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Report to the Chairman, Subcommittee on Africa and Global Health, Committee on Foreign Affairs, House of Representatives

May 2009

INTERNATIONAL FOOD ASSISTANCE

Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation

The Web version of this report posted on June 4, 2009, reflects a change to table 3 on page 39. Item 2 deleted references to the specific maximum tonnage percentages allowed on foreign-flag vessels. This change was made to fully reflect agencies' technical comments on a draft of this report.

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GAO-09-570

May 2009

INTERNATIONAL FOOD ASSISTANCE

Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation

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Highlights

Highlights of GAO-09-570, a report to the Chairman, Subcommittee on Africa and Global Health, Committee on Foreign Affairs, House of Representatives

Why GAO Did This Study

While the U.S. approach of providing in-kind food aid has assisted millions of hungry people for more than 50 years, in 2007 GAO reported limitations to its efficiency and effectiveness. To improve U.S. food assistance, Congress has authorized some funding for local and regional procurement (LRP)—donors' purchase of food aid in countries affected by food crises or in a country within the same region. Through analysis of agency documents, interviews with agency officials, experts, and practitioners, and fieldwork in four African countries, this requested report examines (1) LRP's impact on the efficiency of food aid delivery; (2) its impact on economies where food is procured; and (3) U.S. legal requirements that could affect agencies' use of LRP.

What GAO Recommends

GAO recommends that the Administrator of USAID and the Secretary of Agriculture systematically collect evidence on LRP adherence to quality standards; work to improve the reliability of market intelligence; and work with the Secretary of Transportation to update the interagency memorandum of understanding (MOU) that governs cargo preference requirements. USAID concurred with GAO's recommendations. USDA and WFP generally concurred but noted concerns about certain efficiency and market intelligence issues. DOT suggested further analysis of costs and delivery time, and noted that DOT implements its mandate through regulation, not the MOU.

View GAO-09-570 or key components.

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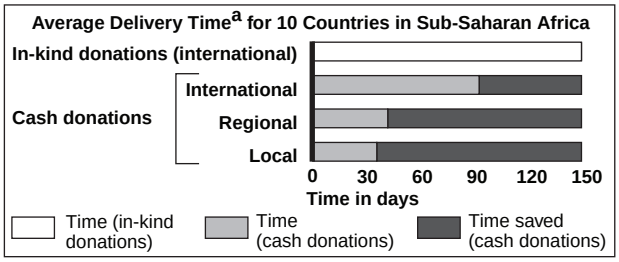
What GAO Found

LRP offers donors a tool to reduce food aid costs and delivery time (see fig. below), but multiple challenges to ensuring cost-savings and timely delivery exist. GAO found that local procurement in sub-Saharan Africa cost about 34 percent less than similar in-kind food aid purchased and shipped from the United States to the same countries between 2001 and 2008. However, LRP does not always offer cost-savings potential. GAO found that LRP in Latin America is comparable in cost to U.S. in-kind food aid. According to World Food Program (WFP) data, from 2004 to 2008, in-kind international food aid delivery to 10 sub-Saharan African countries took an average of 147 days, while local procurement only took about 35 days and regional about 41 days. Donors face challenges with LRP, including (1) insufficient logistics capacity that can contribute to delays in delivery, (2) donor funding restrictions, and (3) weak legal systems that can limit buyers' ability to enforce contracts. Although LRP may have the added benefit of providing food that may be more culturally appropriate to recipients, evidence has yet to be systematically collected on LRP's adherence to quality standards and product specifications, which ensure food safety and nutritional content.

Comparison of Cost and Time in Food Aid Delivery

Average Cost Differential (percentage by which the cost of U.S. in-kind food aid differs from the cost of local procurement)

Worldwide	25% more
Sub-Saharan Africa	34% more
Asia	29% more
Latin America	2% less



Source: GAO analysis of USAID and WFP data.

[a]Time elapsed between the purchase order date and the date WFP takes possession of the food in the recipient country. Additional time is required for the food to reach intended beneficiaries.

LRP has the potential to make food more costly to consumers in areas where food is procured by increasing demand and driving up prices, but steps can be taken to reduce these risks. As GAO's review of WFP market analyses and interviews with WFP procurement officers confirmed, a lack of accurate market intelligence, such as production levels, makes it difficult to determine the extent to which LRP can be scaled up without causing adverse market impacts. Although LRP does have the potential to support local economies, for example by raising farmers' incomes, data to demonstrate that these benefits are sustainable in the long term are lacking.

U.S. legal requirements to procure U.S.-grown agricultural commodities for food aid and to transport up to 75 percent of those commodities on U.S.-flag vessels may constrain agencies' use of LRP. Although Congress has appropriated funding for some LRP, agencies disagree on the applicability of certain cargo preference provisions to LRP food aid that may require ocean shipping. The 1987 interagency MOU that governs the administration of cargo preference requirements and could clarify areas of disagreement among the agencies is outdated and does not address the issues arising from LRP.

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Abbreviations

AGRA	Alliance for a Green Revolution in Africa
CAADP	Comprehensive Africa Agriculture Development Program
CARE	Cooperative for Assistance and Relief Everywhere, Inc.
CFB	Canadian Foodgrains Bank
CRS	Catholic Relief Services
CSB	corn soy blend
DDU	delivery duty unpaid
DFID	Department for International Development (United Kingdom)
DOT	Department of Transportation
FAO	Food and Agriculture Organization

FEWS NET	Famine Early Warning Systems Network
FOB	free on board
G8	Group of Eight
GMO	genetically modified organisms
HACCP	Hazard Analysis and Critical Control Point
ICRC	International Committee of the Red Cross
IDP	internally displaced person
IEHA	Initiative to End Hunger in Africa
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
INTERFAIS	International Food Aid Information System
IPP	import parity price
ITSH	inland transportation, storage, and handling
KCCO	Kansas City Commodity Office (U.S. Department of Agriculture)
LRP	local and regional purchase
MARAD	Maritime Administration (U.S. Department of Transportation)
MCC	Millennium Challenge Corporation
MOU	memorandum of understanding
NEPAD	New Partnership for Africa's Development
NGO	nongovernmental organization
OFDA	Office of Foreign Disaster Assistance (U.S. Agency for International Development)
P4P	Purchase for Progress
PEPFAR	President's Emergency Plan for AIDS Relief
PRM	Bureau of Population, Refugees, and Migration (U.S. Department of State)
SAFEX	South African Futures Exchange
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
WFP	World Food Program
WHO	World Health Organization

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United States Government Accountability Office
Washington, DC 20548

May 29, 2009

The Honorable Donald M. Payne
Chairman
Subcommittee on Africa and Global Health
Committee on Foreign Affairs
House of Representatives

In an environment of increasing emergencies and growing global food insecurity,[1] the United States and other donors face intense pressures to feed the world's expanding undernourished population. In September 2008, the United Nations (UN) Food and Agriculture Organization (FAO) reported that high food prices had resulted in the number of undernourished people reaching a record 963 million—1 of every 7 people in the world and 40 million more than the 923 million reported undernourished in 2007.[2] Recently, the International Fund for Agricultural Development (IFAD) reported that global food insecurity could worsen, with some nutrition studies estimating that the number of food-insecure may rise by 16 million people for every percentage increase in the prices of staple goods. High food prices have sparked food protests, with riots reported in more than 50 countries from January 2007 to June 2008, including 12 countries in sub-Saharan Africa.[3] Moreover, piracy could endanger aid organizations' food supply pipelines to some of these countries.

Local and regional procurement (LRP)—the purchase of food aid by donors in countries affected by disasters and food crises or in a different country within the same region—has increasingly become a key element

[1]Food insecurity is the lack of access of all people at all times to sufficient, nutritionally adequate, and safe food, without undue risk of losing such access. The Food and Agriculture Organization (FAO) of the United Nations defines the elements of food security to include (1) food availability, (2) access, and (3) utilization.

[2]GAO, *International Food Security: Insufficient Efforts by Host Governments and Donors Threaten Progress to Halve Hunger in Sub-Saharan Africa by 2015*, GAO-08-680 (Washington, D.C.: May 29, 2008). In this report, we cited FAO estimates that indicate that sub-Saharan Africa is the region with the highest prevalence of food insecurity; one out of every three people there are considered undernourished.

[3]The 12 countries reported by the International Food Policy Research Institute (IFPRI) are Burkina Faso, Cameroon, Côte d'Ivoire, Guinea, Ethiopia, Kenya, Mauritania, Mozambique, Madagascar, Niger, Senegal, and South Africa.

in the multilateral food aid response over the past decade.[4] Most bilateral donors of food aid have switched from commodity-based in-kind food aid to a cash-based food assistance program in recent years. According to some experts, providing cash rather than in-kind food commodities to implementing partners such as the UN World Food Program (WFP)—the largest multilateral purchaser and provider of food aid in the world[5]—or to other aid organizations and nongovernmental organizations (NGO)[6] can enable them to purchase food locally or regionally and deliver it to beneficiaries quickly and cost-effectively, while also providing development benefits to local communities where the food is purchased.[7] However, other experts say that large cash purchases in some developing countries can have detrimental effects on local market conditions, and in such cases in-kind donations of commodities may be more beneficial.

As the largest international food aid donor, contributing over half of all food aid supplies to alleviate hunger and support development, the United States plays an important role in responding to emergency food assistance needs and ensuring global food security. In 2008, the United States provided more than $2.8 billion in annual and supplemental funding for U.S. international food aid programs for more than 2.9 million metric tons of food aid. The large majority of U.S. food assistance is for U.S.-grown commodities purchased competitively in the United States and shipped to recipient countries on U.S.-flag carriers. Although this approach has delivered vast amounts of food to hundreds of millions of undernourished people over the past 50 years, we previously reported significant

[4]For the purposes of this report, we use the terms "procurement" and "purchase" interchangeably.

[5]WFP is the food aid arm of UN. It accepts donations generally from developed countries and distributes them to developing countries that are in need of food assistance. In 2007, from its headquarters in Rome, WFP operated about 200 active projects in 80 countries and managed about $2.7 billion in voluntary donor contributions.

[6]These include humanitarian organizations such as Catholic Relief Services (CRS); Cooperative for Assistance and Relief Everywhere, Inc. (CARE); Mercy Corps; and Save the Children.

[7]See also Organization for Economic Cooperation and Development (OECD), *The Development Effectiveness of Food Aid: Does Tying Matter?* (Paris, France: 2006). In this report, OECD estimated that the cost of in-kind food aid was on average approximately 50 percent more than local food purchases and 33 percent more costly than procurement of food locally or from third countries.

limitations to its efficiency and effectiveness and recommended various improvements in areas such as transportation and monitoring.[8]

Congress has recently authorized limited funding for LRP. Its 2008 Farm Bill authorized the U.S. Department of Agriculture (USDA) to implement a 5-year, $60 million pilot LRP program for food aid.[9] Subsequently in 2008, Congress appropriated $50 million in bridge fund supplemental funding to the U.S. Agency for International Development (USAID) for LRP in response to current emergencies, including the global food crisis.[10] In 2009, Congress appropriated another $75 million for global food security, including LRP and distribution of food.[11]

In response to a request from the Chairman, House Subcommittee on Africa and Global Health, Committee on Foreign Affairs, we examined (1) the impact of LRP on the efficiency[12] of food aid delivery, (2) the impact of LRP on economies where food is procured, and (3) U.S. legal requirements that could affect U.S. agencies' use of LRP.

To address these objectives, we compared the cost of food through LRP with in-kind food aid from the United States by analyzing the per ton cost of similar commodities for the same recipient countries in the same quarter of a given year for WFP and USAID, respectively. We examined WFP data that

[8]GAO, *Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid*, GAO-07-560 (Washington, D.C.: Apr. 13, 2007). Since this report was issued, the three agencies to which our recommendations were addressed—the U.S. Agency for International Development (USAID), U.S. Department of Agriculture (USDA), and Department of Transportation (DOT)—have taken actions to begin implementing some of our recommendations to enhance the efficiency and effectiveness of U.S. food aid by improving logistical planning, transportation contracting, and monitoring, among other actions. However, the cost impact of these actions has yet to be systematically assessed and would not be maximized until all of our recommendations are fully implemented.

[9]Pub. L. 110-246, Food, Conservation, and Energy Act of 2008, sec. 3206.

[10]Pub. L. 110-252, Supplemental Appropriations Act, 2008. Additionally, for fiscal year 2009, the Administration allocated up to $75 million in International Disaster Account funding for USAID LRP activities.

