

**GAO**

Testimony

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Development, Food and Drug Administration,  
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## FOREIGN ASSISTANCE

# Multiple Challenges Hinder the Efficiency and Effectiveness of U.S. Food Aid

Statement of Thomas Melito, Director  
International Affairs and Trade



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**Highlights**

Highlights of [GAO-08-83T](#), a testimony before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, Committee on Appropriations, House of Representatives

**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 between 2001 and 2006. These costs represent 65 percent of total emergency food aid, highlighting the need to maximize its efficiency and effectiveness. This testimony is based on a recent GAO report that examined 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 recommended that the Administrator of the U.S. Agency for International Development (USAID) and the Secretaries of the U.S. Department of Agriculture (USDA) and the Department of Transportation (DOT) enhance the efficiency and effectiveness of U.S. food aid by improving logistical planning, transportation contracting, and monitoring, among other actions. In general, USAID, USDA, and DOT found our recommendations to be helpful and have created an interagency Executive Working Group to identify actions to address them. However, USDA disagreed with some of our analysis.

[www.gao.gov/cgi-bin/getrpt?GAO-08-83T](http://www.gao.gov/cgi-bin/getrpt?GAO-08-83T).

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

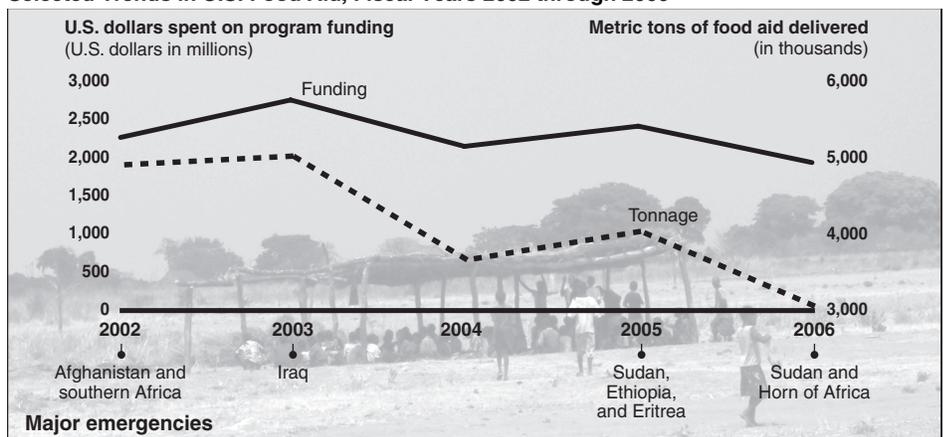
**FOREIGN ASSISTANCE**

**Multiple Challenges Hinder the Efficiency and Effectiveness of U.S. Food Aid**

**What GAO Found**

Multiple challenges hinder the efficiency of U.S. food aid programs by reducing the amount, timeliness, and quality of food provided. Factors that cause inefficiencies include (1) insufficiently planned food and transportation procurement, reflecting uncertain funding processes, that increases delivery costs and 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 in tracking and responding to food and delivery problems. U.S. agencies have taken some steps to address timeliness concerns. USAID has been stocking or prepositioning food domestically and abroad, and USDA has implemented a new transportation bid process, but the long-term cost effectiveness of these initiatives has not yet been measured. The current practice of using food aid to generate cash for development projects—monetization—is also inherently inefficient. 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**



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) difficulties in identifying vulnerable groups and causes of their food insecurity; and (4) resource constraints that adversely affect the timing and quality of assessments, as well as the quantity of food and other assistance. Furthermore, some impediments to improving the nutritional quality of U.S. food aid may reduce its benefits 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.

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Madam Chair and Members of the Subcommittee:

I am pleased to appear today to discuss ways to improve the efficiency and effectiveness of U.S. food aid. 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.<sup>1</sup> 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 from 2001 to 2006.<sup>2</sup> 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.

My testimony is based on a report that we issued on April 13, 2007.<sup>3</sup> Today, I will focus on the need to (1) increase the efficiency of U.S. food aid programs in terms of the amount, timeliness, and quality of food provided; and (2) ensure the effectiveness of U.S. food aid so that it reaches the most vulnerable populations and does not cause negative market impact. We define efficiency as the extent to which a program is acquiring, protecting, and using its resources in the most productive manner. We define

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<sup>1</sup>According to FAO's 2006 *The State of Food and Agriculture* report, conditions in Asia have improved while those in Africa have worsened.

