from efficiency improvements in food aid delivery.

USDA took issue with a number of our findings and conclusions and expressed two overarching concerns. First, USDA believes that we did not fully articulate the challenges inherent in achieving an ideal first world performance when implementing programs in difficult third world environments and that critical nutritional needs are routinely met in a timely manner. Second, USDA believes that we lacked hard analysis to support many of the weaknesses that we identified and suggested that our conclusions are based upon anecdotal incidents reported by various constituencies with their own interests and viewpoints. We recognize the difficult operating environments in developing countries and agencies’ efforts to provide U.S. food aid on a timely basis with minimal commodity losses. However, during our fieldwork in three recipient countries, many implementing organizations we met with complained about the lack of timeliness in food aid delivery, particularly to meet emergency needs. The example of the Ethiopian grain reserve illustrates how local food aid stakeholders adapted ways to provide food aid in a timely manner even when U.S. shipments were late. As described in our scope and methodology (app. I), this report is based on a rigorous and systematic review of multiple sources of evidence, including procurement and budget data, site visits, previous audits, agency studies, economic literature, and testimonial evidence collected in both structured and unstructured formats. To ensure accuracy and independence in our findings, we
assessed the reliability of data we used for our analysis and compared information from stakeholders who have different points of view and are involved in different stages of food aid programs. We discussed our preliminary findings with a roundtable of food aid experts and practitioners. We reviewed and incorporated, where appropriate, agency oral, technical, and official comments. We use anecdotal examples in our report to illustrate findings that are based on our broader work.

We are sending copies of this report to interested members of Congress, the Administrator of USAID and the Secretaries of Agriculture, State, and Transportation. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VIII.

Thomas Melito
Director, International Affairs and Trade
Our objectives were to examine some key challenges to the (1) efficiency of U.S. food aid programs and (2) effective use of U.S. food aid.

To examine key challenges to the efficiency of the delivery of U.S. food aid programs, we analyzed (1) food aid procurement and ocean transportation data provided by the Kansas City Commodity Office (KCCO) and (2) total food aid budget and monetization cost data provided by the U.S. Agency for International Development (USAID), the U.S. Department of Agriculture (USDA), and the World Food Program (WFP). We did not assess the reliability of the data that we used for background purposes or that WFP reported for transportation costs. We examined the KCCO data for their reliability and appropriateness for our purposes through electronic testing of the data, verification of the data against other sources, and interviews with agency officials that manage the data. We found the data to be sufficiently reliable to represent trends in food aid tonnage, required time frames for delivery, and commodity versus noncommodity costs. We also conducted structured interviews of the 14 U.S.- and foreign-flag ocean carriers that transport over 80 percent of U.S. food aid tonnage. While information from these interviews may not be generalized to all ocean carriers, we supplemented the structured interviews with information from several other ocean carriers, shipping agents, and transportation experts. To examine key challenges to the sale of food to generate cash (monetization), we reviewed monetization data from USAID and USDA for all food aid programs to determine the commodity and noncommodity (such as shipping and other transportation) costs. We tested the data for internal consistency, interviewed USAID and USDA officials to clarify data definitions, and corroborated our classification of bulk commodities with them. We determined that the data were sufficiently reliable to represent the level, cost breakdown, and bulk versus nonbulk breakdown of monetization. We were not able to determine to what extent the costs of monetization are recovered through sales proceeds because neither USAID nor USDA systematically collect the data, which we point out as a finding in this report. We reviewed program authorities and regulations to determine their impact on food aid transportation; the nature of food aid transportation contracts; and the allowable use of monetization proceeds.

We did not systematically examine transportation contracts for foreign inland cargo given that U.S. agencies do not collect uniform contract data for these shipments, KCCO does not include these costs when determining lowest-cost providers for food-aid delivery, and DOT cargo preference reimbursement methodologies pertain to ocean transportation only.
202(e) funding, and Internal Transportation, Storage, and Handling (ITSH) costs.

To examine key challenges to the effectiveness of the use of food aid, we reviewed numerous U.S. government documents, including all USDA-approved proposals and approximately half of all USAID-approved proposals from fiscal years 2002 through 2006 for food aid programs each agency administers in the countries we visited. We reviewed several WFP internal evaluations, including those related to needs assessments and targeting, and some external studies, such as those conducted by the Washington, D.C.-based International Food Policy Research Institute. We also incorporated information from our past audits as appropriate. Additionally, we interviewed officials from WFP, nongovernmental organizations (NGO), recipient governments, the U.S. government, and food aid recipients in the field and obtained relevant documentation from them. To assess food quality and nutrition issues, we conducted interviews with and reviewed reports by commodity suppliers, trade associations, and officials from NGOs, WFP, KCCO, USAID, and Animal and Plant Health Inspection Service (APHIS). We also reviewed U.S. agency food aid product specifications, rules and regulations, commodity complaint logs, and quality control guidelines; USAID audit reports; and internal agency correspondence and draft documents concerning food quality and nutrition issues. To assess U.S. agencies’ monitoring of food aid programs, we reviewed agencies’ inspectors general reports, guidance for implementing organizations, and staffing data. Lastly, we reviewed economic literature on the impact of food aid on local markets and recent reports, studies, and papers issued on U.S. and international food aid programs.

In Washington, D.C., we interviewed officials from USAID; USDA; the Departments of State (State) and Defense (DOD); the Department of Transportation Maritime Administration (DOT/MARAD); and the Office of Management and Budget (OMB). We also met with a number of officials representing NGOs, including 8 of the top 10 recipients of Title II food aid between fiscal years 2002 to 2005, that serve as implementing partners to USAID and USDA in carrying out U.S. food aid programs overseas; freight forwarding companies; and agricultural commodity groups. In Rome, we met with officials from the U.S. Mission to the United Nations (UN) Food and Agriculture Agencies, the WFP headquarters, and the Food and Agriculture Organization. We also conducted fieldwork in three countries that are recipients of food aid—Ethiopia, Kenya, and Zambia—and met with officials from over 40 organizations representing U.S. missions, implementing organizations, and relevant host government agencies. We
Appendix I: Objectives, Scope, and Methodology

visited a port in Texas from which food is shipped; two food destination ports in South Africa and Kenya; and two sites in Louisiana and Dubai where U.S. food may be stocked prior to shipment to destination ports. Finally, in January 2007, we convened a roundtable of experts and practitioners—including 15 representatives from academia, think tanks, implementing organizations, the maritime industry, and agricultural commodity groups—to further delineate, based on our initial work, some key challenges to the efficient delivery and effective use of U.S. food aid and to explore options for improvement. We took the roundtable participants' views into account as we finalized our analysis of these challenges and options.

We conducted our work between May 2006 and March 2007 in accordance with generally accepted government auditing standards.
Appendix II: Program Authorities and Congressional Mandates

The United States has principally employed six programs to deliver food aid: Public Law (P.L.) 480 Titles I, II, and III; Food for Progress; the McGovern-Dole Food for Education and Child Nutrition; and Section 416(b). Table 2 provides a summary of these food aid programs by program authority.