[11]Pub. L. 111-8, Omnibus Appropriations Act, 2009, Div. H.

[12]We define "efficiency" as the extent to which a program is acquiring, protecting, and using its resources in the most productive manner in terms of cost, delivery time, and appropriateness of food aid.

compared the delivery time[13] of LRP with in-kind food aid for 10 countries in sub-Saharan Africa for 2004 through 2008. In addition, we reviewed selected economic literature on LRP and recent reports, studies, and papers issued by U.S. agencies, multilateral organizations, and bilateral donors. In four African countries that we selected for fieldwork—South Africa in southern Africa, Kenya and Uganda in East Africa, and Burkina Faso in West Africa[14]—we met with WFP procurement officers and other WFP officials, U.S. mission staff, and host government, donor, and NGO representatives. We also visited various WFP and USAID project sites, as well as transportation and logistics facilities. In Washington, D.C., we interviewed officials from U.S. agencies, including USAID, USDA, State, Department of Transportation (DOT), and the Treasury; and the Millennium Challenge Corporation (MCC).[15] In addition, we met with the Rome-based UN food and agriculture agencies—namely, FAO, WFP, and IFAD, as well as the U.S. Mission to the UN—and several bilateral donors' permanent representatives.[16] In addition, we met with representatives of private foundations that actively fund agriculture and food security projects in sub-Saharan Africa. We also conducted semi-structured interviews with 11 WFP procurement officers based in Africa and Asia.[17] Finally, we convened a roundtable of 10 experts and practitioners—including representatives from academia, research organizations, multilateral organizations, and NGOs—to further delineate, on the basis of our initial work, some key issues and challenges to the implementation of LRP.

[13]In this report, we use the term "delivery time" to refer to the number of days that elapses from the purchase order date to the date WFP takes possession of the food in the recipient country (also referred to as "lead time"). Additional time is required for the food to reach intended beneficiaries.

[14]The selection of these countries was based on representation of three regions in Africa having differing experiences with LRP, the presence of a WFP procurement officer in-country, and other factors.

[15]MCC is a government corporation that Congress established in January 2004 to administer the Millennium Challenge Account (MCA). MCC's mission is to provide development assistance that reduces extreme poverty through economic growth and strengthens good governance, economic freedom, and investments in people. Some of this assistance helps support food security and LRP activities in developing countries.

[16]These included representatives from the missions of Australia, Belgium, Canada, Italy, and the United Kingdom.

[17]The WFP procurement officers we interviewed were based in Burkina Faso, Ethiopia, Kenya, South Africa, Sudan, Tanzania, and Uganda in Africa and Bangladesh, India, Pakistan, and Thailand in Asia.

We conducted this performance audit from June 2008 to May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (App. I provides a detailed discussion of our objectives, scope, and methodology.)

Results in Brief

Donors can reduce food aid costs and delivery time through local and regional procurement (LRP), but they face challenges to ensuring cost savings and timely delivery. First, we found that WFP's local procurement in sub-Saharan Africa cost about 34 percent less than the cost of similar food aid that USAID purchased and shipped from the United States to the same countries between 2001 and 2008. However, LRP may not always offer cost-saving opportunities. For example, we found that the cost of LRP in Latin America was comparable to the cost of U.S. in-kind food aid. Second, WFP data show that between 2004 and 2008, international in-kind food aid donations to 10 countries in sub-Saharan Africa took, on average, 147 days compared with about 35 and 41 days for locally and regionally procured food. Despite these benefits, donors face challenges to ensuring cost-efficiency and timely delivery. These challenges include (1) a limited number of reliable suppliers, which could drive up procurement costs and time; (2) donor funding restrictions that may limit the flexibility of where and when to purchase; and (3) weak legal systems that could limit buyers' ability to enforce contracts. For example, a World Vision local procurement in Mozambique was delayed by more than 5 months because World Vision lacked accurate information on the supplier's inventory and the supplier was unable to procure enough food within the agreed-upon time frame. Upon delivery, World Vision found that many bags contained less food than the amount specified in the contract. Finally, LRP may have the added benefit of providing food aid that is more acceptable to recipients because it is more suited to local preferences. However, concerns persist about the quality of food procured in developing countries, and evidence on how LRP affects donors' ability to adhere to quality standards and product specifications has yet to be systematically collected.

LRP has the potential to make food more costly to consumers in areas where food is procured by increasing demand and driving up prices, but steps are being taken to reduce these risks. LRP's potential impact on local economies is opposite to that of in-kind food aid, where local prices can be depressed due to large increases in supply. LRP's impact can depend on the scale of procurements, their implementation, and market conditions such as whether

the market is sufficiently integrated with neighboring markets to absorb increased demand. Even though WFP is the largest purchaser of food assistance, WFP's local procurements tend to be smaller, on average, than its international procurements—298 metric tons as compared with 671 metric tons per purchase order. WFP procurement officers stated that in most cases WFP's procurements have not affected local market prices, though there have been exceptions. In 2006, for example, protracted food aid procurements after a good harvest in Ethiopia contributed to a price hike. The most significant challenge to avoiding potential adverse market impacts when conducting LRP is unreliable market intelligence. For example, in 2007, inaccurate information on production levels in Malawi led WFP to believe it was purchasing maize in a surplus market. Malawi faced food shortages a few months later. According to WFP officials, WFP has taken several actions to improve market intelligence, including monitoring world prices to determine when they fall below local prices, to decide when to switch from local to regional or international procurement. Even when market information is adequate, poorly functioning and unintegrated markets in sub-Saharan Africa and other developing countries still present challenges to expanding LRP while avoiding its potential adverse market impacts. For example, there is only one well-functioning commodity exchange in all of sub-Saharan Africa. Many of the factors that affect persistent food insecurity in sub-Saharan Africa and other developing countries are also detrimental to the implementation and potential expansion of LRP. These include lack of access to agricultural inputs and extension services, weak transportation infrastructures, and weak or conflicting host government policies. LRP does have the potential to support local economies by increasing demand for agricultural commodities and raising farmers' incomes, but little data exist to demonstrate that these benefits have occurred or are sustainable in the long term. In several of the countries we visited, we observed WFP LRP initiatives that might support local economies and connect LRP to other food security initiatives, but many of them are new and limited in scale.

Certain legal requirements to procure U.S.-grown agricultural commodities for food aid and to transport those commodities on U.S.-flag vessels may constrain agencies' use of LRP. First, the Food for Peace Act, which authorizes Title II funding averaging $2 billion annually, supports in-kind food aid by specifying that funding under the Act can be used only to purchase U.S.-grown rather than foreign-grown commodities and thus cannot be used by U. S. agencies to implement an LRP program. However, since 2001, the U.S. government, through programs operating under a different authority—the Foreign Assistance Act—has provided a total of approximately $220 million to WFP for 1,265 LRP transactions. Furthermore, since July 2008, Congress has appropriated $50 million to USAID through the 2008 bridge

supplemental and $75 million through the 2009 Omnibus appropriations that can be used for LRP, in addition to $75 million in International Disaster Assistance funding that the Administration has made available for LRP. Second, the Cargo Preference Act of 1954, as amended, requires up to 75 percent of the gross tonnage of all U.S.-funded food aid to be transported on U.S.-flag vessels. However, there is disagreement among USAID, USDA, and DOT, the agency that implements cargo preference requirements, on how to interpret and implement these requirements, such as which agency is responsible for determining the availability of U.S.-flag vessels. The memorandum of understanding (MOU) that sets forth the manner in which U.S. agencies coordinate the administration of cargo preference as applied to food aid was last updated in 1987 and does not specifically address these areas of ambiguity. The resulting lack of clarity could constrain agencies' ability to fully utilize the authorities to conduct LRP when responding to food emergencies. For example, USAID to date has used a legislative exemption from cargo preference requirements on only four occasions, due in part to the expectation of a regulatory response from DOT. Thus, the possibility that USAID may have to increase the use of U.S.-flag shipping above program thresholds, in order to remain within the tonnage requirements, may constrain the agency in the future.

We are recommending that the Administrator of USAID and the Secretary of Agriculture (1) systematically collect evidence on LRP's adherence to quality standards and product specifications to ensure food safety and nutritional content; (2) work with implementing partners to improve the reliability and utility of market intelligence in areas where U.S.-funded LRP occurs, thereby ensuring that U.S.-funded LRP practices minimize potential adverse impacts and maximize potential benefits; and (3) work with the Secretary of Transportation to expedite updating the MOU between U.S. food assistance agencies and the Department of Transportation, consistent with our 2007 recommendation, to minimize the cost impact of cargo preference regulations on food aid transportation expenditures and to resolve uncertainties associated with the application of cargo preference to regional procurement.

USAID, USDA, DOT, and WFP provided written comments on a draft of this report. We have reprinted these agencies' comments in appendixes VII, VIII, IX, and X, respectively, along with our responses. Additionally, USAID, DOT, State, and WFP provided technical comments on a draft of this report, which we have addressed or incorporated as appropriate. Treasury and MCC did not provide comments.

USAID generally concurred with our recommendations. With regard to the first recommendation, however, USAID noted that it may be more efficient to include LRP's adherence to quality as part of U.S. agencies' ongoing efforts to collaborate to develop and implement systems to monitor quality assurance and product specification issues in all food purchases. The recommendation does not preclude such coordination among the agencies.

USDA generally agreed with our report, noting that our comparisons of costs and delivery times were insightful. However, USDA observed that aggregating some of the products into commodity groups caused a loss of precision in our methodology. In conducting our overall analysis, we worked to ensure that we included the largest number of procurement transactions over the longest possible time period for which we had data, so some aggregation was required.

DOT stated that it implements the cargo preference statute through regulation, not through an interagency MOU. Nevertheless, the regulations contain ambiguities that have previously required resolution through an MOU. This report describes new ambiguities that could arise when applying cargo preference in the context of regional procurement. We believe, as we recommend, that these ambiguities can be resolved by updating the MOU.

WFP welcomed our timely examination of LRP as a tool to deliver effective and efficient food assistance. However, WFP stated it was perplexed that concerns persist about the quality of food procured in developing countries, given the lack of evidence showing that LRP introduces quality challenges that are not already challenges to internationally procured and donor-provided food aid. We note that quality is one issue that many WFP procurement officers and several other officials we interviewed have identified as a challenge for LRP. However, the lack of systematically collected data makes it difficult to objectively analyze how LRPs adhere to quality standards and product specifications.

Background

Donors Provide Food Aid in Various Ways

Donors provide food aid primarily through procurements, vouchers, and contracts, most commonly working through international organizations, such as WFP,[18] and NGOs. Procurements of food aid can be categorized geographically as

- *International:* Donor-financed purchases of food aid in world markets, which may include both developed and developing countries. For example, food purchased in Canada that is delivered to Uganda.
- *Regional:* Donor-financed purchases of food aid in a different country in the same region. For example, food purchased in South Africa that is delivered to Uganda.
- *Local:* Donor-financed purchases of food aid in countries affected by disasters and food crises. For example, food purchased in the southern part of Uganda that is delivered to the northern part of Uganda.

Donors may also provide vouchers that allow recipients to purchase their own food in the local market.[19] This option is usually used when food is available, but disaster-affected populations no longer have the income or livelihoods that would enable them to purchase food. WFP launched its first food voucher operation in Africa in February 2009, targeting 120,000 people who were suffering from the impact of high food prices in the urban areas of Ouagadougou in Burkina Faso.

In addition, donors may contract with a commercial agent, such as a local trader, to purchase and deliver food aid. For example, in April 2009, the Canadian Foodgrains Bank (CFB) contracted with Kenyan traders to purchase food from sources outside the country and used several NGOs to distribute the food.[20]

[18]Additional organizations include the United Nations Office of the High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC).