<sup>2</sup>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.

<sup>3</sup>GAO, *Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid*, [GAO-07-560](#) (Washington, D.C.: Apr. 13, 2007).

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effectiveness as the extent to which U.S. food aid programs are being used to achieve their goals and objectives.

In preparing this testimony, we relied on our completed review of the efficiency and effectiveness of U.S. food aid. To address our objectives, we analyzed food aid procurement and transportation data provided by the U.S. Department of Agriculture's (USDA) Kansas City Commodity Office (KCCO); reviewed food aid proposals and funding data provided by USDA and the U.S. Agency for International Development (USAID); conducted interviews with U.S. agencies, U.S.- and foreign-flag ocean carriers, nongovernmental organizations (NGO), freight forwarders, and agricultural commodity groups; conducted fieldwork in Rome, Ethiopia, Kenya, and Zambia; and visited ports in Texas, South Africa and Kenya, as well as prepositioning sites in Louisiana and Dubai. We also discussed our preliminary findings with a roundtable of 15 food aid experts and practitioners. We conducted the work for our report and this testimony between May 2006 and March 2007 in accordance with generally accepted government auditing standards.

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## Summary

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

- *Insufficiently planned food and transportation procurement, reflecting uncertain funding processes, that increases food aid delivery costs and time frames.* Difficulty in timing food procurement and transportation to avoid commercial peaks in demand often results in higher prices than if such purchases were more evenly distributed throughout the year.
- *Ocean transportation 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 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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flag carriers. The U.S. Department of Transportation (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 prepositioned food commodities in Lake Charles (Louisiana) and Dubai (United Arab Emirates) until August 2007 and continues this practice in San Jacinto Port (Texas) and Djibouti (East Africa). 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. Specific factors that impede the effective use of food aid include the following:

- *Challenging operating environments characterized by poor infrastructure and lack of physical safety and security, which restrict*

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*access to populations in need and cause delays.* For example, we recently reported that frequent violence has hampered the ability of implementing organizations to access parts of the Darfur region of Sudan to provide food and other assistance to 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, resulting in delays in donor assistance until the various stakeholders reach agreement on these estimates.
- *Difficulties in identifying the most vulnerable groups and understanding the causes of their vulnerability.* For example, it has been challenging for implementing organizations to determine the causes of chronic food insecurity—such as poor health and water quality, in addition to lack of food—and provide appropriate assistance.
- *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, 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.

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Our report made 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 recommended 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.

As required by law,<sup>4</sup> DOT, USAID, and USDA reported the actions they have taken or begun to take to address our recommendations, in written statements to congressional committees. These actions included the creation of an interagency Executive Working Group to identify ways to respond to several issues we raise in our report. DOT stated that it strongly supported the transportation-related initiatives we recommended. USAID outlined actions it is considering, has initiated, or intends to take on each of our nine recommendations. Although USDA disagreed with some of our analysis, it cited efforts in progress that it believes address the issues raised in our report.

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<sup>4</sup>31 U.S.C. 720 requires the head of a federal agency to submit a written statement of actions taken on GAO recommendations to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Government Reform not later than 60 calendar days from the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 calendar days after that date.

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## Background

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### 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,<sup>5</sup> 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 are more effective and efficient, the largest international food aid organization, the United Nations (UN) World Food Program (WFP), continues to accept both.<sup>6</sup> 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 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.

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### Most U.S. Food Aid Goes to Africa, with Nonemergency Funding Declining

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. 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.

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<sup>5</sup>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).

<sup>6</sup>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.

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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.

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## U.S. Food Aid Is Delivered through Multiple Programs with Multiple Mandates

U.S. food aid is funded under four program authorities and delivered through six programs administered by USAID and USDA;<sup>7</sup> these programs serve a range of objectives, including humanitarian goals, economic assistance, foreign policy, market development, and international trade.<sup>8</sup> (For a summary of the six programs, see app. I.) 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. The Bill Emerson Humanitarian Trust, a reserve of up to 4 million metric tons of grain, can be used to fulfill P.L. 480 food aid commitments to meet unanticipated emergency needs in developing countries or when U.S. domestic supplies are short.<sup>9</sup> 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

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<sup>7</sup>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).