Table 2: U.S. Food Aid by Program Authority

<table>
<thead>
<tr>
<th>Program</th>
<th>Title I</th>
<th>Title II</th>
<th>Title III</th>
<th>Food for Progress</th>
<th>McGovern-Dole Food for Education and Child Nutrition</th>
<th>Section 416(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budget*</td>
<td>$30 million</td>
<td>$1,706.9 million</td>
<td>0*</td>
<td>$207.8 million</td>
<td>$97 million</td>
<td>$20.8 million*</td>
</tr>
<tr>
<td>Managing agency</td>
<td>USDA</td>
<td>USAID</td>
<td>USAID</td>
<td>USDA</td>
<td>USDA</td>
<td>USDA</td>
</tr>
<tr>
<td>Description of assistance</td>
<td>Concessional sales of agricultural commodities</td>
<td>Donation of commodities to meet emergency and nonemergency needs; commodities may be sold in-country for development purposes</td>
<td>Donation of commodities to governments of least developed countries</td>
<td>Donation or credit sale of commodities to developing countries and emerging democracies</td>
<td>Donation of commodities and provision of financial and technical assistance in foreign countries</td>
<td>Donations of surplus commodities to carry out purposes of P.L. 480 (Title II and Title III) and Food for Progress programs</td>
</tr>
<tr>
<td>Type of assistance</td>
<td>Nonemergency</td>
<td>Emergency and nonemergency</td>
<td>Nonemergency</td>
<td>Emergency and nonemergency</td>
<td>Nonemergency</td>
<td>Emergency and nonemergency</td>
</tr>
<tr>
<td>Implementing partners</td>
<td>Governments and private entities</td>
<td>World Food Program and NGOs</td>
<td>Governments</td>
<td>Governments, agricultural trade organizations, intergovernmental organizations, NGOs, and cooperatives</td>
<td>Governments, private entities, intergovernmental organizations</td>
<td>See implementing partners for Title II, Title III, and Food for Progress programs</td>
</tr>
</tbody>
</table>

Source: GAO analysis based on USAID and USDA data.

*Budget data are for fiscal 2006. USDA data represent programmed funding, while USAID data represent appropriated funds as of August 2006.

*This program has not been funded in recent years.

*This program is currently inactive due to the unavailability of government-owned commodities. Because it is permanently authorized, it does not require reauthorization under the Farm Bill.
Appendix II: Program Authorities and Congressional Mandates

*USDA administers this program as stipulated by law, which states that the President shall designate one or more federal agencies.

In addition to these programs, resources for U.S. food aid can be provided through other sources, which include the following:

- **The International Disaster and Famine Assistance Fund**, which provides funding for famine prevention and relief, as well as mitigation of the effects of famine by addressing its root causes. Over the past 3 years, USAID has programmed $73.8 million in famine prevention funds. Most of the funds have been programmed in the Horn of Africa, where USAID officials told us that famine is now endemic. According to USAID officials, experience to date demonstrates that these funds have the advantage of enabling USAID to combine emergency responses with development approaches to address the threat of famine. Approaches need to be innovative and catalytic while providing flexibility in assisting famine-prone countries or regions. Famine prevention assistance funds should generally be programmed for no more than 1 year and seek to achieve significant and measurable results during that time period. Funding decisions are made jointly by USAID’s regional bureaus and its Bureau for Democracy, Conflict, and Humanitarian Assistance and are subject to OMB concurrence and congressional consultations. In fiscal year 2006, USAID programmed $19.8 million to address the chronic failure of the pastoralist livelihood system in the Mandera Triangle—a large, arid region encompassing parts of Ethiopia, Somalia, and Kenya that was the epicenter of that year’s hunger crisis in the Horn of Africa. In fiscal year 2005, USAID received $34.2 million in famine prevention funds for activities in Ethiopia and six Great Lakes countries in Africa. The activities in Ethiopia enabled USAID to intervene early enough in the 2005 drought cycle to protect the livelihoods—as well as the lives—of pastoralist populations in the Somali region, which were not yet protected by Ethiopia’s Productive Safety Net program. In fiscal year 2004, the USAID mission in Ethiopia received $19.8 million in famine prevention funds to enhance and diversify the livelihoods of the chronically food insecure.

- **State’s Bureau of Population, Refugees, and Migration (PRM)**, which provides limited amounts of cash to WFP to purchase food locally and globally to remedy shortages in refugee feeding pipeline breaks. In these situations, PRM generally provides about 1 month’s worth of refugee feeding needs and will not usually provide funds unless USAID’s resources have been exhausted. Funding from year to year varies. In fiscal year 2006, PRM’s cash assistance to WFP to fund operations in 14 countries totaled about $15 million, including $1.45 million for humanitarian air service. In addition, PRM also funds food aid and food security programs for
Burmese refugees in Thailand. In fiscal year 2006, PRM provided $7 million in emergency supplemental funds to the Thailand-Burma Border Consortium, most of which supported food-related programs. PRM officials told us that they coordinate efforts with USAID as needed.

Table 3 lists congressional mandates for the P.L. 480 food aid programs and the targets for fiscal year 2006.

<table>
<thead>
<tr>
<th>Mandate</th>
<th>Description</th>
<th>FY 2006 target</th>
<th>Actual status September 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>Total approved metric tons programmed under Title II</td>
<td>2.500 million metric tons</td>
<td>2.714 million metric tons</td>
</tr>
<tr>
<td>Subminimum</td>
<td>Metric tons for approved nonemergency programs</td>
<td>1.875 million metric tons</td>
<td>744,781 metric tons</td>
</tr>
<tr>
<td>Monetization</td>
<td>Percentage of approved nonemergency Title II programs that are monetization programs</td>
<td>15 percent</td>
<td>69 percent</td>
</tr>
<tr>
<td>Value-added</td>
<td>Percentage of approved nonemergency program commodities that are processed, fortified, or bagged</td>
<td>75 percent</td>
<td>44.9 percent</td>
</tr>
<tr>
<td>Bagged in the United States</td>
<td>Percentage of approved nonemergency whole grain commodities that are bagged in the United States</td>
<td>50 percent</td>
<td>49.5 percent</td>
</tr>
</tbody>
</table>

Source: GAO analysis, based on USAID data.
Appendix III: Ensuring Food Aid Reaches Intended Recipients Is Important to Avoid Market Distorting Effect of Food Aid

The impact of food aid on local markets can be assessed by analyzing its impact on supply and demand and on expectations of market participants regarding future market stability. A number of factors affect the impact of food aid on the markets of recipient countries. In general, in-kind food aid affects recipient markets by increasing supply. In the case of food shortfalls, food aid may actually serve to bring supply back to what the levels would have been in the absence of the shortage and would not be thought to cause a distortion. Under these circumstances, food aid would help stop the rise in prices caused by the shortage-induced decreased supply. To the extent that food aid prevents major losses in physical and human capital, it may help assure growth in subsequent periods. In addition, if food aid is distributed free of charge to people who are desperately poor and have no purchasing power, the transaction can be “off line” to the market—not leading to changes in market prices.

To the extent that food aid increases supply beyond what it would have been in the absence of shortage, it can have a potentially adverse effect on the market. These effects would include downward pressure on prices. The extent of this decrease would depend on (1) the amount of food aid relative to the total volume handled in the market and (2) the sensitivity of demand to changes in the quantities supplied to the market (price elasticity of demand). Declines in market prices provide disincentives to local production and could also affect the allocation of inputs to production by reducing the value of labor—for example, causing households to reallocate labor away from agricultural production. The impact of food aid could extend to other sectors of the market by affecting the prices for substitute and complementary foods.