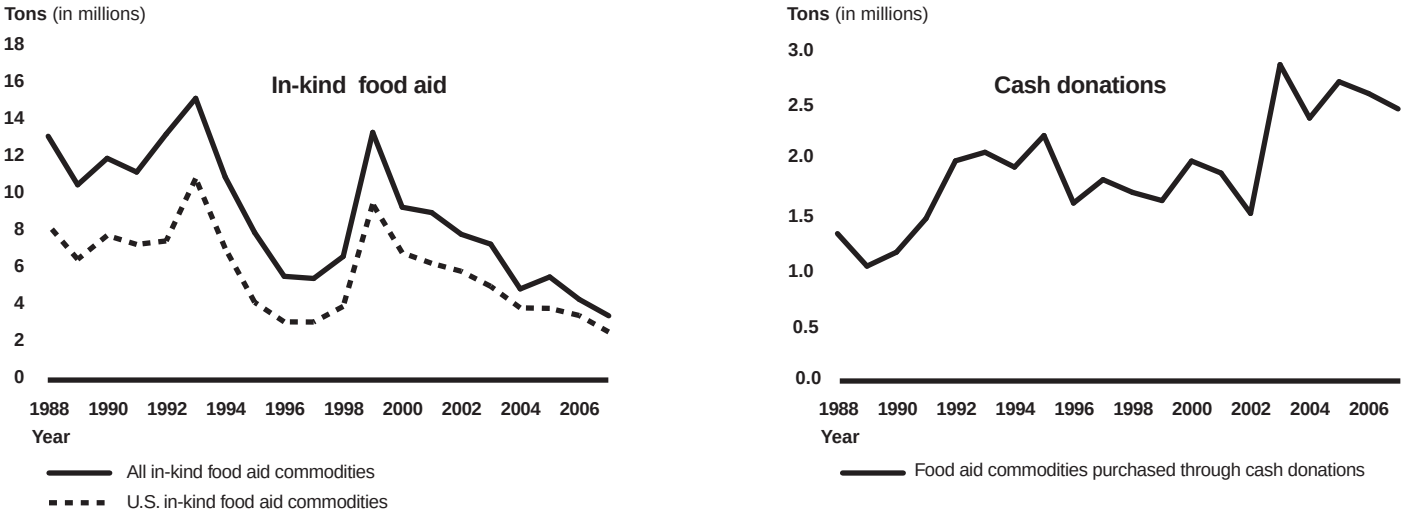
[19]According to State officials, international organizations have provided various alternative forms of food aid, including cash vouchers, for many years. While UNHCR utilizes NGOs as implementing partners, ICRC either distributes food assistance itself or through local national Red Cross/Red Crescent societies.

[20]In this situation, the Canadian Foodgrains Bank (CFB) was concerned about putting additional price pressure on Kenyan-produced maize and the quality of local maize available on the market.

Donors Are Increasingly Providing International Food Assistance in Cash

As the volume of food aid in the form of in-kind commodities has declined, the volume of food aid purchased through cash donations has increased, as shown in figure 1.

Figure 1: Food Aid as In-Kind Commodities and through Cash Donations for Food Purchases, 1988 through 2007



Source: GAO analysis of International Food Aid Information System (INTERFAIS) data.

With the exception of the United States, most major donors—including the European Union, the United Kingdom, and most recently Canada—now provide all of their food aid as cash that may be used for local and regional procurement (LRP) by WFP and NGOs. Previously, the European Union's food aid policies called for procuring food in the donor's domestic market. In 1996, however, the European Union essentially eliminated restrictions that tied procurement of food aid to European suppliers as it restructured its food aid and food security budgets to focus on improving food security. In 2005, Canada took similar actions, providing 50 percent of its food aid budget in cash available for LRP. In 2008, Canada opted to provide 100 percent of its food aid budget in cash.

Many donors place conditions on their cash contributions to WFP, such as stating a preference for procurement of food in developing countries or for LRP. However, according to WFP, the availability of more flexible funding has significantly increased over the years, as donors have gradually shifted to providing food assistance as cash without tying such assistance to purchases from domestic food suppliers.

Canada Has Adopted a Cash LRP Food Aid Policy

Like the United States, Canada has historically tied the procurement of food aid to its domestic suppliers. However, over the past few decades, Canada has shifted to providing food aid in cash, ranging from 15 percent in 1975 to 50 percent in 2005 and 100 percent as of April 2008. Canada also announced in April 2008 that it would increase its annual food aid contributions to an amount equivalent to almost $208 million USD for fiscal year 2008.

Canada's stated rationale for switching to 100 percent cash funding for food aid (which in some cases can still be used to purchase Canadian agricultural commodities) was to provide more flexibility to its overall food security strategy, improve the efficiency of its food assistance, and contribute to the development of local and regional markets from which it purchases food aid. As one of the world's largest food aid donors, Canada has provided an average of about $161 million (USD) to WFP, the Canadian Foodgrains Bank (CFB), and other NGOs annually over the last 4 years, with the vast majority of its contributions going to WFP.

Canadian food aid programming is administered by the Canadian International Development Agency (CIDA). CIDA provides contributions to WFP and also provides 4 to 1 matching funding to CFB, up to $22.6 million (USD) annually. CIDA's guidance to WFP and CFB is to place an emphasis on purchasing from developing countries when it does not come at the expense of a timely and appropriate food aid intervention.

Canadian Farmers Support Smallholder Farmers in Burkina Faso

Canadian farmers provided smallholder farmers in Burkina Faso an interest-free loan with which they constructed a grain storage warehouse.

Source: GAO.

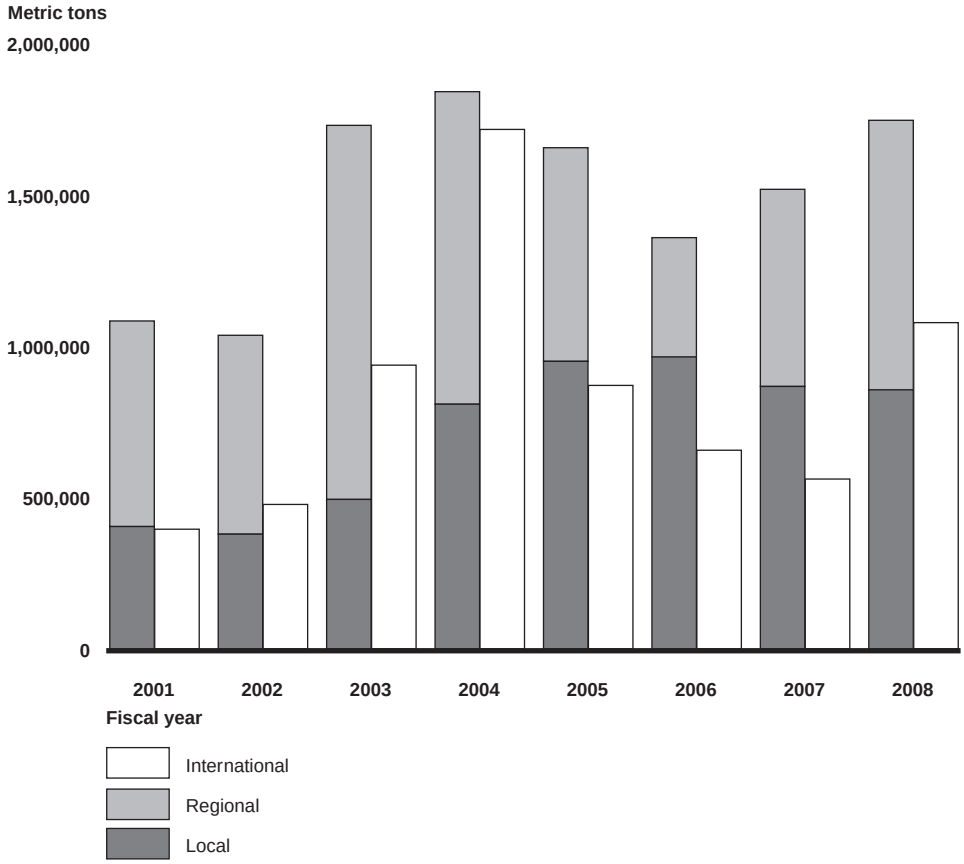
WFP's Use of LRP Has Increased, particularly in Developing Countries

In its strategic plan for 2008 through 2011, WFP identified use of LRP as one of its five main objectives. WFP's stated policy is to purchase food aid at the most advantageous price available, taking into account the cost of transportation and shipping, with a preference for using LRP in developing countries wherever possible. WFP cited two primary goals for funding LRP: (1) to increase the efficiency of food aid delivery, expediting assistance to save lives during food emergencies and humanitarian crises; and (2) to support development by stimulating agricultural production and raising farm incomes, particularly by targeting smallholder farm households.[21]

As shown in figure 2, WFP LRP has consistently exceeded international procurement of food aid, principally for emergencies, from 2001 to 2008.

[21]According to the World Bank's *2008 World Development Report*, the vast majority of farmers in developing countries are smallholders, with an estimated 85 percent of them farming less than 2 hectares.

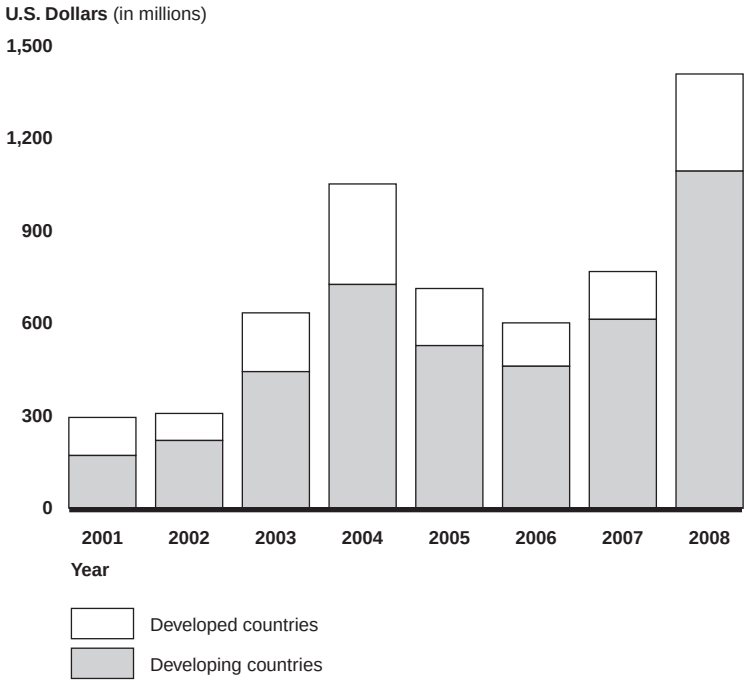
Figure 2: WFP Local, Regional, and International Procurement of Food Aid, 2001 to 2008



Source: GAO based on WFP data.

WFP procurement in developing countries has been increasing, from $171 million in 2001 to over $1 billion in 2008 (see fig. 3). In 2008, WFP procured 78 percent of its food aid from developing countries and 22 percent from developed countries.

Figure 3: WFP Procurement in Developed Countries Compared with Developing Countries, 2001 to 2008



Source: GAO based on WFP data.

Of the top 20 developing countries from which WFP procured food in 2008, 16 were in Africa and Asia. As shown in table 1, in 2007, 9 of the top 10 developing countries (including 8 in Africa and Asia) from which WFP procured food also received food aid the same year. Africa received 54 percent of total international food aid provided, and Asia received 29 percent of total international food aid provided in 2007.

Table 1: Nine of the Top 10 Developing Countries for WFP Food Procurement also Received Food Aid in 2007

Developing country	WFP procurement		Food aid received (In metric tons)
	In U.S. dollars	In metric tons	
Uganda	$54,769,771	210,223	278,403
Ecuador	51,137,045	42,255	759
Turkey	44,515,965	99,719	0
Pakistan	36,399,122	131,485	21,639
Indonesia	29,452,050	27,152	43,413
India	28,188,917	111,613	118,586
Sudan	24,771,678	93,935	497,520
Kenya	24,404,307	82,013	296,726
Zambia	21,412,392	95,282	40,769
Malawi	20,619,635	90,549	94,530

Source: GAO based on WFP and INTERFAIS data.

Note: INTERFAIS data includes food aid from all sources, including WFP, multilateral organizations, and bilateral donors.

Donors Have Launched Various Initiatives That Support LRP

In an effort to address the global food crisis, donors have recently launched a number of initiatives, many of which specifically advance LRP of food aid (see app. II). These donors include multilateral organizations such as the UN, WFP, and the World Bank, and bilateral donors such as the United States. For example, in September 2008, WFP formally launched the Purchase for Progress (P4P) program, a $76 million pilot that is to be implemented in 21 countries, 15 of them in sub-Saharan Africa, in the next 5 years to improve the income of smallholder farmers and thereby increase their incentives for production. In July 2008, the Group of Eight (G8) [22] issued a statement on global food security that called on donors to participate in making commitments to provide access to seed and fertilizers and help build up local agriculture by promoting local purchase of food aid. In April 2008, the World Bank's *New Deal for Global Food Policy* called for changes including a shift from traditional in-kind food assistance to cash, vouchers, development assistance for local markets, and purchase of food from local farmers to strengthen their communities.