<sup>8</sup>See GAO, *Food Aid: Experience of U.S. Programs Suggests Opportunities for Improvement*, GAO-02-801T (Washington, D.C.: June 4, 2002).

<sup>9</sup>As of January 2007, the Bill Emerson Humanitarian Trust held about \$107.2 million in cash and about 915,350 metric tons of wheat valued at \$133.9 million. The Food Assistance Policy Council—including representatives from USDA, USAID, and other key government agencies—oversees the trust. The Secretary of Agriculture authorizes the use of the trust in consultation with the Food Assistance Policy Council.

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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.<sup>10</sup>

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

Multiple challenges in logistics hinder the efficiency of U.S. food aid programs by reducing the amount, timeliness, and quality of food provided. 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 lengthen time frames include uncertain funding processes and inadequate planning, ocean transportation contracting practices, legal requirements, and inadequate coordination in tracking and responding to food delivery problems. While U.S. agencies are pursuing initiatives to improve food aid logistics, such as repositioning food commodities and using a new transportation bid process, their long-term cost-effectiveness has not yet been measured. In addition, the current practice of selling commodities to generate cash resources for development projects—monetization—is an inherently inefficient yet expanding use of food aid.

### Various Logistical Factors Increase Delivery Costs and Lengthen Time Frames

Inadequately planned food and transportation procurement increases food aid delivery costs and time frames. U.S. agencies bunch their procurement, purchasing the largest share of food aid tonnage during the last quarter of each fiscal year, in part because USDA requires 6 months to approve programs and because USDA and USAID may not receive funding until the middle of a fiscal year (after the Office of Management and Budget has approved budget apportionments for the agencies or through a supplemental appropriation). 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.<sup>11</sup> Although USAID has improved its cash flow management to achieve more stable monthly purchases in fiscal years 2004 and 2005, total food aid procurement has

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<sup>10</sup>P.L. 104-239, 110 Stat. 3138. See GAO, *Maritime Security Fleet: Many Factors Determine Impact of Potential Limits on Food Aid Shipments*, [GAO-04-1065](#) (Washington, D.C.: Sept. 13, 2004).

<sup>11</sup>These figures exclude prices for nonfat dry milk and vegetable oil.

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not been consistent enough to avoid the higher prices associated with bunching.

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. 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. For example, food aid transportation contracts often hold ocean carriers responsible for logistical problems occurring at the load port 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 governing food aid procurement can also 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 known as the ocean freight differential (OFD).<sup>12</sup> The total annual value of this cost differential between U.S.- and foreign-flag carriers averaged \$134 million from fiscal years 2001 to 2005. DOT reimbursements have varied from \$126 million in fiscal year 2002 to \$153 million in fiscal year 2005.<sup>13</sup> However, USAID officials expressed concern that the OFD calculations do not fully account for the additional costs of shipping on older U.S. vessels or for contracts that did not receive a bid from a foreign carrier. Finally, USAID and DOT officials have not yet agreed on whether cargo preference applies to shipments from prepositioning sites.

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<sup>12</sup>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.

<sup>13</sup>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.

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Prepositioning and New  
Transportation Bid Process  
Could Improve Efficiency, but  
Their Related Long-term Costs  
and Benefits Have Not Yet  
Been Measured

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U.S. agencies and stakeholders do not coordinate adequately to respond to food and delivery problems when they arise. For example, while food spoilage has been a long-standing concern, USAID and USDA lack a shared, coordinated system to track and respond to food quality complaints.<sup>14</sup> Having disparate quality complaint tracking mechanisms that monitor different levels of information, KCCO, USDA and USAID 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—independently handles its own claims, KCCO officials are unable to track the quality of food aid delivery programwide. 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.

To improve timeliness in food aid delivery, USAID has prepositioned food aid on a limited basis,<sup>15</sup> and KCCO is implementing a new transportation bid process.<sup>16</sup> 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. As of August 2007, USAID had closed the warehouses that it had been operating in Lake Charles and Dubai; it is now operating out of San Jacinto Port (Texas) and Djibouti (East Africa). 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. However, agencies face several challenges to their effective management

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<sup>14</sup>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.

<sup>15</sup>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.

<sup>16</sup>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.