The general characteristics of the recipient market—such as the extent to which the local market is integrated into broader national, regional, and global markets—can also influence the impact of food aid. Market integration measures the degree to which changes in market conditions in one market affect those in other markets (separated by time or space). It is typically the result of traders moving products across markets when it makes economic sense to do so—when the price differential between those markets exceeds the cost of moving the product. If markets are well integrated, injecting aid in one area can strongly affect market conditions in related areas. In well integrated markets, food aid shocks are short term and dissipate quickly. In poorly functioning markets, food aid impact could be more long term, and price movements can be dramatic. In addition, the increase in supply due to food aid may result in less need for commercial sales or imports.
Adverse market impacts resulting from food aid can be alleviated through the timing and targeting of food aid delivery. For example, timing the delivery of food aid to occur when it is needed, such as in the “hungry season,” would alleviate adverse market effects by bringing market supply to what the levels would have been in the absence of supply shortfalls. In this case food aid might be effective in capping what might otherwise be a very sharp spike in prices. In addition, it would reduce the longer term effects of the food shortages by alleviating the need for recipients to liquidate high return assets, such as livestock and tools, or incur high levels of debt to meet short-term requirements for food, thus reducing their future capacity to produce. Conversely, food aid that arrives at harvest time, when prices are already falling due to increased supply, can plunge prices below what it costs farmers to produce and distribute the commodity, thereby discouraging them from future production.

Targeting food aid by making sure it goes to the people who need it the most and excluding those who can obtain the food in other ways is also important. This assures that the supply arrives where the demand is greatest. In addition, according to some of the studies we reviewed and economic principles, the very poor tend to spend a greater proportion of income on food (high income-elasticity) and are responsive to prices when income is available (high price-elasticity of demand). When food aid is targeted to this group, the combined price and income effects lead to proportionately more purchases of food, checking overall price declines.\(^1\)


\(^2\)Overall demand may remain inelastic, however, because the very poor may represent a very small part of the total market.
The actual impact of food aid on markets is an empirical question. Studies have been inconclusive regarding disincentives and other effects of food aid. In the case of emergency food aid distributions, there is less evidence of negative effects than for nonemergency aid, the effects of which tend to persist over longer time periods.
Figure 14 describes the food distribution activities used to target different groups of food and recipients.

### Figure 14: Food Distribution Activities to Target Recipients of Food Aid

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
<th>Target groups</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>General distribution</td>
<td>Food provided to a population group</td>
<td>• Entire population in a predefined area</td>
<td>• Food provided to entire population affected by a disaster</td>
</tr>
<tr>
<td>Food for work</td>
<td>Food provided in exchange for work, generally targeted seasonally and geographically to food deficit areas</td>
<td>• Poor households with underemployed or unemployed adult men and women</td>
<td>• Food used to provide short-term employment or build community infrastructure</td>
</tr>
<tr>
<td>Food for education</td>
<td>Food provided to school children</td>
<td>• School children in food insecure communities</td>
<td>• Snacks or take-home rations provided to children to encourage school attendance and enrollment or improve student attentiveness</td>
</tr>
<tr>
<td>Supplementary feeding</td>
<td>Food provided to meet additional nutritional needs or caloric requirements of certain groups</td>
<td>• Children under 5 • Women who are pregnant or lactating • People living with HIV/AIDS</td>
<td>• Food provided to mildly or moderately malnourished children at community feeding centers • Food provided at health facilities to pregnant and lactating women • Food provided as part of home-based care for people with HIV/AIDS</td>
</tr>
<tr>
<td>Therapeutic feeding</td>
<td>Food provided to severely malnourished population groups</td>
<td>• Malnourished adults and children</td>
<td>• Feeding programs that are part of intensive care for severely malnourished persons during emergencies</td>
</tr>
</tbody>
</table>

Source: GAO analysis based on USAID Commodity Reference Guide.
Appendix V: Comments from the U.S. Department of Transportation

Note: GAO comment supplementing those in the report text appear at the end of this appendix.

U.S. Department of Transportation
Office of the Secretary of Transportation

March 29, 2007

Mr. Thomas Melito
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC, 20458

The U.S. Department of Transportation’s Maritime Administration (MARAD), which has responsibility for administering the Cargo Preference program, strongly supports the transportation-related initiatives highlighted in the draft report. If fully and effectively implemented, they offer the potential to achieve efficiencies and potentially reduce costs for ocean transport of food aid. In particular, MARAD agrees with GAO’s findings that the transport contracts written by the food agencies must utilize modern transportation contracting practices and updated reimbursement methodologies. Reducing costs associated with these contracts will be possible if they begin using commercial principles of shared risks, supply chain partnerships, streamlined administration methods, and expedited payment and claims resolution, as recommended. MARAD has previously sought to open discussions with the food agencies to assist them in achieving potentially substantial efficiencies and cost reductions for the ocean transit portion of the food aid programs. MARAD stands ready to assist in achieving this objective.

The inefficient and burdensome procurement and contracting practices utilized for shipping food aid produce higher shipping costs. These practices, such as bunching shipments during peak season, placing increased liability on carriers beyond the terms expected within commercial shipping, placing impractical time requirements on the shipments, burdensome ineffective processes for resolving transportation related disputes, and slow payments, all end up built into the fees charged by carriers. For example, GAO’s data show that two of these terms alone—nonstandard freight terms and slow payment—could account for about one third of the difference in rates between food aid and commercial cargo.¹

¹ Note the comparison on page 17 of the draft report between commercial and food aid cargoes may not be fully comparable, as much of the food aid is shipped as bag cargo and requires substantially more handling than the bulk cargo shipped under commercial terms. As a result, these terms may actually account for a larger proportion of the difference in rates.
Finally, while the draft report states that legal requirements such as cargo preference can increase delivery costs, it is critical to understand that these costs are not borne by the food programs, and have minimal if any impact on the amount of food aid available. As required by the Food Security Act of 1985, MARAD makes payments to the food agencies intended to cover the differential costs for shipping food aid on US flag carriers under cargo preference. In response to concerns expressed by food agencies, in 2004, the Department and its Office of Inspector General reviewed the formula used to calculate the differential payment. As a result of this review, MARAD implemented a revised formula and improved processing, in an effort to ensure the food agencies are appropriately and expeditiously compensated for the cost of cargo preference. As a result of these efforts, our calculations using USDA data show that over the past few years, the food agencies are receiving compensation that should cover the cost of cargo preference.

We appreciate the opportunity to offer comments on the draft report. Please contact Martin Gertel, Director of Audit Relations, on 202-366-5145 with any questions.

Sincerely,

Linda J. Washington
Acting Assistant Secretary for Administration
The following is GAO's comment on the U.S. Department of Transportation's (DOT) letter dated March 29, 2007.