[22]Members of the G8 are Canada, the European Commission, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States.

Local and Regional Procurement of Food Can Reduce Costs and Improve Timeliness of Food Aid Delivery, but Many Challenges Remain

Local and regional procurement (LRP) can offer donors a tool for reducing costs and shortening delivery time but faces multiple challenges. LRP can offer cost-saving opportunities over in-kind food aid from the United States if food is available in the recipient country or neighboring countries, and the cost of procuring locally or regionally is less than the cost of procuring and shipping from the United States. Additionally, LRP can save delivery time in emergency situations because it usually travels a shorter distance than in-kind food aid. Local procurement can also avoid delays that often occur when food crosses borders and has to go through permit and inspection processes. Despite these benefits, donors face challenges in making local and regional procurements, including insufficient logistics capacity that can contribute to delays in delivery, and weak legal systems that can limit buyers' ability to enforce. Besides the benefit of reducing costs and delivery time, locally and regionally procured food may have the added benefit of being more culturally acceptable to recipients. However, evidence on how LRP affects donors' ability to enforce food aid quality standards and product specifications has yet to be systematically collected.

LRP Can Reduce Cost and Delivery Time

LRP Is Generally More Cost-Effective than In-kind Food Aid from the United States

We found that locally and regionally procured food costs considerably less than U.S. in-kind food aid for sub-Saharan Africa and Asia, though the costs are comparable for Latin America. We compared the cost per ton of eight similar commodities[23] for the same recipient countries in the same quarter of a given year and found that the average cost of WFP's local procurements in sub-Saharan Africa and Asia was 34 percent and 29 percent lower, respectively, than the cost of food aid shipped from the United States (see fig. 4).[24] For example, in the fourth quarter of 2002, the

[23]The eight commodities were beans, corn soy blend (CSB), maize, maize meal, rice, sorghum/millet, vegetable oil, and wheat, which represent the majority of food aid that WFP and USAID provided.

[24]The cost comparison demonstrates the difference in cost of delivering similar food products in a similar time frame to the same countries. It does not suggest that if the United States had purchased the same amount of food through LRP, it would have cost the same because additional demand in the market could have driven up the prices and there might not have been enough food available for purchase. However, LRP could have offered the United States the flexibility to explore other potential cost-saving opportunities in the region.

average cost of locally purchased wheat in Ethiopia was approximately $194 per metric ton[25] while the cost of U.S. wheat shipped to Ethiopia[26] in the same quarter was 38 percent higher, at approximately $312 per metric ton.[27] Additionally, about 95 percent of WFP local procurements in sub-Saharan Africa and 96 percent in Asia cost less than corresponding U.S. in-kind food aid. However, the location of procurements affects whether LRP offers any cost-saving potential and if so, by how much. While local procurement in sub-Saharan Africa and Asia cost much less than U.S. in-kind food aid, we found that in Latin America, the cost of WFP LRP was comparable to the cost of food aid shipped from the United States. The average cost of WFP local procurements in Latin America was 2 percent higher than that of U.S. food aid, and the number of WFP's transactions with a lower cost than U.S. food aid was close to the number of transactions with a higher cost. This difference is due in part to the fact that shipping from the United States to Latin America is usually less costly than shipping to Africa.[28]

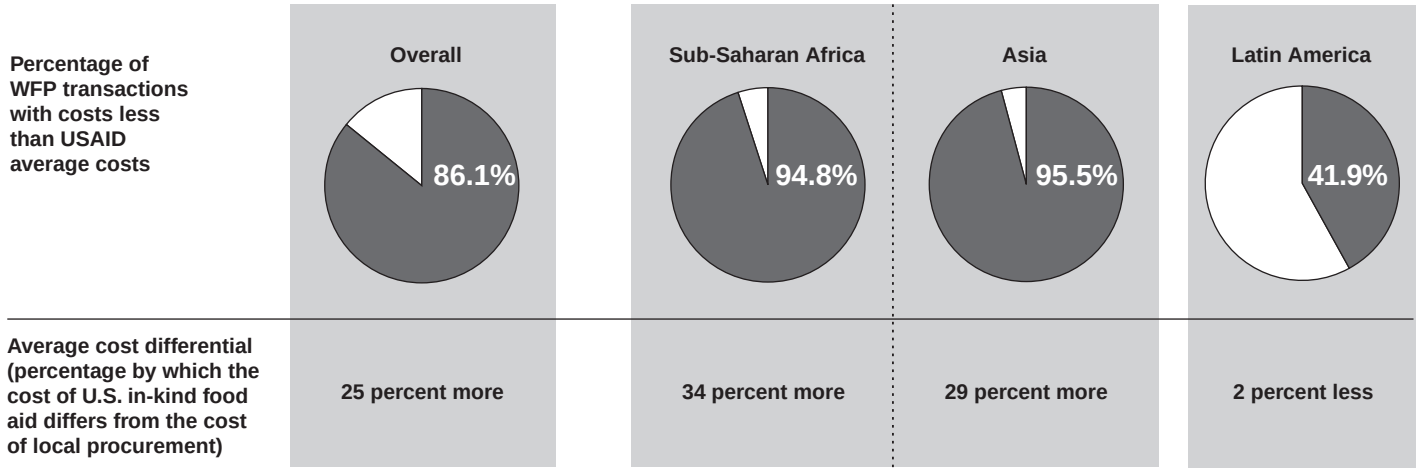
[25]The cost reflects the "delivery duty unpaid" (DDU) price, a term of sale that refers to the sellers fulfilling their obligation to deliver when they deliver the goods to the designated place in the country of importation. The seller has to bear the costs and risks involved in delivering the goods (excluding duties, taxes, and other import charges). The buyer assumes the costs and risks of carrying out customs formalities and pays any additional costs to bear any risks caused by failure to clear the goods in time.

[26]To make the costs comparable to WFP's DDU price, we included USAID's commodity, ocean shipping, and inland freight costs.

[27]One of USAID's shipments to Ethiopia in the fourth quarter of 2002 cost $1.035 million for purchasing and transporting 2,200 metric tons of wheat. If it were able to pay the same price as local procurement, USAID could have purchased 3,139 more tons of wheat, enough to feed about 63,000 people for 4 months. We assume a ratio of 12.51 kilograms per person per month. Although this is a static analysis, it is useful for illustrative purposes. We recognize that the amount of supply may not be available in the market, or such scale purchase could drive up prices, which could reduce the cost savings. Additionally, the price of wheat in Ethiopia fluctuated during the time period we considered, which would have affected cost-savings.

[28]To identify the commodities and locations for which LRPs are more cost-effective than in-kind food aid, further analysis would be required.

Figure 4: Cost Comparison of WFP Local Procurement and U.S. In-kind Food Aid, by Region



Source: GAO analysis of USAID and WFP data.

Note: To ensure a fair cost comparison between WFP's local procurement and U.S. in-kind food aid with the data available, for WFP's LRP transactions, we included the transactions that have the contract term DDU and compared the costs to USAID's commodity, ocean shipping, and inland freight costs. For WFP's international transactions, we included the transaction with the contract term "free on board" (FOB) and compared the cost with USAID's commodity costs plus inland freight.

Local and regional procurement can offer donors the flexibility to take advantage of cost-saving opportunities, which exist when food is available locally or regionally and the costs of purchasing and transporting it are lower than the costs of purchasing and shipping it from donor countries. Donors can purchase food aid from surplus-producing areas within the affected country, or purchase at the subregional and regional levels to meet localized needs. For example, to meet the needs of Uganda's large internally displaced population in the north, WFP has been purchasing maize and beans from the surplus-producing areas that are in close proximity to the regions in need. In 2007, Uganda was the largest source for WFP procurements in terms of tonnage. From 2001 to 2008, WFP purchased over 600,000 metric tons of maize and beans locally to meet needs in Uganda. Similarly, to meet needs in Zimbabwe in 2008, WFP purchased a large amount of food aid that year from nearby countries including Malawi; Zambia; Mozambique; and South Africa, a surplus-producing country. South Africa was the largest source for WFP procurement in 2008, amounting to more than $163 million, and food from South Africa fed people in both nearby countries and internationally (see table 2).

Table 2: Recipients of Food Aid Purchased from South Africa in 2008

Recipient country	Value (U.S. dollars)	Quantity (metric tons)
Zimbabwe	$38,645,093	130,297
Somalia	34,135,821	92,675
Kenya	17,155,164	48,105
Democratic Republic of Congo	17,074,651	47,221
Ethiopia	12,688,873	29,578
Malawi	7,452,397	26,304
To be determined[a]	4,490,738	16,407
Guinea	3,060,040	9,326
Central African Republic	2,962,624	6,663
Chad	2,828,126	6,376
Mozambique	2,724,826	7,989
Uganda	2,367,539	6,903
Burkina Faso	2,122,344	4,378
Sri Lanka	1,699,854	3,132
Côte d'Ivoire	1,470,682	3,140
Burundi	1,279,835	4,540
Niger	1,242,823	3,044
Mali	1,227,125	2,594
Cameroon	1,109,896	2,315
Timor Leste	1,060,314	2,080
Swaziland	1,016,575	3,466
Benin	984,679	2,967
Togo	909,684	2,796
Ghana	774,417	2,301
Senegal	688,753	2,043
Madagascar	660,713	1,811
Liberia	389,583	854
Honduras	344,250	810
Cambodia	298,332	608
Haiti	205,282	434
Djibouti	163,813	326
Sierra Leone	105,028	217
Namibia	101,356	184
Tanzania	99,675	225

Recipient country	Value (U.S. dollars)	Quantity (metric tons)
São Tomé & Principe	69,061	151
Philippines	52,538	113
Angola	21,595	65
Mauritania	20,340	45
Lesotho	8,640	16
Total	**$163,713,077**	**472,492**

Source: GAO analysis of WFP procurement data.

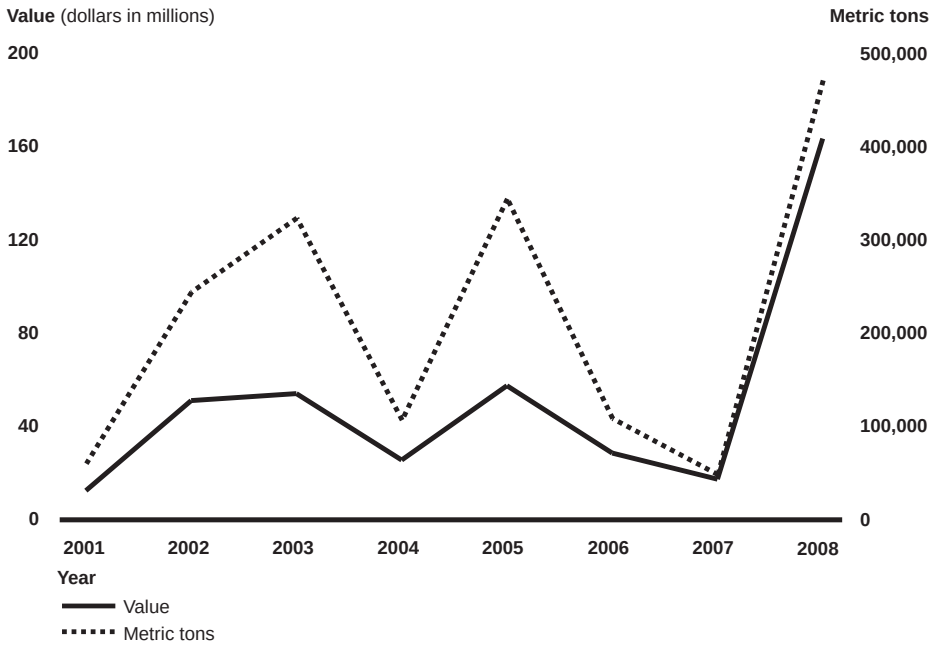
[a]At the time of purchase, the recipient had not been identified.

To ensure cost-effectiveness, donors can use the import parity price[29] to guide purchase decisions. For example, WFP compares the lowest price potential sellers submit through its tender process[30] with the import parity price, which includes the costs of commodity plus shipping and handling, from various potential procurement sites. WFP procures locally or regionally if the costs of doing so are below the import parity price. Recently, for a LRP funded by USAID, Save the Children compared the cost of locally or regionally procured wheat flour, vegetable oil, and lentils to the cost of in-kind food aid from the United States. It found that although locally procured wheat flour in Tajikistan had a higher price than U.S. wheat, the cost of commodity plus shipping was lower. According to WFP, LRP's cost-effectiveness depends on many factors, such as the commodity, season, and exchange rates. For example, WFP often procures peas from Canada because of the availability and competitive pricing of these commodities in this market. In addition, a strong currency can hurt a country's competitiveness. According to WFP officials, increases in the value of the South African currency partly contributed to WFP's decision to decrease its purchases from South Africa in 2007 and then increase them in 2008 when the currency devalued. (Fig. 5 shows WFP procurement from South Africa from 2001 to 2008.)