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of this program. For example, inadequate inventory management increases the risk of cargo infestation, and limited monitoring and evaluation funds constrain USAID's oversight capacity. Regarding KCCO's transportation bid process, KCCO expects this new system to cut 2 weeks from procurement time frames and to reduce cargo handling costs as cargo loading becomes more consolidated. However, the long-term cost-effectiveness of both prepositioning and the new bid process have not yet been measured.

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### Monetization Is an Inefficient, Expanding Practice and Agencies' Lack of Electronic Data Impedes Their Monitoring Ability

The current practice of selling commodities as a means to generate resources for development projects—monetization—is an inherently inefficient yet expanding 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 from their core missions. However, the permissible use of revenues generated from this practice and the minimum level of monetization allowed by the law have expanded. The monetization rate for Title II nonemergency food aid has far exceeded the minimum requirement of 15 percent,<sup>17</sup> reaching close to 70 percent in 2001 but declining to about 50 percent in 2005.

Despite these inefficiencies, U.S. agencies do not collect or maintain data electronically 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. 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 USDA nor USAID was able to provide us with data on the revenues generated through monetization. These 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.

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<sup>17</sup>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.

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## Various Challenges Reduce the Effective Use of Food Aid

Various challenges to implementation, improving nutritional quality, and monitoring reduce the effectiveness of food aid programs in alleviating hunger. Since U.S. food aid assists only about 11 percent of the estimated hungry population worldwide, it is critical that donors and implementers use it effectively by ensuring that it reaches the most vulnerable populations and does not cause negative market impact. However, challenging operating environments and resource constraints limit implementation efforts in terms of developing reliable estimates of food needs and responding to crises in a timely manner with sufficient food and complementary assistance. Furthermore, some impediments to improving the nutritional quality of U.S. food aid, including lack of interagency coordination in updating 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.

### Challenging Operating Environments Have Hindered Implementation of Food Aid Programs in Recipient Countries

Difficult operating environments characterized by poor infrastructure and concerns about physical safety and security have impeded access to the most vulnerable populations and caused delays in providing food aid, especially in conflict zones. We recently reported that ongoing violence 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 including 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 were still not receiving food aid in August 2006, according to UN sources.<sup>18</sup>

Insufficient coordination among key stakeholders and use of noncomparable methods has resulted in disparate assessments of food needs and numbers of recipients. For example, 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.

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<sup>18</sup>GAO, *Darfur Crisis: Progress in Aid and Peace Monitoring Threatened by Ongoing Violence and Operational Challenges*, GAO-07-9 (Washington, D.C.: Nov. 9, 2006).

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Accurately identifying 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.<sup>19</sup> For example, donors and implementers misdiagnosed the cause of the 2005 food crisis in Niger as a lack of food availability, when in fact it was caused by other factors such as health, water, and sanitation problems, according to WFP and USAID assessments. As a result, although the crisis reached emergency proportions in February 2005, donors did not respond until May 2005 and recipients did not receive food until August 2005. The request for aid was revised 7 times in the interim because 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.

Limitations on the amount and use of cash resources have adversely affected the quality and timing of assessments, particularly for Title II-funded programs. U.S. agencies provide very limited or no resources to conduct assessments prior to the implementing organizations' submission of proposals requesting food aid.<sup>20</sup> 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.

Resource constraints have also limited the quantity of food and other complementary assistance that is provided to intended recipients.<sup>21</sup> In

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<sup>19</sup>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.

<sup>20</sup>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.

<sup>21</sup>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.

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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.<sup>22</sup> During our field work, 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 lack other assistance or income.

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### 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 mechanism to update food aid products and their specifications.<sup>23</sup> 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.

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### U.S. Agencies Do Not Sufficiently Monitor Food Aid Programs

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 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. In fiscal year 2006, although USAID had some

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<sup>22</sup>GAO, *Foreign Assistance: Lack of Strategic Focus and Obstacles to Agricultural Recovery Threaten Afghanistan's Stability*, GAO-03-607 (Washington, D.C.: June 2003).

<sup>23</sup>Food 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.

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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.<sup>24</sup> USDA administers a smaller proportion of food aid programs than USAID and its field-level monitoring of food aid programs is more limited. 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.

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## 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 processes involved in delivering food aid. However, opportunities for further improvement remain to ensure that limited resources for U.S. food aid are not vulnerable to waste, are put to their most effective use, and reach the most vulnerable populations on a timely basis.