**GAO Comment**

1. We recognize that processing of DOT reimbursements has improved. However, the impact of cargo preference on the amount of food aid tonnage provided depends on the sufficiency of reimbursements to cover cargo preference costs—both those that are included in the reimbursement calculation as well as those associated with shipments where no foreign-flag vessel has submitted a bid and where the vessel's age is 25 years or older. Figure 10 in our report illustrates how DOT reimbursements compare with the estimated costs of cargo preference (ocean freight differential (OFD) costs) included in the reimbursement calculation. As shown in the figure, DOT reimbursements fell short of OFD costs in fiscal years 2001 through 2003 and exceeded OFD costs in fiscal years 2004 and 2005. Including the estimated additional costs for Title II programs only that were associated with older vessels and shipments where there was no foreign-flag vessel bid (about $50 million in fiscal year 2003, about $34 million in fiscal year 2004, and about $56 million in fiscal year 2005), DOT reimbursements would have exceeded total cargo preference costs in fiscal year 2005 only. Finally, while we acknowledge that DOT revised the reimbursement formula in 2004 to provide more timely payments, the current methodology has not been updated to include these additional costs of cargo preference or to promote new supply practices, such as prepositioning.
Appendix VI: Comments from the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

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Mr. Thomas Melito  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548  

Dear Mr. Melito:

I am pleased to provide the U.S. Agency for International Development’s (USAID) formal response to the draft GAO report entitled, “FOREIGN ASSISTANCE: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid” [GAO-07-560].

USAID has made a considerable effort to improve both the efficiency and effectiveness of U.S. food aid. We were surprised that the GAO did not make reference to the new USAID Food Security Strategic Plan for 2006-2010. This new Strategy specifically addresses the dynamically changing challenges which face the P.L. 480 Title II food aid program. We have also taken note of the numerous challenges that limit the effective use of food aid, which is especially important in light of limited resources and increasing emergencies needs. Several key examples of these challenges and the subsequent improvements that USAID has made are discussed in the enclosure to this letter.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

Mosina H. Jordan  
Counselor to the Agency

Enclosure: a/s

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U.S. Agency for International Development  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
www.usaid.gov
USAID COMMENTS TO DRAFT GAO 07-560

The new USAID Food Security Strategic Plan for 2006-2010 explicitly recognizes the crucial relationship between emergencies and development and the need to address the linkages between chronic and acute vulnerabilities, and how USAID and its partners are improving targeting criteria to ensure that food resources reach the most vulnerable countries and populations.

As recognized in the Strategy, USAID is working in close cooperation and consultation with regional bureaus, USAID missions, cooperating sponsors, other donors and the private sector to focus its staff time and attention on the most strategic set of countries for multi-year programs to support country-specific strategies for enhancing the programs’ impact on reducing food insecurity. These challenges are what led USAID and its partners to the strategic decision to focus Title II resources on reducing risk and vulnerability in vulnerable populations.

In addition, the draft report did not take into consideration the 2002 Report of the Food Aid and Food Security Assessment: A Review of the Title II Development Food Aid Program Achievements and Constraints in Management and Implementation of Title II. As noted in this report, 

"...over the past 6 years, (cooperating sponsors) have made considerable progress in program assessment, program design, resource integration, partnering and capacity-building, while facing some significant constraints. Program assessments have advanced considerably as the technical sophistication of (cooperating sponsors) has increased, although gaps remain. Review of DAP proposals submitted over time shows significant improvement in identifying and describing critical country-level food security problems; most assessments incorporate a participatory methodology."

Moreover, USAID notes that the GAO draft report would have been strengthened by additional analysis of the magnitude and perspective of recommendations in terms of the size of the program and the number of beneficiaries reached. For example, while the report notes that "every $10 per metric ton reduction in freight rates could feed about 1.2 million more people during an average hungry season," USAID would like to underscore that no hungry
season is “average” and that actual saving would represent less than two percent of the FY2006 program.

USAID has taken note of the numerous challenges that limit the effective use of food aid, which is especially important in light of limited resources and increasing emergencies needs. Several key examples of these challenges and the subsequent improvements that USAID has made are discussed in this letter.

In terms of the commodity procurement, USAID has joined with the U.S. Department of Agriculture (USDA) in a consultative process to significantly improve the U.S. food aid supply chain management. Starting in 1999, USAID has investigated and inaugurated pre-positioning facilities, first in Lake Charles, Louisiana, and then Dubai, United Arab Emirates (UAE). These programs have succeeded in reducing the time it takes for commodities to arrive for the recipients of food emergencies, by eliminating the ordering process and, in the case of Dubai, reducing the shipping time as the commodities are placed half way around the world. At this time, USAID has awarded a third pre-positioned site in Djibouti and will award a domestic warehouse contract in the next few days. In addition, USAID is seeking to establish appropriate management of the expanding system of sites.

The GAO draft report implies that USAID unilaterally selects pre-positioned sites rather than using Federal Acquisition Regulations. The award of pre-positioning facilities is through a fair, open, and competitive process. Award is made to the best bidder in response to a solicitation. Since the award cannot go to a facility that did not or will not make an offer, we can only award to the best bidder under a particular solicitation. These solicitations are regularly competed through fair and open procedures to ensure that the USG retains the best service providers. Our pre-positioning contractors are additionally responsible for helping to ensure that commodities are rotated on or near a first-in, first out (FIFO) basis.

USAID emergency food aid allocations demand considerable effort and analysis. This task is made even more difficult by the rapidly changing circumstances and budgetary uncertainties. A number of relevant factors come into play, including:

• Overall need, as measured by objective assessments of required rations and tonnage;
Appendix VI: Comments from the U.S. Agency for International Development

- 4 -

* Severity of the need, as measured by malnutrition rates and other critical factors;
* Ability of affected populations to cope with the emergency using resources at their disposal;
* Resource levels that other donors are planning or are likely to provide; and
* Ability of aid organizations, e.g., cooperating sponsors, World Food Programme (WFP), etc., to reach those most in need and to monitor distributions, both of which may be hampered by insecurity, government actions, logistical constraints and other factors.

Within the constraints of existing legislative mandates, USAID works to introduce competitive commercial principles in all of its contracting and procurement arrangements. Transportation and contracting practices must protect the U.S. government's interests while including, to the greatest extent practicable, commercial principles of shared risks, streamlined administration, and expedited payment and claims resolution. GAO has recommended improvements in transportation contracting, but did not include information on the process involved in developing the “Food Aid Booking Note.” This Booking Note is the uniform contract that is used in both USAID and USDA food aid programs and is the direct result of the recommendations of a committee that included carriers, cooperating sponsors and their freight forwarders, and U.S. government representatives from USAID, USDA and DOT. This committee was formed in 2002 and met quarterly for approximately two years before the final product was presented. The terms and conditions of the Booking Note were fully vetted with all the major carriers and the cooperating sponsors prior to acceptance.

USAID has explored different payment methods as well as considered longer term transportation arrangements. While in a normal commercial, competitive environment, these types of improvements would most certainly yield reduced rates and lower transportation costs, USAID recognizes that the myriad of cargo preference laws in the Title II program do not reflect a commercial, competitive environment. USAID has undertaken numerous initiatives to strike an appropriate balance between risk and costs, while taking into account the non-commercial nature of the cargo preference requirements and their impact on competition.

See comment 6.

See comment 7.
USAID is interested in formally updating the ocean freight reimbursement methodologies to take into account the new electronic freight bidding procedures implemented in February 2007. However, DOT has stated that they must publish updated cargo preference regulations before any inter-agency agreement can be finalized. USAID has investigated options as it relates to long-term transportation agreements as well as different payment methods that would speed up ocean transportation payments. While the costs for those particular tools would far exceed the benefits, USAID will continue to seek alternatives that would improve transportation services and reduce costs so that more food successfully reaches the most food insecure. USAID has already expanded its use of tendering for multiple discharge port options in ocean contracts, for example, similar to the World Food Programme’s (WFP) operations, so that flexibility is enhanced without incurring the steep premiums of high seas diversion.