[29]For any locally available commodity, the import parity price is the cost of purchasing the same commodity from a regional or international market.

[30]A tender process is a method WFP uses in procurement. In issuing a tender, WFP invites pre-qualified suppliers to provide the price they can offer WFP for a particular purchase through a competitive bidding process. The tender invitation calls for specific quality standards, delivery terms, packaging, and markings. WFP then compares the bids and awards the contract to the suppliers selected.

Figure 5: WFP Procurement from South Africa, 2001-2008

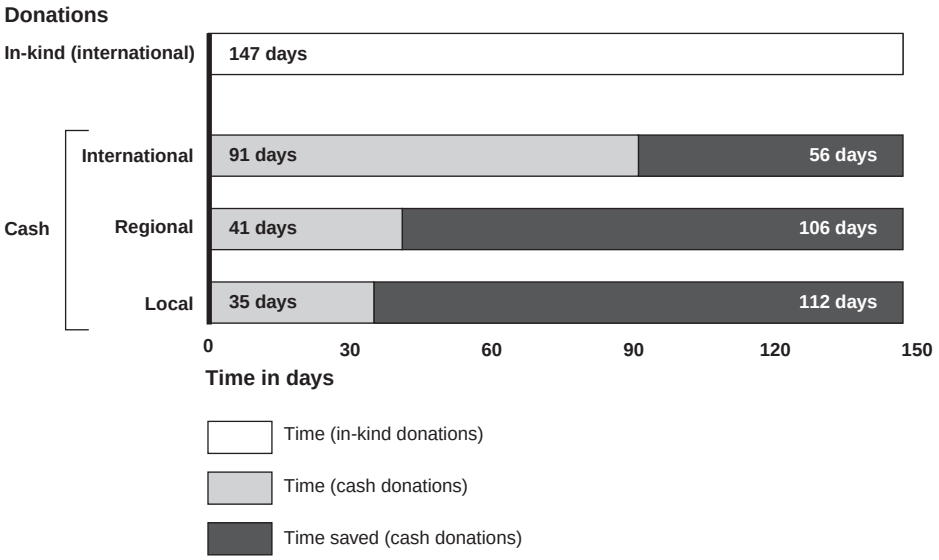


Source: GAO analysis of WFP data.

LRP Can Significantly Shorten Delivery Times

According to WFP data, LRPs in sub-Saharan Africa generally have a shorter delivery time than food aid procured internationally. We compared the median delivery time for LRP to the median delivery time for food aid either procured or donated internationally for 10 sub-Saharan countries. We selected these countries because they had received both LRP and international food aid. We found that international in-kind donation took the longest, averaging 147 days (see fig. 6). Local and regional procurements took on average 35 and 41 days, shortening the delivery time from international donations by 112 days and 106 days, respectively. For example, in Malawi, in-kind international donations took 4 months (167 days) while locally procured food aid took about 1 month (32 days). Similarly, the median delivery time for regionally procured food going to Zimbabwe was 48 days versus 114 days for internationally procured food aid. (For the delivery times of the 10 selected sub-Saharan African countries, see app. III.)

Figure 6: Average of Median Delivery Times for 10 Recipient Countries in Sub-Saharan Africa, 2004 to 2008



Source: GAO analysis of WFP data.

Notes:

"Delivery time" refers to the number of days that elapsed from the purchase order date to the date WFP took possession of the food in the recipient country. Additional time is required for food to reach intended beneficiaries.

Numbers reported in this figure are based on the median delivery time for food aid through various purchase modes: international in-kind donations and international, regional, and local purchases made from cash donations.

Similarly, in a USAID-funded grant completed in April 2009, Save the Children was able to obtain wheat flour from Russia and Kazakhstan and transport it to Tajikistan within 2 months, while wheat flour from the United States took over 5 months to arrive in Tajikistan (see illustrative example in app. IV, which also compares the cost of U.S. in-kind food aid with the cost of LRP). USAID sent the other two commodities—yellow peas and fortified soybean oil—from its prepositioning site in Jacintoport (Texas) and was able to shorten the delivery time.[31] It took around the same number of days for the yellow peas from the U.S. prepositioning site as the lentils procured within the region to arrive. According to DOT,

[31]In addition to the U.S. prepositioning site in Jacintoport (Texas), USAID operates an overseas prepositioning site in the Port of Djibouti (Djibouti). The 2008 Farm Bill authorized USAID to expand its use of prepositioning, increasing funding for it from $2 million to $10 million. Pub. L. 110-246, sec. 3017.

prepositioning offers significant time savings. DOT's analysis shows that sending U.S. prepositioned food could have reduced transit time in comparison to a regional purchase from South Africa that was delivered to Somalia.[32]

Locally and regionally procured food can take less time for delivery because it travels a shorter distance than internationally procured food and does not risk delays when crossing borders. Local procurement has the benefit of avoiding import processes, such as meeting recipient countries' sanitary and phytosanitary requirements,[33] which can delay delivery. For example, if imported maize does not meet a country's moisture content requirement, delivery can be delayed. Some governments require imported food aid to go through additional testing and certification for genetically modified organisms (GMO). According to WFP officials in South Africa, these requirements can take an additional 2 to 3 weeks.

Lack of Reliable Suppliers, Donor Funding Restrictions, and Other Factors Have Limited the Efficiency of LRP

Despite potential benefits, factors such as a lack of reliable suppliers, limited logistical capacity, weak legal systems, and donor funding restrictions have limited the efficiency of LRP, as explained below:

- *Lack of reliable suppliers.* Of the 11 WFP procurement officers we interviewed, 9 identified finding reliable suppliers and preventing supplier default as a challenge to implementing LRP. A World Vision representative in South Africa stated that the organization was involved in a local procurement in Mozambique that took 5 months because the supplier did not have food in stock and had to find alternative sources to purchase enough to fulfill his contract. When food was finally delivered, World Vision found that many bags were short of the quantity specified in the contract.
- *Poor infrastructure and logistical capacity.* Limited infrastructure and logistical capacity could delay delivery. For example, according to some WFP officials and private traders we met with, South Africa's rail system and ports are underinvested and have limited capacity to handle food aid during peak seasons. Food aid could wait up to 2 months for a warehouse at the port of Durban. According to DOT, increasing

[32]The $20.1 milllion regional purchase was funded by a USAID grant to WFP in August 2008.

[33]Sanitary and phytosanitary requirements refer to measures taken to protect against risks linked to food safety, animal health and plant protection, establishment and spread of pests, or to prevent or limit damage.

regional procurements from South Africa could lead to more congestion at the port of Durban. DOT believes that in-kind food aid from the United States or prepositioning sites could avoid the port congestion in South Africa by going directly to the port of entry nearest the destination. In addition, trade barriers in developing countries could also delay delivery of food procured regionally.

- *Weak legal systems.* A weak legal system could limit buyers' ability to enforce contracts. WFP generally requires suppliers to purchase bonds, which they will lose if they do not fulfill their obligations under the contracts. However, this requirement is not always feasible to implement, especially when procuring from small suppliers. For example, WFP usually eliminates its bond requirements for its purchases from smallholder farmers. Experts pointed out that it is critical to build in the time and cost of adequate quality testing and control, particularly in an environment where there are weak legal requirements for the producers or the exporting countries. For example, WFP's procurement officer in Uganda told us that many of the smallholder farmers WFP purchases from had never seen a contract before, and WFP had to take actions to ensure that these purchases were delivered on time and met the quality specified in the applicable contracts.
- *Timing and restrictions on donor funding.* Timing and other restrictions on donor funding limit the flexibility of implementing partners to decide when, where, and how to purchase food, according to WFP procurement officers. If donor funding is not available when there is surplus in the market and prices are low, WFP cannot take advantage of market opportunities. A procurement officer in Sudan, for example, stated that, in January 2009, he was expecting 100,000 to 200,000 metric tons of high-quality commodities to be available on the market, but that he would only be able to purchase 20,000 metric tons due to the timing of donor funding. A WFP procurement officer in South Africa stated that, although he may be able to convince headquarters staff to let him use WFP's advanced financing facility to make a purchase, he may encounter problems if the anticipated donor funding does not come through with its commitment. With donor support, WFP has begun to test flexible financing mechanisms that are expected to facilitate LRP. These include the advance financing facility, a mechanism with which WFP finances a specific project to mobilize food based on specific forecasts of donor contributions to the project, and a forward purchase facility, a mechanism that allows WFP to take a market position at an optimal time without specific knowledge of where the purchased food will go or which donor's funding will underwrite the specific procurement action. Some officers also noted

that some donors' preference for LRP may result in procuring locally or regionally when importing might be less expensive.

LRP Can Provide More Culturally Appropriate Food, but Views on Quality Are Mixed

LRP Can Provide More Culturally Acceptable Food

Local and regional procurement can provide food that is more acceptable to the dietary needs and preferences of beneficiaries in recipient countries. People tend to be more familiar with food grown in neighboring regions than food from different continents. For example, people in many African countries prefer white maize, and Ethiopians who receive yellow maize as food aid from the United States might sell it in the cattle market as feed, according to a WFP procurement officer in Ethiopia.

Views on Meeting Product Specifications and Quality Standards Are Mixed

Ensuring quality standards

Keeping food commodities free from mold and insect infestation can be challenging during the transit and in storage. Pictured below is a bag of food aid infested with insects.

Source: GAO.

Experts and practitioners have mixed views on how LRP affects donors' ability to adhere to product specifications and quality standards—such as moisture content and the level of broken and foreign matter—which ensure food safety and nutritional content.[34] However, donors have yet to systematically collect evidence that demonstrates whether food procured in different locations varies significantly in meeting product specifications and quality. Some experts contend that because locally and regionally procured food travels shorter distances and takes on average less time to arrive at its destination than internationally procured food aid, certain quality standards, such as moisture content, may be less critical.[35] The

[34]According to WFP, commodities distributed to WFP's recipients are of good quality, are safe for human consumption, and meet required specifications. WFP uses international or national specifications of producing countries and in some cases importing countries. A product specification is a written description of a commodity, and it includes the specific requirements that a vendor must follow to meet WFP's contract for delivering commodities. For a list of quality standards and product specifications, see http://foodquality.wfp.org/FoodSpecifications/tabid/56/Default.aspx. FAO and the World Health Organization (WHO) also administer the Codex Alimentarius, a set of internationally accepted food standards, guidelines, and codes of practice established to protect the health of consumers.

[35]Moisture content is a critical factor in grain quality. Moisture in grain interacts with the temperature and relative humidity in grain storage centers and during shipping. Too much moisture can spur mold growth, increase insect activity, and cause other quality losses. Requiring that moisture content remain below a certain level is one way to ensure that food does not spoil during transit and in storage. Host governments may have established standards for moisture content.

longer grain has to travel, the more critical it is to control moisture content so that it does not become moldy and infested with insects. We have previously reported quality problems with U.S. food aid during long transit times.[36] Regarding LRP food aid, 9 out of the 11 WFP procurement officers we interviewed for this review confirmed that quality was a challenge. They also noted, however, that some quality standards, which may often be difficult for suppliers in developing countries to meet, may not be very crucial to individual recipients. For example, due to the lack of modern processing facilities, rice from some developing countries may have a higher level of broken kernels, but some recipients may actually prefer such rice because it is better suited to cooking porridge, a common method of consumption.[37] However, concerns persist about the quality of food procured in developing countries. The U.S. Wheat Associates noted that the ability to ensure food quality and safety could be jeopardized when purchases occur where standards are less rigorous than those of U.S. suppliers to food aid programs. We learned of a few examples of locally or regionally procured food not meeting quality standards. For example, representatives from WFP and NGOs told us that they had received food that turned out to be of lower quality or quantity than what was specified in the contract. A WFP procurement officer in South Africa reported that WFP requires the plants that manufacture maize meal or corn soy blend (CSB) to meet internationally accepted production standards, such as Hazard Analysis and Critical Control Point (HACCP), and hires surveyors to take samples for testing and assess whether the facility meets those standards. However, these surveyors recently found that 13 out of 15 maize meal plants were not in compliance with the standards and provided a list of activities the plants should undertake in order to improve. In addition, some factors that affect the efficiency of LRP also affect the ability to meet quality standards and product specifications. For example, a weak legal system limits buyers' ability to enforce contracts, including imposing penalties when commodities delivered do not meet the specifications outlined in the contract. However, no evidence has been systematically collected on how LRP affects donors' ability to adhere to quality standards and product specifications. A WFP official told us he does not believe there is any significant difference among different procurement types in the level of post-delivery loss, which is one measure of quality issues. However, WFP has not analyzed whether

[36] GAO-07-560.