To improve the efficiency of U.S. food aid—in terms of its amount, timeliness, and quality—we recommended in our previous report that the Administrator of USAID and the Secretaries of Agriculture and Transportation (1) improve food aid logistical planning through cost-benefit analysis of supply-management options; (2) work together and with stakeholders to modernize ocean transportation and contracting practices; (3) 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; (4) establish a coordinated system for tracking and resolving food quality complaints; and (5) develop an information collection system to track monetization transactions.

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<sup>24</sup>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.

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To improve the effective use of food aid, we recommended that the Administrator of USAID and the Secretary of Agriculture (1) 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; (2) determine ways to provide adequate nonfood resources in situations where there is sufficient evidence that such assistance will enhance the effectiveness of food aid; (3) develop a coordinated interagency mechanism to update food aid specifications and products to improve food quality and nutritional standards; and (4) improve monitoring of food aid programs to ensure proper management and implementation.

DOT, USAID, and USDA—the three U.S. agencies to whom we directed our recommendations—have submitted written statements to congressional committees, as required by law, to report actions they have taken or begun to take to address our recommendations. In May 2007, these agencies established an interagency Executive Working Group to identify ways to respond to several of our recommendations. DOT stated that it strongly supported the transportation-related initiatives we recommended, noting that they offer the potential to help U.S. agencies achieve efficiencies and reduce ocean transportation costs while supporting the U.S. merchant fleet. USAID outlined actions it is considering, has initiated, or intends to take to address each of our nine recommendations. USDA stated that in general it found our recommendations to be helpful and cited some of its ongoing efforts to improve its food aid programs. However, USDA questioned some of our conclusions that it believed were the result of weaknesses in our methodology. For example, USDA does not agree that the current practice of monetization as a means to generate cash for development projects is an inherently inefficient use of resources. We maintain that it is an inherently inefficient use of resources because it requires food to be procured, shipped, and eventually sold, and the revenues from monetization may not recover shipping, handling, and other costs. Furthermore, U.S. agencies do not electronically collect data on monetization revenues, without which their ability to adequately monitor the degree to which revenues cover costs is impeded. We stand by our conclusions and recommendations, which are 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.

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Madam Chair and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions that you may have.

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## GAO Contact and Staff Acknowledgments

Should you have any questions about this testimony, please contact Thomas Melito, Director, at (202) 512-9601 or [MelitoT@gao.gov](mailto:MelitoT@gao.gov). Other major contributors to this testimony were Phillip 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.

# Appendix I: Program Authorities

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 1 provides a summary of these food aid programs.

**Table 1: U.S. Food Aid by Program Authority**

Program	P.L. 480			Food for Progress	McGovern-Dole Food for Education and Child Nutrition	Section 416(b)
	Title I	Title II	Title III			
Total budget <sup>a</sup>	\$30 million	\$1,706.9 million	0 <sup>b</sup>	\$207.8 million	\$97 million	\$20.8 million <sup>c</sup>
Managing agency	USDA	USAID	USAID	USDA	USDA <sup>d</sup>	USDA
Year established	1954	1954	1954	1985	2003	1949
Description of assistance	Concessional sales of agricultural commodities	Donation of commodities to meet emergency and nonemergency needs; commodities may be sold in-country for development purposes	Donation of commodities to governments of least developed countries	Donation or credit sale of commodities to developing countries and emerging democracies	Donation of commodities and provision of financial and technical assistance in foreign countries	Donations of surplus commodities to carry out purposes of P.L. 480 (Title II and Title III) and Food for Progress programs
Type of assistance	Nonemergency	Emergency and nonemergency	Nonemergency	Emergency and nonemergency	Nonemergency	Emergency and nonemergency
Implementing partners	Governments and private entities	World Food Program and NGOs	Governments	Governments, agricultural trade organizations, intergovernmental organizations, NGOs, and cooperatives	Governments, private entities, intergovernmental organizations	See implementing partners for Title II, Title III, and Food for Progress programs

Source: GAO analysis based on USAID and USDA data.

<sup>a</sup>Budget data are for fiscal 2006. USDA data represent programmed funding, while USAID data represent appropriated funds as of August 2006.

<sup>b</sup>This program has not been funded in recent years.

<sup>c</sup>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.

<sup>d</sup>USDA administers this program as stipulated by law, which states that the President shall designate one or more federal agencies.

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