USAID works closely with USDA and members of the Food Aid Consultative Group (FACG) to coordinate, track and resolve food quality complaints. Nevertheless, USAID recognizes that the system could be strengthened. We support the work of the FACG’s commodity management working group to investigate improved processes and procedures among the cooperating sponsors, USAID and USDA to resolve food aid quality complaints through a more streamlined, consolidated approach. Finally, USAID is investigating ways to use its Quarterly Web Interfaced Commodity Reporting (QWICR) system to also track quality issues and complaints so that stakeholders can more quickly become aware of quality issues. Overtime, USAID anticipates that QWICR will also have the capability to track and analyze monetization transactions.

USAID recognizes that both the quality and formulation of food aid products are crucial to delivering safe, wholesome products to undernourished populations, particularly vulnerable groups including infants and young children, women of child-bearing age and people living with HIV/AIDS. Along with USDA, USAID is reviewing options to review the nutritional quality and cost-effectiveness of commodities being provided as food assistance. Our goal will be to have consultations with nutritionists, scientists, commodity associations and our partners to make sure all viewpoints are heard. USAID wants to ensure that the food aid we provide is of the highest quality to meet the nutritional requirements necessary to address chronic hunger.
Appendix VI: Comments from the U.S. Agency for International Development

To address these concerns, along with USDA, USAID is taking the initiative to do an in-depth review of the types and quality of food products used in the administration of U.S. food aid programs and will also continue its efforts of reviewing the existing contract specifications used to obtain food aid commodities, and improving our post-production commodity sampling and testing regime based upon sound scientific standards.

The GAO draft report highlights the importance of enhancing the reliability and applications of needs assessments for new and existing food aid programs through better coordination among implementing organizations, which can learn from past targeting experiences. Assessment is a USAID priority. Good early warning intelligence is the most effective tool we have to develop and confirm reliable needs assessments. It is for this reason that, over the last several years, there has been an expansion of the reach and improvements in the techniques of the USAID-funded Famine Early Warning System (FEWS). This year, USAID has been working with FEWS to improve tools to be able to report on potential food crises with six months anticipation. USAID is developing ways to apply FEWS as a framework for donor information sharing and coordination. In addition, USAID utilizes its available monitoring resources as effectively as possible to ensure proper targeting, management and implementation. As food aid alone cannot achieve food security, USAID seeks to coordinate with other donors to ensure that the needed non-food resources are made available to reinforce the food resources.

Monitoring of all grant programs is not only allowed, it is required. All implementers are under legal obligations to monitor and report their findings to USAID. In addition, USAID staff, more than 65 of whom are based in the field, and more than 30 in Washington, monitor and oversee the food aid programs. However, USAID may only bring personal service contractors on board to monitor emergency work, although some portion of their time can be directed to development projects.

USAID evaluates every proposed monetization activity and approves only those which use monetization proceeds to address the underlying causes of food insecurity, without disrupting local production or markets. For each commodity to be monetized, USAID’s policy request that the cooperating sponsors set a sales
Appendix VI: Comments from the U.S. Agency for International Development

-7-

price which: (1) represents the reasonable market price of the commodity in the country (or region) in which it is being sold; (2) does not depress the price of locally produced commodities in accordance with the 1977 Bellmon Amendment; (3) does not disrupt normal commercial practices, i.e. UMR considerations and (4) is acceptable to the USAID Field Mission (or Regional mission for non-presence countries). For all planned monetization, cooperating sponsors estimate anticipated sales prices based upon local market analysis and provide the background and basis of that estimate for review by the USAID.

Although beyond the GAO audit’s mandate, which is to limit its review to existing programs, with regard to efforts to improve the effectiveness of food aid programs, especially its emergency response capabilities, it is important to note that the Administration is seeking the authority to apply up to 25 percent of the P.L. 480 Title II funds to procure food commodities in local and regional markets. This authority is requested as in certain circumstances, local procurement could accelerate the delivery of critically needed food to emergency victims.

Finally, USAID works closely with other U.S. agencies and donor partners in the fight against global hunger by increasing G8 action on implementing the New Partnership for Africa’s Development’s (NEPAD) Comprehensive African Agricultural Development Plan (CAADP), which is now a viable framework for improving the effectiveness of development assistance in achieving food security and broad-based economic growth in Africa; and, to highlight the need for ongoing G-8 commitment to reducing hunger, preventing famine and meeting emergency humanitarian needs in Africa, particularly in the Horn and Sudan.
The following are GAO’s comments on the U.S. Agency for International Development’s letter dated March 29, 2007.

GAO Comments

1. We incorporated contextual information from USAID’s Food Security Strategic Plan for 2006–2010 in the background and in the discussion on the effectiveness of the use of food aid. We also added a direct reference in the text to the strategic plan. While we recognize the importance of the linkages between emergencies and development programs, these issues primarily relate to food security, which was not a research objective of this study.

2. We added information from the specific study cited. While this study mentioned that proposals had improved in identifying and describing critical country-level food security problems, it also noted that quantitative data collection and analysis at the local level were deficient. Additionally, according to this study, USAID’s policy guidance has been insufficient, and there has been friction between USAID and implementing organizations regarding the transparency and timeliness of the program management by the Office of Food for Peace.

3. We have provided available information throughout this report to indicate the potential magnitude and impact of savings from improving the efficiency of food aid delivery. In our view, even a savings of less than 2 percent of the fiscal year 2006 program funding could have a significant impact by enabling the United States to feed almost 850,000 additional people for 90 days.

4. We have included additional information regarding the selection process for prepositioning warehouses.

5. We recognize that uncertainties in funding processes, combined with reactive and insufficiently planned procurement, increase food aid delivery costs and time frames. Further, we noted that difficult operating environments contribute to various challenges that impede the effective use of food aid. Despite these constraints, we noted that enhancements, such as better planning and improved coordination in conducting assessments, can improve the efficiency and effectiveness of U.S. food aid programs.

6. We reference the standard booking note that USAID and USDA created with input from the booking note committee. We have included additional information regarding members of this committee.
However, in structured interviews, all 14 ocean carriers indicated that further improvements are needed to standardize freight terms and to further include, to the extent possible, commercial principles for the allocation of risk.

7. More timely payment of food aid contracts is not a competitiveness issue and would reduce costs for both U.S.- and foreign-flag carriers. DOD and DOT officials have also reported that long-term transportation agreements have produced savings for DOD and could provide savings for food aid programs. As DOD is also subject to cargo preference regulations, legal requirements governing food aid may not necessarily prevent the agencies from achieving savings with long-term transportation agreements. To determine potential savings, we are recommending that USAID, USDA, and DOT work together to conduct further cost-benefit analyses of supply-management options.

8. We recognize that USAID asked DOD several years ago to calculate the cost for a sample set of shipments using long-term transportation agreements managed by DOD, and that this analysis indicated a lack of potential savings. However, as discussed in this report, DOD and DOT officials subsequently found that the analysis contained flaws and both agencies recommend that a new analysis be conducted. For example, DOT officials indicated that cost savings could be realized if USAID were to manage its own contracts, and they have offered to assist USAID in doing so. Regarding USAID’s use of multiple port discharge options, we have included additional language in our report to reflect this information.