[37] The breakage level may be an issue for the host government of the recipient country. For example, the Department of State noted that a procurement of 6,025 metric tons of rice funded by PRM was rejected by the host government due to the high level of breakage.

the quality issues are more severe for food procured locally or regionally versus food procured internationally.

Local and Regional Procurement of Food Aid Has Potential for Adverse Market Impacts That Can Be Mitigated by Better Market Intelligence

Local and regional procurement (LRP) has the potential to make food more costly to consumers in areas from which food is procured by increasing demand and driving up prices. While WFP has taken actions to help mitigate these impacts, such as coordinating with other implementing partners to gather market information, in some cases local purchases have adversely affected markets where the purchases were made. In particular, lack of reliable market intelligence—such as market prices, production levels, and trade patterns—makes it difficult to determine the extent to which LRP can be increased without causing adverse market impacts. Poorly functioning and unintegrated markets pose an additional challenge to avoiding adverse market impacts and expanding the use of LRP. Other challenges include lack of access to inputs and extension services, weak transportation infrastructure, and host government policies that inhibit food production.

Local Purchases of Food Aid Have Adversely Affected Some Markets

LRP can make food more costly to consumers by increasing demand and driving up prices.[38] Although most of the WFP procurement officers we interviewed stated that local procurements of food aid generally do not affect market prices, our review of the literature and interviews during fieldwork show that there have been instances where LRP contributed to price hikes and price volatility in markets from which food is procured. However, the size of each of WFP's local procurements tends to be small—on average about 298 metric tons, as compared with 671 metric tons for its international procurements. Additionally, WFP's local procurements do not make up a large portion of the market for a food commodity in many developing countries, which reduces the risk of disrupting local markets. WFP's local procurements of about 20,000 metric tons of maize in Burkina Faso in 2008, for example, amounted to less than 1 percent of a total market capacity of 700,000 metric tons. However, local procurements have also contributed to price hikes. In 2003, for example, when food aid donors tried to take advantage of low prices following 2 years of good harvests in Ethiopia, their purchases contributed to a rise in

[38]Transoceanic shipments of in-kind food aid, if not carefully targeted, can have the opposite but also detrimental market impact of depressing market prices by rapidly increasing the supply of food in markets.

prices. Additionally, in 2003, WFP's Uganda country office procured a large amount of locally grown maize from large traders based in Kampala in support of its operations in northern Uganda and in the Great Lakes region, particularly in Burundi. Due in part to this activity, maize prices in Kampala during this period were double those in Iganga (119 kilometers away). However, because maize is not a staple food in Uganda, consumers' access to food may not have been adversely affected.[39] WFP's large local procurements in Uganda from a small number of large traders may also have contributed to an increase in the market power of those large traders.

While local procurements of food aid have adversely affected markets in several developing countries, particularly in sub-Saharan Africa, almost all of the WFP procurement officers we interviewed stated that they supported the idea of the United States increasing its funding for LRP. However, WFP procurement officers we spoke to, NGO officials in countries we visited, and other experts we met with agreed that increased use of LRP should be done incrementally and that significant challenges remain to expanding market capacity in many countries, particularly in sub-Saharan Africa.

Unreliable Market Intelligence, Poorly Functioning and Unintegrated Markets, and Other Factors Pose Challenges to Increasing LRP without Causing Adverse Market Impacts

Unreliable Market Intelligence

The most significant challenge to avoiding potential adverse market impacts when conducting LRP is unreliable market intelligence. While

[39]It is also important to consider cross price elasticity of demand and supply on consumers. For example, if the price of maize increased and people switched to cassava (a root plant that provide an essential part of the diet of more than half a billion people), the prices of cassava may increase in response to the additional demand. In addition, if farmer profits from maize increased because of LRP, producers could respond by switching land from the production of cassava to maize. This would result in a reduction in the supply of cassava, further increasing its price.

WFP and other food aid providers rely on market intelligence[40] to understand market conditions, a number of WFP studies, NGO evaluations, and donor assessments show that some pre-purchase market analyses have been incomplete and inaccurate—contributing to unintended consequences such as price hikes and reduced access to food. A recent USDA study on LRP noted that the most cost-effective safeguard against causing harm to markets and consumers in areas where food is locally procured is through regular ongoing analysis using the information available in host government information systems. However, lack of reliable information on local markets has the potential to result in inaccurate assessments and inappropriate responses to situations requiring food aid.[41] For example, in 2007, the government of Malawi decided to export 400,000 metric tons of maize to Zimbabwe.[42] In the same year, WFP also procured 48,445 metric tons of food aid from Malawi to support its operations in other countries. USAID Food for Peace, Famine Early Warning Systems Network (FEWS NET), and other private sector officials working in southern Africa told us that Malawi's decision to export to Zimbabwe and sell to WFP was based on inaccurate production estimates. A few months later, Malawi experienced higher food prices and food shortages. WFP has significantly increased its mandate and ability to collect and analyze local and regional market information in the last decade, but WFP analyses and procurement officers confirmed that WFP's market intelligence, while improved, is often inaccurate or incomplete. In many low-income countries, national market intelligence systems are weak and unreliable, and timely data are not always available, which may limit the effectiveness of WFP's market intelligence efforts, according to a WFP report.[43] Other studies on LRP

[40]Other food aid programs such as the targeted distribution of transoceanic shipments of in-kind food aid and monetization of food aid in local markets to generate cash for development programs also rely on market intelligence. For example, programs that use transoceanic shipments of in-kind food aid are required under law to perform Bellmon analyses that are required to determine the adequacy of storage facilities in recipient countries and whether the importation and monetization of food aid will negatively affect domestic production.

[41]USAID has efforts under way to improve its system for producing Bellmon analyses, and efforts by FEWS NET, private companies, and host government agencies to gather market information and provide analysis are also important to improving the quality of market intelligence.

[42]Not all of it was ultimately delivered.

[43]*Food Procurement in Developing Countries*, World Food Program, Executive Board First Regular Session (Rome: February 2006).

have also noted that market information for many countries is very difficult for WFP or NGOs to collect and rely on when making purchasing decisions. For example, a 2005 study commissioned by the United Kingdom's Department for International Development (DFID) of local procurement in Ethiopia noted that market information at the smallholder farmer level was non-existent and that there was no formal system for determining the domestic price of grain.[44]

In efforts to significantly reduce the risk of contributing to price hikes and long-term food price inflation WFP uses import parity pricing, solicits tenders for small amounts of food early in the harvest season, and works with other parties involved in international food assistance to plan food aid interventions. In addition to serving as a measure for cost-efficiency, comparing local prices with import parity prices helps those involved in local procurement to determine whether a local procurement will "do no harm" to local markets and consumers by not making local procurements when local prices are higher than international prices. However, as a USDA study on LRP has noted, this standard may be constrained in cases where local prices for commodities are so much lower than import parity prices that it would require substantial price increases to reach the import parity threshold. WFP also tries to mitigate potential adverse market impacts by issuing tenders for small amounts of food early in the harvest season. Then, combined with available market intelligence, WFP determines whether its purchases have contributed to price hikes before putting out larger tenders. In addition to these tactics, WFP country offices work with other parties involved in food aid, such as donors, host government agencies, and NGOs, to coordinate efforts and share market information. For example, several WFP country offices in eastern and southern Africa created a country-by-country spreadsheet in the summer of 2008 to stay current on developments related to rapidly escalating food prices, such as government-imposed export bans.

[44]Walker, David J. and Tiago Wandschneider, *Local Food Aid Procurement in Ethiopia*, Natural Resources Institute for the UK Department for International Development (Kent: September 2005).

Poorly Functioning and Unintegrated Markets

Commodity Exchange and Warehouse Receipt Systems

Source: GAO.

This commodity exchange and warehouse receipt system opened its doors in Uganda in 2008. Farmers use it to dry, store, and market their grain and get access to credit.

Source: GAO.

Even when market information is adequate, poorly functioning and unintegrated markets in sub-Saharan Africa and other developing countries still present challenges to expanding LRP while avoiding its potential adverse market impacts, according to food aid evaluations, experts convened for our roundtable, and fieldwork. Unintegrated markets are characterized by a lack of price transmission among markets. Additionally, there is difficulty in tracking informal cross-border trade and a lack of functioning commodity exchanges. When markets are not well-integrated, either within countries or regionally, large purchases of food by WFP, other food aid organizations, or donors can cause localized price hikes. For example, WFP officials in Burkina Faso noted that the government's purchases for its strategic food reserve have correlated with price spikes. Because the markets for agricultural commodities in sub-Saharan Africa, in particular, are not always clearly defined and do not always account for natural geographic and ethnic boundaries, significant informal cross-border trading that does not heed international and regional trade agreements can occur. For example, approximately 30 to 50 percent of Uganda's marketable surplus for maize is traded informally, often on bicycles across the borders to Kenya or Rwanda, according to WFP, USAID, and foreign government officials, and others we interviewed during fieldwork in Uganda. Additionally, WFP's Uganda country office staff stated that it is difficult to effectively plan food aid interventions involving LRP in the neighboring Democratic Republic of the Congo due to lack of information about informal cross-border trading and volatile market conditions. The market effects of such trading can be difficult to track and create additional constraints to understanding and avoiding adverse price impacts when conducting LRP. Finally, in all of sub-Saharan Africa there is only one well-functioning agricultural commodity exchange, the South African Futures Exchange (SAFEX). Several countries are developing warehouse receipt systems that would allow farmers access to credit, but the countries face challenges such as farmers' lack of awareness about marketing structures and banks' reluctance to provide credit to farmers.

Factors That Contribute to Persistent Food Insecurity

Many of the factors that affect persistent food insecurity in sub-Saharan Africa and other developing countries are also challenges to the implementation and potential expansion of LRP. These factors include lack of access to inputs and extension services by farmers, weak transportation infrastructures, and weak or conflicting host government policies.

Farmer Groups in Burkina Faso

Source GAO.

Government seed and fertilizer subsidies provided an incentive for these farmers to grow cotton instead of food.

Source: GAO.

- As we reported in 2008, smallholder farmers in developing countries, particularly in sub-Saharan Africa, have limited access to modern inputs and agricultural extension services such as enhanced seeds, fertilizer, and tractors. During our fieldwork, representatives from several farmer groups and associations told us they had experienced similar problems. In Burkina Faso, one farmer group in a food-deficit area had stopped growing maize for lack of fertilizer and seed and had started planting more cotton because it could receive government subsidies for that crop.
- Weak transportation infrastructure in many developing countries makes it difficult for smallholder farmers to move their crops to market and for local markets to integrate regionally and nationally. The World Bank has reported that less than half of the rural population in sub-Saharan Africa lives near an all-season road.
- Policies of host governments are not always favorable to supporting agricultural development, although the Comprehensive Africa Agriculture Development Program (CAADP) aims to address the lack of agriculture development in sub-Saharan Africa by focusing on budget prioritization and policy restructuring.[45] USAID's Initiative to End Hunger in Africa (IEHA)[46] supports CAADP's efforts by coordinating with other donors to provide technical and policy support for agricultural and market development.

These factors, combined with unreliable market intelligence and poorly functioning and unintegrated markets, continue to represent significant challenges to increasing LRP in many developing countries, particularly in sub-Saharan Africa.