9. While food quality issues may be discussed in the Food Aid Consultative Group, there is still no shared, coordinated system in place that USDA, KCCO, and USAID can use to track and respond to complaints. Additionally, while we acknowledge that USAID has developed the Quarterly Web-Interfaced Commodity Reporting (QWICR) system to assist in tracking food aid commodities, this system is currently utilized only by some Food for Peace programs and NGOs in Africa and is not shared with USDA and KCCO. We also point out the need for better monitoring and tracking of monetization transactions, including tracking of revenues generated by monetization. At this point, it is not clear whether QWICR will be able to accommodate this need for both USAID and USDA.

10. We note that USAID recognizes that the quality and formulation of food aid products are crucial for undernourished populations and that the Director of the Office of Food for Peace highlighted the need to improve the quality of food aid commodities in his statement before
the Senate Committee on Agriculture, Nutrition, and Forestry on March 21, 2007. We also note that USAID, along with USDA, plans to do an in-depth review of the types and quality of food products used in U.S. food aid programs and will continue its efforts to review existing contract specifications and improve commodity sampling and testing. However, these planned reviews and improvements have not yet been implemented.

11. USAID recognizes that enhancing assessments is a priority. Our recommendation to improve needs assessments was also endorsed by the Director of USAID’s Office of Food for Peace in his statement before the Senate Committee on Agriculture, Nutrition, and Forestry on March 21, 2007.

12. Based on USAID's technical comments, we have added a footnote stating that implementing organizations are required to monitor food aid programs according to OMB Circular A-110 as well as USAID regulations (22 C.F.R. 226.51). While noting the implementing organizations’ monitoring responsibilities, we maintain that U.S. agencies still need to adequately monitor programs to ensure independence and provide assurance that food aid resources are used optimally. In its official comments, USAID states that it has over 65 staff in the field and over 30 staff in Washington, D.C., to monitor and oversee food aid programs. However, as noted in our report, there are only 23 Title II-funded staff in the field, and non-Title II funded staff often have other responsibilities in addition to monitoring food aid programs. Further, the Director of the Office of Food for Peace, in his statement before the Senate Committee on Agriculture, Nutrition, and Forestry on March 21, 2007, supported our recommendation on the need for increased monitoring.

13. We agree that it is important to carefully review the monetization proposals in order to minimize the disruption to local production and markets. However, even when the proposals satisfy all the criteria USAID considers, monetization is still an inherently inefficient practice because converting food to cash in order to fund development projects is costly.
Appendix VII: Comments from the U.S. Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

See comment 1.

See comment 2.

Mr. Thomas Melito
Director, International Affairs and Trade
United States Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Melito:

The U.S. Department of Agriculture (USDA) sincerely appreciates the efforts of the Government Accountability Office (GAO) to allow USDA an opportunity to provide a substantive response to the comprehensive GAO draft report and accompanying testimony on "FOREIGN ASSISTANCE: Various Challenges Impede the Efficiency and Effectiveness of US Food Aid" (GAO-07-560). USDA's comments are based on GAO's draft report provided to USDA on March 8, 2007. Some issues raised in the draft report are not reflected in the recommendations, and USDA does not address these due to our already lengthy comments and the limited time to respond. USDA believes that the release of the final report represents the beginning -- not the end -- of the discussion on this complex topic, and that all sides will have further opportunities to explore and understand the several complicating factors in food aid.

USDA agrees that improvements in efficiency and effectiveness are possible in the procurement, planning, monitoring, and quality of food aid. However, despite the title GAO gave the report, USDA believes that in some cases GAO fails to fully articulate the inherent challenges in achieving an ideal first-world performance when implementing the programs in difficult third-world environments. These written comments will address some of these challenges. USDA notes that despite these complications, critical nutritional needs all around the world routinely are met in a timely fashion, and all available data indicates that U.S. commodity losses for non-World Food Programme food aid are limited to one percent or less.

USDA also does not find where any hard analysis was undertaken by GAO to support many of the weaknesses that the draft report identifies. Instead, GAO appears to have drawn broad conclusions based upon various anecdotal incidents as reported by assorted constituencies, each with their own interests and points of view. Many of the examples

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GAO cited to illustrate the points in the draft report are unique or presented out of context, resulting in misleading statements or flawed conclusions. Obviously USDA cannot address each instance here, but the Department’s overall comments should be read with that in mind.

For example, although the majority of food aid shipments consist of relatively stable bulk commodities, most of GAO’s conclusions and recommendations regarding transportation appear to involve the shipment of higher risk packaged products. In 2006, overall food aid shipments totaled approximately three million metric tons, with bulk shipments representing approximately 62 percent by quantity (and approximately 52 percent by freight dollars). So while the report is presented as addressing all food aid, in truth much of the report is focused on just over one-third of all food aid shipped.

USDA also is very proud of the Department’s ability to adapt and respond appropriately in emergency situations. For example, after the Indian Ocean Tsunami, USDA quickly responded with the diversion of 15,000 metric tons of rice, with almost 5,000 metric tons arriving in Indonesia only 13 days after the event. In Lebanon, 25,000 metric tons of USDA diverted wheat arrived in Beirut just 18 days after the decision was made to provide emergency assistance.

USDA is aware of the past bunching of shipments and continues to take steps which already have markedly alleviated this issue. Over the past two years USDA has introduced more flexibility into shipping periods. Commodity and freight procurement that once was compressed into the October-December timeframe now can be shipped anytime from October through March, therefore spreading out food aid procurements and resulting in a more balanced procurement process.

The Department also recently published the final rule on a one-step procurement process for packaged products, which allows USDA to procure commodity and freight with bids that are received at the same time. An electronic bid system for packaged commodity and freight now is in operation as well. This process allows commodity suppliers and carriers to respond to government proposals more efficiently, and also provides a platform for the consolidation of cargo, which USDA believes will result in long term cost savings. Further, this one-step process will reduce the time to deliver commodities to the U.S. port, thus reducing the delivery time to the ultimate recipient. The U.S. Agency for International Development (USAID), USDA, and the U.S. Maritime Administration (MARAD) are in discussions to revise MARAD’s cargo preference regulations to allow greater flexibility and efficiencies in utilizing U.S. flag carriers.

USDA agrees that a greater acceptance of multi-year food aid agreements may offer opportunities to improve program planning and logistics, and may provide increased flexibility in purchasing and shipping periods. The Department actually is receiving a higher number of multi-year proposals for the Food for Progress (FFP) and the
Appendix VII: Comments from the U.S. Department of Agriculture

McGovern-Dole Food for Education (FFE) programs, and is doing its best to approve more of them. We believe that the FFE under present operating guidelines is an example of an effective and efficient program. In FY 2006, commodity purchases made up 54 percent of expenditures, transportation to the destination made up 21 percent, administrative costs of implementing organizations and inland transportation made up 12 percent, and cash for teacher training and other such activities made up 13 percent. However, an increased demand for these programs, coupled with the currently high commodity and freight costs, is limiting the number of multi-year proposals that can be accepted.

See comment 5.

USDA has greater concern with the draft report’s discussion on modernizing food aid transportation contracting practices. We again believe that GAO oversimplifies the issue and that its recommendations are too general. For example, the draft report is misleading in that it does not make distinctions between the different transportation contracts that make up the logistical operations of food aid. Contract terms, risks, and overall challenges are not the same for marine transportation contracts as for foreign inland cargo movements. Reviewing all cargo transportation movements collectively (from vendor to village) caused the findings in the draft report to be inaccurate. These contracts must be reviewed separately if the overall issues are to be properly understood.

See comment 6.

USDA is open to talking with the shipping industry, USAID, and MARAD to discuss potential improvements, but the Department believes that its contracts already are both clear and consistent with commercial practices. Any confusion on the point might arise from the fact that food aid programs often mandate shipment to difficult locations and less-commercial port environments. Carriers which are inexperienced in this type of work may not price into their bid adequate protection for the increased risks that they assume as a result.

See comment 7.

USDA shares in those risks, but believes that in most cases the carrier is the more capable party to avoid or handle the foreseeable risks involving any logistical problems that arise. The contracts clearly set out the complete responsibilities of each party and the foreseeable risks through the entire transaction, and particularly the financial responsibilities in the event that logistical problems (such as limited infrastructure or corruption) do occur. As in any commercial exchange, the very first risk a bidder takes is in understanding what his contracted responsibilities will be, and in pricing his bid accordingly.

See comment 8.

GAO limits its draft report discussion on cargo preference to trying to minimize the cost of implementation. USDA shares the desire to limit the impact of cargo preference on the food aid programs, but believes that the draft report is misleading in suggesting that substantial savings which could be used to increase the tonnage of food aid shipped under
the programs are possible. This is largely because GAO failed to adequately examine the ramifications of reimbursements received from MARAD under Sections 901d(a) and 901d(b) of the Merchant Marine Act.

Any discussion of the cost of cargo preference and its impact on the food assistance programs must contain a thorough review of the financing provisions and reimbursements received from MARAD. Section 901d(a) requires MARAD to finance the additional cost in ocean freight charges in moving from a requirement of 50 percent U.S. flag vessel participation to 75 percent U.S. flag vessel participation. Section 901d(b) reimburses the food aid agencies for all ocean freight costs whenever the ocean freight costs exceed 20 percent of the total commodity cost. For Fiscal Years 2003, 2004, and 2005, all but one of the food aid grant programs received significant reimbursements under Section 901d(b). The single exception was the Section 416(b) program, which did not qualify since it was utilized primarily for the export of nonfat dry milk, the very high cost of which prevented it from meeting the 20 percent qualification.

Food aid programs that reach this 20 percent threshold under Section 901d(b) have their ocean freight costs effectively capped, with all ocean freight costs above that point -- regardless of vessel age or flag -- being reimbursed by MARAD. With MARAD reimbursements to the USDA and USAID food aid programs totaling approximately $100 million annually under this provision, food aid agencies would have to seek efficiencies in transportation operations exceeding that amount before any cost savings would be available to procure additional food. USDA does not understand how the transportation changes alluded to in the draft report would capture these types of savings. An examination of any significant savings ultimately would have to involve a general discussion of cargo preference, which the draft report does not do.

However, USDA always has been aware of the financial cost of transportation in food aid programs, whether reimbursed by MARAD or not. Because of this concern, the Department has instituted procedures such as automated payment processes to increase efficiency.

USDA will carefully review GAO’s final recommendation regarding the establishment of a coordinated system for tracking and resolving food quality complaints, and will coordinate with USAID in addressing the issue. In many cases, commodities for USDA and USAID programs share space on the same ship, so we already learn together of any problems regarding a ship or its cargo. In addition, USDA and USAID routinely share information on substantial known quality problems. However, as previously indicated, commodity losses due to shipping problems or infestation are extraordinarily low. Nevertheless, USDA continues to work with USAID to consider a more formal structure to share and record food quality or contamination information, and to review different ways to procure or ship commodities that may improve or preserve quality.
Appendix VII: Comments from the U.S. Department of Agriculture

As an example, the recent development of the Containerization Aid Product Improvement Team (CAPIT) was the result of collaboration between USDA and USAID, along with carriers and commodity suppliers. CAPIT made operational recommendations which were adopted by the food aid agencies to resolve issues specific to commodity losses of corn and beans during the containerized movement of these food aid cargos. In addition, over a decade ago USDA created a rapid response team comprised of operational experts that travel worldwide to respond to loss complaints from food aid recipients. This team has been very successful in addressing large loss situations and has saved millions of dollars for the food aid programs by effectively mitigating commodity losses.

USDA and USAID continue to take steps to review the products used in food aid and to ensure that we are shipping quality products that meet the needs of the recipients. We are taking a three-pronged approach that involves the agencies, the food industry and nutritionists, and the organizations that deliver the food aid in country. First, USDA is taking steps to improve its contracting for food aid by increasing the enforcement of standards in the contracts that would be included in future procurements. Second, USDA will work with experts to identify and reinforce laboratory testing standards and manufacturing processes. Third, a longer-term study will be undertaken to help identify new products or improved products that could be provided through food aid. USDA and USAID will work closely with Congress and the private sector during this process.

USDA is developing an information system to improve the monitoring and evaluation of food aid programs. The Food Aid Information System (FAIS) currently is in development, and when completed will capture implementing organizations’ reports electronically and automate the tracking of both report delinquency and completion. Most importantly, the system will allow the quick and easy comparison of agreement objectives and progress criteria against program outputs and outcomes through improved reporting formats and performance metric tools. The FAIS is scheduled for completion in 2009, assuming no additional constraints in funding.

In discussing ways to provide adequate non-food resources in situations where such assistance will enhance the effectiveness of food aid, GAO neglected to address the significant non-food resources that are provided regularly in both the FFP and FFE programs. FFP projects, both with governments and those with private voluntary organizations, often include non-food resources. In fact, the use of monetized proceeds to support the proper storage, handling, and processing of foods are common elements of FFP agreements and are encouraged when appropriate, while funds monetized through the FFE program also are used to support school repair and construction, to purchase educational materials, and for other such non-food resources. This flexibility to provide support for food aid effectiveness by using monetized proceeds is one of the outstanding, positive features of monetization that was not included in the draft report. Of course, all non-food utilization of monetization proceeds entails a dollar-for-dollar reduction in the amount available for commodity procurement.
Finally, as GAO noted, USDA already is taking additional steps to address the monitoring of food aid programs. During the recent reorganization of the Foreign Agricultural Service (FAS), the agency established a Monitoring and Evaluation unit which will have responsibility for the evaluation of the development programs. FAS hopes that adequate funding will be made available to enable the unit to carry out the full reporting, evaluation, and site visit duties assigned to it. This joins with the FAIS in representing USDA’s renewed commitment to improving the monitoring of food aid programs in order to ensure their proper management and implementation.

Again, we commend GAO for providing this most useful report. USDA looks forward to taking part in the ongoing discussion of U.S. food aid that it already has helped initiate.

Sincerely,

Michael W. Voss
Administrator
Foreign Agricultural Service

Teresa C. Lasseter
Administrator
Farm Service Agency
The following are GAO's comments on the U.S. Department of Agriculture’s letter dated March 30, 2007.