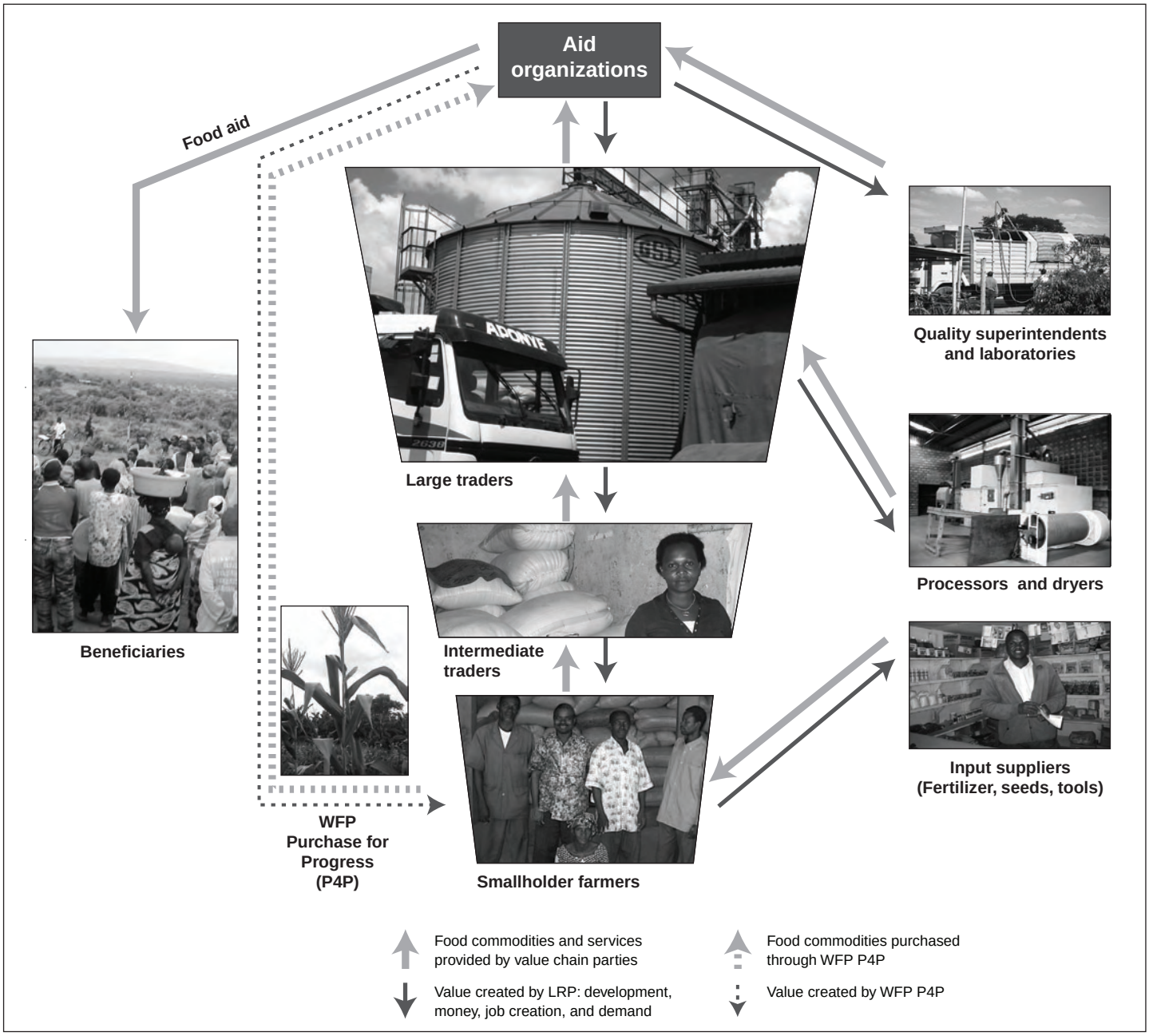
[45]CAADP is an initiative to improve agricultural and rural development and food security in Africa and has been endorsed by all African heads of state. Member states committed to spending 10 percent of each country's national budget on agricultural development. The program is comprised of four pillars, namely, land and water use, market access, food supply and hunger, and agricultural research and technical assistance.

[46]IEHA was launched in 2002 as a multi-year effort designed to help increase agricultural income and fulfill the UN's Millennium Development Goal of cutting the number of hungry people in Africa in half by 2015.

LRP Has the Potential to Indirectly Support the Development of Local Economies by Increasing Demand for Agricultural Commodities and Raising Farmers' Incomes

While the primary purpose of LRP is to provide food assistance in humanitarian emergencies in a timely and efficient manner, a potential secondary benefit is contributing to the development of the local economies from which food is purchased. This can be accomplished by increasing the demand for agricultural commodities, thereby increasing support for all levels of the commodity value chain, which includes individuals, businesses, and organizations involved in their respective agriculture production and marketing industries such as large traders, intermediate traders or middlemen, smallholder farmers, input suppliers, and processors. Figure 7 illustrates the agricultural commodity value chain supported by LRP.

Figure 7: Agricultural Commodity Value Chain Supported by LRP

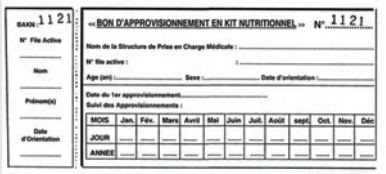


Source: GAO analysis and photos.

Cash Vouchers

Source: GAO.

A store owner in Ouagadougou, Burkina Faso, stands in front of the shop she operates. It accepts vouchers from community members participating in a cash for food voucher program supported by Catholic Relief Services. Below, a sample voucher slip recipients use to purchase food.



BAKN : 1121

N° File Active

Nom

Prénom(s)

Date d'Orientation

« BON D'APPROVISIONNEMENT EN KIT NUTRITIONNEL » N° 1121

Nom de la Structure de Prise en Charge Médicale :

N° file active :

Age (an) : Sexe : Date d'orientation :

Date du 1er approvisionnement

Suivi des Approvisionnements :

MOIS	Jan.	Fév.	Mars	Avril	Mai	Juin	Juil.	Août	sept.	Oct.	Nov.	Déc.
JOUR												
ANNEE												

Source: GAO.

The development benefits to local economies are secondary because in almost all cases WFP and NGO purchases are not large enough or reliable enough to sustain increased demand over time. Only recently has WFP acknowledged that LRP can contribute to local development. In several of the countries we visited, we observed WFP LRP initiatives under way that might support local economies in the long term and connect LRP to other food security initiatives. However, many of them are new and limited in scale. For example, in February 2009, WFP began a cash voucher program in Burkina Faso that will target beneficiaries in two major cities, Ouagadougou and Bobo Dioulasso, by providing them with vouchers that are redeemable for food commodities. In September 2008, WFP launched its P4P program, which had the goal of benefiting smallholder farmers directly by purchasing food from them. However, WFP officials recognize that these procurements will only amount to a small percentage of its total local procurements. With initial funding to manage and administer P4P from the Bill & Melinda Gates and Howard G. Buffett Foundations, pilot programs have been approved in 21 countries.[47]

[47]WFP's P4P pilot countries include 15 in sub-Saharan Africa—Burkina Faso, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Liberia, Malawi, Mali, Mozambique, Rwanda, Sierra Leone, Sudan, Tanzania, Uganda, and Zambia. USAID recently approved WFP's $20 million proposal for P4P.

Legal Requirements for U.S. Food Aid May Constrain U.S. Agencies' Use of Local and Regional Procurement

Certain legal requirements to procure U.S.-grown agricultural commodities for food aid and to transport up to 75 percent of them on U.S.-flag vessels may constrain agencies' use of local and regional procurement (LRP). First, the Food for Peace Act supports in-kind food aid by specifying that funding under the Act can be used only to purchase U.S.-grown rather than foreign-grown agricultural commodities[48] and thus cannot be used for LRP. Since 2002, appropriations for Title II of the Food for Peace Act have averaged $2 billion annually, none of which can be used to purchase foreign-grown food. However, from 2001 to 2008, through programs funded under a different authority, the Foreign Assistance Act, the U.S. government has provided approximately $220 million in total cash contributions to WFP that were used to purchase foreign-grown commodities. In addition, since July 2008, Congress has appropriated $50 million to USAID that can be used for LRP in addition to $75 million that the Administration allocated for LRP in International Disaster Assistance funding; and the 2009 Omnibus Appropriations Act provided another $75 million in development assistance funding to USAID for global food security, including LRP and distribution of food. Second, the Cargo Preference Act of 1954, as amended, which is enforced by the DOT, requires up to 75 percent of the gross tonnage of all U.S.-funded food aid to be transported on U.S.-flag vessels. There is disagreement among USAID, USDA, and DOT on how to interpret and implement certain requirements of cargo preference, such as the agency responsible for determining availability of U.S.-flag vessels.[49] If these requirements remain ambiguous, U.S. agencies' use of LRP could be constrained.

Legal Requirement to Purchase U.S.-Grown Food Limits Funding for Foreign-Grown Food

While most funding for U.S. food aid cannot be used to purchase foreign-grown food, a limited amount of funding has been used to support LRP. Programs under the Food for Peace Act,[50] have been the main vehicles of U.S. international food aid. However, funding under the Act is restricted to the purchase of U.S.-grown agricultural commodities. Title II of the Food for Peace Act, administered by USAID, is the largest U.S. international food aid program providing humanitarian donations to

[48]See 7 U.S.C. 1732(2) for a definition of "agricultural commodity."

[49]The MOU that outlines the manner in which USAID, USDA, and DOT cooperate in certain areas of the administration of cargo preference requirements was last updated in 1987.

[50]The 2008 Farm Bill changed the title of the underlying legislation from the Agricultural Trade Development and Assistance Act of 1954, also known as P.L. 480, to the Food for Peace Act.

respond to emergency food needs or to be used in development projects. Since 2002, appropriations for Title II have averaged $2 billion annually, none of which can be used to purchase foreign-grown food, as envisioned by LRP. However, a limited amount of U.S. funding has been authorized through the 2008 Farm Bill, the Foreign Assistance Act, 2008/2009 bridge supplemental, and the 2009 Omnibus Appropriations.

First, the 2008 Farm Bill established a 5-year, $60 million LRP pilot program, administered by USDA, to respond to emergencies and chronic food aid needs around the world. The pilot requires a study of LRP experiences,[51] field-based projects, evaluations of field-based projects by independent parties, and a USDA report submitted to Congress by 2012. USDA is currently establishing guidelines for proposals to conduct field-based LRP projects and estimates completion of the guidelines by the end of summer 2009.

Second, the Foreign Assistance Act authorizes USAID and State to provide cash contributions to WFP and implementing partners to purchase foreign-grown commodities for specific program goals. From 2001 to 2008, the U.S. government, through programs operating under the Foreign Assistance Act, has provided approximately $220 million in total cash contributions to WFP for 1,265 LRP transactions. WFP received contributions from State's Bureau of Population, Refugees, and Migration (PRM); USAID Office of Foreign Disaster Assistance (OFDA); and USAID country missions; among other programs. State officials stated that LRP can be used to fill gaps in refugee and internally displaced persons (IDP) feeding operations caused by lack of donor support; inflows of new refugees and IDPs; inability of donors to deliver food to an area quickly, or more recently, rising costs of commodities and transportation. Similarly, officials from USAID agreed that LRP offers an opportunity to respond to food security crises and increase the total amount of food aid the United States can provide by filling gaps in country before food shipped from the United States arrives.

Third, since July 2008, Congress has appropriated $125 million to USAID that can be used for LRP. USAID received $50 million in fiscal year 2008

[51]Pub. L. 110-234, sec. 3206, called upon the Secretary of Agriculture to initiate a study of prior LRP for food aid programs conducted by other donor countries, NGOs, and the WFP. On January 15, 2009, USDA's Foreign Agriculture Service, Office of Capacity Building and Development published *The Use of Local and Regional Procurement in Meeting the Food Needs of Those Affected by Disasters and Food Crises.*

supplemental appropriations[52] to respond to the global food price crises with LRP, among other activities. Another $75 million in development assistance funding was made available to USAID through the 2009 Omnibus Appropriations Act for global food security, including LRP and distribution of food.[53] For fiscal year 2009, the Administration made available for LRP $75 million in International Disaster Assistance funding. To implement LRP programs with increased authority, USAID/OFDA issued guidelines for LRP proposals in October 2008 specifying that organizations applying for funding must (1) demonstrate an urgent need for food aid; (2) relate to the factors associated with the emergency to the global food price crisis or to a declared disaster; or (3) provide compelling evidence that the use of local procurement will save lives, reduce suffering, and/or serve more people than by using international procurement of Title II food aid.[54] By April 2009, USAID/OFDA had programmed $63 million in direct cash contributions to WFP and implementing partners to purchase foreign-grown commodities for vulnerable populations in Ethiopia, Kenya, Kyrgyzstan, Nepal, Pakistan, Somalia, Tajikistan, and Zimbabwe. Monitoring and evaluation plans for tracking program implementation, results, and outcomes are required with all awards.