**GAO Comments**

1. We recognize (1) the challenges of providing food aid in developing countries and (2) agency efforts to provide U.S. food aid on a timely basis with minimal commodity losses. However, multiple implementing organizations we met with expressed concern regarding the lack of timeliness in food aid delivery, particularly to meet emergency needs. The Ethiopian grain reserve example illustrates how food aid stakeholders have adapted strategies to provide food aid in a timely manner even when U.S. shipments are late. Although commodity losses for non-WFP programs are reported at less than 1 percent, KCCO is unable to determine the extent of commodity losses for WFP programs, which account for approximately 60 percent of U.S. food aid shipments. Additionally, various factors suggest that actual commodity losses may exceed those reported in the data.

2. We provide a detailed description of our scope and methodology in appendix I. Each of our report findings and recommendations is based on a rigorous and systematic review of multiple sources of evidence, including procurement and budget data, site visits, previous audits, agency studies, economic literature, and testimonial evidence collected in both structured and unstructured formats. To ensure accuracy and independence in our findings, we assessed the reliability of data used for our analysis and compared information from stakeholders who have different points of view and are involved in different stages of food aid programs. We discussed our preliminary findings with a roundtable of food aid experts and practitioners. We reviewed and incorporated, where appropriate, agency oral, technical, and official comments. We include anecdotal examples in our report to illustrate findings that are based on our broader work.

3. While it is likely that the risks of transporting packaged cargo are higher than those for bulk cargo, all of our transportation recommendations are intended to improve the delivery of both types of food aid. Improving food aid logistical planning could decrease procurement bunching (and the higher prices that result) for both packaged and bulk food shipments. Modernizing transportation contracting practices, including standardizing bulk cargo contracts and improving claims processes, could likewise decrease ocean freight rates for both bulk and packaged shipments. Finally, since cargo preference regulations apply to shipments of both bulk and packaged...
cargoes and food quality complaints may occur for all food aid shipments, our remaining two recommendations to improve the efficiency of delivery are aimed at the entire food aid program.

4. KCCO officials told us that USDA needs to improve procurement planning in order to reduce the continued bunching of purchases that stresses its operations and those of its food suppliers. KCCO data and a recent KCCO study confirmed that bunching of procurement has occurred through fiscal year 2006—findings that were confirmed by a broad representation of other food aid stakeholders and experts we interviewed.

5. To determine the length of time required to provide U.S. food aid, we examined the delivery process from vendor to village. Our analysis of transportation contracting practices refers to ocean transportation contracts only, and we have added language in the report to reflect this scope. We did not systematically examine transportation contracts for foreign inland cargo since U.S. agencies do not collect uniform contract data for these shipments. KCCO does not include these costs when determining lowest cost providers for food aid delivery, and DOT cargo preference reimbursement methodologies pertain to ocean transportation only.

6. We have added language to the report to reflect that USDA ships bulk cargoes using contract terms that incorporate more shared risk. However, contracts for bulk shipments have not yet been standardized, and the standard booking note used by both USAID and USDA for packaged cargoes defines freight terms differently than commercial contracts. Other areas where USDA transportation contracting practices differ from commercial practices include lengthy claims processes and insufficiently streamlined administration and paperwork.

7. We have added language to the report to indicate that the net cost impact of shifting risk from ocean carriers to other food aid stakeholders, such as commodity suppliers and implementing organizations has not been studied. However, savings could arise through aligning the fiduciary responsibility for food delivery risks with those stakeholders that could better assess and manage those risks. Under the current approach, ocean carriers are held responsible for certain food delivery risks that they have no direct ability to manage. Ocean carriers generally insure themselves against these risks by increasing their freight rates for all deliveries. Moreover, by realigning
the cost of risk to those who manage it during each step of the process, food aid stakeholders would have additional incentives to make sure the process goes right.

8. Figure 10 in our report compares DOT reimbursements with the estimated costs of cargo preference. DOT reimbursements include the incremental ocean freight rate differential\(^1\) and the additional costs of ocean transportation exceeding 20 percent of the total cost of food aid commodities and ocean freight (Sections 901d(a) and 901d(b) of the Merchant Marine Act). As shown in the figure, DOT reimbursements fell short of OFD costs in fiscal years 2001 through 2003 and exceeded OFD costs in fiscal years 2004 and 2005. However, the estimated OFD costs in figure 10 do not include costs associated with shipments where no foreign-flag vessel submitted a bid and where the vessel’s age was 25 years or older. USAID and DOT officials separately estimated the additional costs associated with these two factors for past Title II shipments. Agency estimates amounted to about $50 million in fiscal year 2003, about $34 million in fiscal year 2004, and about $56 million in fiscal year 2005. Including additional estimated costs, DOT reimbursements would only have exceeded total cargo preference costs in fiscal year 2005.

9. While we acknowledge that USAID and USDA do have some means of sharing information on quality problems and that commodity and storage-specific initiatives like the Containerization Aid Product Improvement Team are helpful in addressing quality issues, both agencies still do not have a shared, coordinated system to track and respond systematically to food quality complaints for all of their commodities. And as stated in comment 1, agency officials are unable to track the quality of food aid for approximately 60 percent of food aid shipments, and commodity losses may exceed those reported in the data. We also acknowledge that USDA has a rapid response team, but KCCO officials have told us that the team is limited in its ability to respond to all of the complaints on food quality that it receives. USDA officials have also stated that food quality inspection officials like USDA’s Federal Grain Inspection Service do not have responsibilities overseas and are limited to inspecting only some food aid commodities.

\(^1\)DOT must finance any increased ocean freight charges resulting from the 1985 increase in the cargo preference requirement from 50 percent to 75 percent U.S.-flag.
and that while those officials can be hired to conduct overseas inspections, it would be expensive to do so.

10. Limitations in the availability and use of nonfood resources to conduct credible assessments and to use these assessments to inform program proposals apply both to USAID- and USDA-administered programs. However, we specifically note in response to agency comments that some limitations, such as legal restrictions on the use of funding, apply specifically to Title II-funded programs. As indicated by USDA, the McGovern-Dole Food for Education and Child Nutrition program has a cash component of 13 percent, as indicated by USDA, which is higher than the upper limit of 10 percent cash allowed as 202(e) funding to implementing organizations for USAID Title-II funded programs. However, Food for Education accounts for only 4 percent of U.S. food aid funding; therefore, our overall finding about limited complementary nonfood resources still applies broadly to U.S. food aid programs. Additionally, the majority of Food for Progress commodities are monetized rather than used for direct distribution to beneficiaries, as shown in figure 12 in our report. Therefore, the need for nonfood resources to enhance the effectiveness of the use of food aid is less relevant in the case of Food for Progress. Moreover, as we note in our report, the use of monetization to generate funds for development projects is an inefficient use of food aid resources in general.
Appendix VIII: GAO Contact and Staff
Acknowledgments

GAO Contact
Thomas Melito, Director, (202) 512-9601

Acknowledgments
In addition to the person named above, Phillip J. Thomas (Assistant Director), Carol Bray, Ming Chen, Debbie Chung, Martin De Alteriis, Leah DeWolf, Mark Dowling, Etana Finkler, Kristy Kennedy, Joy Labez, Kendall Schaefer, and Mona Sehgal made key contributions to this report.
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