Uncertainty Regarding Cargo Preference Could Constrain Agencies' Implementation of LRP

Because the leading U.S. food assistance agencies and DOT disagree on how to implement the Cargo Preference Act, their use of LRP could be constrained. The Cargo Preference Act, as amended, requires that up to 75 percent of the gross tonnage of agricultural foreign assistance cargo be transported on U.S.-flag vessels.[55] DOT issues and administers regulations necessary to enforce cargo preference. Among other things, the department has the authority to require the transportation on U.S.-flag vessels of cargo shipments not otherwise subject to cargo preference

[52]Pub. L. 110-252. The $125 million in supplemental funding included up to $95 million for emergency needs and up to $30 million to make LRP work for farmers.

[53]Pub. L. 111-8, Div. H.

[54]According to USAID officials, the agency intends to issue updated guidance stipulating that LRP funding be used to purchase commodities whose source and origin are from developing countries.

[55]The Food Security Act of 1985 increased the percent tonnage of all U.S.-funded cargo that requires transport on U.S.-flag vessels from 50 percent, as designated in the Cargo Preference Act of 1954, to 75 percent for shipments of certain agricultural foreign assistance cargo, including commodities purchased under the authority of the Food For Peace Act (but not, generally, for commodities purchased under authority of the Foreign Assistance Act), and mandated that DOT reimburse the shipper agencies for the cost associated with the increased use of U.S.-flag vessels.

(hereafter referred to as "make-up requirements") when it determines that an agency has failed to sufficiently utilize U.S.-flag vessels. In some cases, however, USAID and USDA officials disagree with DOT on interpretations of cargo preference requirements including (1) the agency responsible for determining availability of U.S.-flag vessels; (2) make-up requirements when U.S.-flag vessels are unavailable or when an agency waives cargo preference requirements during emergencies, also referred to as "notwithstanding authority;"[56] (3) applicability of cargo preference requirements to public international organizations; and (4) methodology used for cost reimbursements.

Agency Officials Have Different Interpretations of Cargo Preference Requirements

Table 3 summarizes differences in agency officials' interpretations of cargo preference requirements.

Table 3: U.S. Agencies' Interpretations of Cargo Preference Requirements as They Pertain to Implementation of LRP

	Agency interpretations		
Requirements	**DOT**	**USAID**	**USDA**
1. Agency responsible for determining availability of U.S.-flag vessels	DOT is the sole determining agency for U.S.-flag vessel availability.	USAID is the determining agency for U.S.-flag vessel availability based on USAID program needs. However, USAID seeks DOT concurrence.	USDA is the determining agency for U.S.-flag vessel availability based on USDA program needs. DOT is not permitted to provide input into a determination of programmatic need.
2. Make-up requirements when U.S.-flag vessels are unavailable or an agency uses notwithstanding authority	Tonnage shipped on foreign-flag vessels when U.S.-flag vessels are unavailable or under USAID's notwithstanding authority is counted toward the maximum tonnage allowed on foreign-flag vessels. Any foreign-flag tonnage exceeding the maximum must be made up.	When U.S.-flag vessels are unavailable or when USAID uses notwithstanding authority, tonnage shipped on foreign-flag vessels should not be counted toward the maximum tonnage allowed.	Tonnage shipped on foreign-flag vessels is counted toward the maximum tonnage allowed on foreign-flag vessels. USDA does not have notwithstanding authority since it does not implement emergency programs.

[56]Section 491 of the Foreign Assistance Act authorizes international disaster assistance to be carried out notwithstanding any other provision of law.

Requirements	Agency interpretations		
	DOT	USAID	USDA
3. Applicability of cargo preference requirements to public international organizations	The grants to international organizations are governed by regulations and guidance issued by DOT.	Cargo preference regulations apply when the authority for LRP is Food for Peace. However, the regulations do not apply when LRP is carried out under authority of the Foreign Assistance Act.	Cargo preference applies to international organizations.
4. Reimbursement methodology	DOT reimburses food aid agencies for a portion of the ocean freight and transportation costs that exceed 20 percent of total program costs.	DOT reimbursement methodology is not specified for all possible scenarios.	DOT reimbursement methodology is not specified for all possible scenarios.

Source: DOT, USAID, and USDA.

The differences in agency interpretations of cargo preference are discussed below.

1. *Agency responsible for determining availability of U.S.-flag vessels:* Officials from USAID, USDA, and DOT stated that their respective agencies have independent authority to determine U.S.-flag vessels are not available. According to USAID officials, the agency determines U.S.-flag nonavailability based on its USAID program needs but seeks prior concurrence from DOT's Maritime Administration (MARAD).[57] According to USDA officials, USDA determines the availability of U.S.-flag vessels based on programmatic needs, and DOT determines what constitutes a fair and reasonable shipping rate. Agency officials and industry experts noted that the availability of U.S.-flag vessels in areas such as Africa's eastern coast is limited. DOT noted that a U.S.-flag vessel could ship food from one African port to another if the ship happened to be in the region conducting military operations or other business. However, most carriers do not currently provide regular regional service. U.S. officials in Kenya and South Africa confirmed this lack of regular service along Africa's eastern coast. A shipping agent in South Africa stated that she was aware of two U.S.-flag vessels that frequent the port of Durban. Representatives of a coalition of U.S.-flag carriers indicated that U.S.-flag vessels could provide additional service in the region in the future but their decision to relocate vessels depends on the regularity of regional shipments. According to a 2008

[57]As required by 46 CFR 381.5 "Fix American-Flag First."

report regarding efforts to improve procurement planning,[58] USAID and USDA compete with DOD and other exporters for space aboard the relatively few U.S.-flag vessels, some of which are ill-suited for the carriage of food-grade commodities. Moreover, of the three participating liner service container carriers utilizing U.S.-flag vessels, only one services Africa, where 54 percent of international food aid was delivered in 2007, according to INTERFAIS data.

2. *Make up requirements when U.S.-flag vessels are unavailable or an agency uses "notwithstanding" authority:* Agencies disagree as to whether shipments made on foreign vessels, because U.S.-flag vessels were not available or because an agency waives cargo preference requirements utilizing authority to conduct a program notwithstanding any other provision of law,[59] should count toward the maximum tonnage allowed on foreign-flag vessels. DOT has stated that it should,[60] and any tonnage shipped on foreign-flag vessels that exceeds the 25 percent maximum tonnage should be made up the following year. However, USAID has the authority to implement emergency programs, including international disaster assistance, notwithstanding any other provision of law. With this authority, USAID has waived cargo preference requirements to ensure food aid delivery during emergencies. In those cases, it believes the tonnage shipped on foreign-flag vessels should not be counted toward the maximum foreign-flag tonnage allowed under cargo preference. DOT officials believe otherwise. Since 2005, USAID has used notwithstanding authority to override cargo preference four times, two of which were in 2005 when there were extreme price disparities between U.S.-flag and foreign-flag offers to transport emergency food aid to Kenya and Somalia.[61]

3. *Applicability of cargo preference requirements to public international organizations:* Agencies also disagree on whether

[58]USAID and USDA, *Report Regarding Efforts to Improve Procurement Planning*, submitted to Congress on January 21, 2009.

[59]This authority can be derived from a program's authorizing statute (e.g., sec. 491 of the Foreign Assistance Act authorizing international disaster assistance programs) or can be tied to a specific appropriation (e.g., Pub. L. 110-252 provides notwithstanding authority for supplemental development assistance funds).

[60]Because the agencies have not systematically tracked LRP transactions, DOT has not, thus far, sought to impose this requirement.

[61]According to DOT officials, invoking this authority caused transit time to increase.

grants made to international organizations, such as WFP, must incorporate cargo preference requirements. According to DOT officials, if public international organizations use U.S. funding to purchase food and that food requires ocean shipping, U.S.-flag vessels should be given cargo preference. For example, in 2006, DOT notified the USAID West-Bank/Gaza mission that it had not conformed to the legal mandate in a U.S.-funded grant with WFP to purchase 16,000 metric tons of wheat flour for shipment to Tel Aviv. However, according to the USAID policy manual,[62] public international organizations are allowed to abide by their own procurement rules.[63] Therefore, international organizations that receive cash contributions for regional procurement of food are not required to ship on U.S.-flag vessels.

4. *Reimbursement methodology:* DOT is required to reimburse food aid agencies for a portion of the ocean freight and transportation costs that exceed 20 percent of their total program costs. However, agencies disagree on whether reimbursement levels are sufficient to cover the additional costs incurred by transporting the food on U.S.-flag vessels. According to USDA officials, DOT has been reluctant to reimburse USDA for any excess costs beyond 20 percent freight costs and has not gone on the record about reimbursement for USDA's LRP pilot field-based projects. According to USAID, areas of ambiguity regarding reimbursements include:

- costs of ocean freight and transportation on U.S.-flag vessels that exceed 20 percent of program costs,
- transportation from overseas food warehouses to final destinations,
- foreign inland transport costs, and
- costs of ocean freight and transportation on U.S.-flag vessels when there is no foreign-flag vessel available for cost comparison.[64]

[62]ADS 315.3.2.b. See also ADS 308.

[63]DOT officials stated that cargo preference statutes are clear that government-impelled cargoes shall be transported on U.S.-flag vessels, noting that policy manuals and regulations are subservient to statutes.

[64]DOT calculates the U.S. cost differential based on the actual foreign-flag vessel bids that were received. If a foreign-flag vessel does not provide a bid, DOT provides no reimbursement. Since no reimbursement is made, DOT does not estimate costs for foreign-flag shipments.

Lack of Clarity on Cargo Preference Requirements Could Constrain LRP

With a lack of clarity on how to interpret cargo preference regulations, agencies' ability to utilize LRP to respond to emergencies may be constrained. For example, as of October 2008, DOT has the authority to require the transportation on U.S.-flag vessels of cargo shipments not otherwise subject to cargo preference when it determines that an agency has failed to sufficiently utilize U.S.-flag vessels.[65] DOT has not yet issued regulations governing how it will implement this new authority and USAID faces uncertainty regarding whether increased use of LRP will trigger imposition of make-up requirements.

Cargo preference could also constrain USAID's and USDA's LRP pilot programs if U.S.-flag vessels are unavailable. USAID officials indicated that given the limited volume of regional shipments relative to regular Title II shipments, the agency would probably not be able to meet the U.S.-flag compliance threshold if even one shipment could not be transported on a U.S.-flag vessel. According to a USDA official, countries chosen for its LRP pilot field-based projects will likely receive food shipments only once in a fiscal year. If U.S.-flag vessels are unavailable for service at that time, it is unclear how USDA will make up tonnage by country and program the following year since, according to officials, the pilot is of limited duration. In addition, USDA will not cut other country program budgets in order to make up tonnage by country for its LRP program.

Finally, the lack of clarity when USAID waives cargo preference through notwithstanding authority could constrain its ability to fully utilize the authority when responding to emergencies that require regional shipment of food in anticipation of potential sanctions by DOT. To date, USAID has used notwithstanding authority to waive cargo preference requirements on only four occasions, in part due to the uncertainty of a regulatory response from DOT. The $200 million that USAID has for LRP is available to be expended notwithstanding any other provision of law. According to USAID officials, the agency has not used its authority to waive cargo preference requirements for any of the LRP transactions funded through May 2009.

The MOU that outlines the manner in which USAID, USDA, and DOT coordinate the administration of cargo preference requirements was last updated in 1987 and does not reflect modern transportation practices or

[65]Pub. L. 110-417, section 3511.

the areas of ambiguity related to LRP. In our 2007 review of U.S. food aid,[66] we found that cargo preference can increase delivery costs and time frames, with program impacts dependent on the sufficiency of DOT reimbursements. Therefore, we recommended that USAID, USDA, and DOT seek to minimize the cost impact of cargo preference regulations by updating implementation and reimbursement methodologies of cargo preference as it applies to U.S. food aid. Since 2007, USAID and USDA have proposed a working group with DOT to renegotiate the MOU. To date, however, there have been few meetings and no agreement has been reached between the agencies.

Conclusions

The timely provision of food aid is of critical importance in responding to humanitarian emergencies and food crises. In 2007 and 2008, the number of chronically hungry people in the world grew by 115 million, despite an international commitment to halve the number of hungry people by 2015. While the United States has primarily provided in-kind food aid for over 50 years, it has been exploring expanded use of LRP. This tool has the potential to better meet the needs of hungry people by providing food aid in both a more timely and less costly manner. To fully realize this potential, however, challenges to its effective implementation must be addressed.

Concerns about the quality of LRP food aid persist, but aid organizations still do not systematically collect evidence on LRP's adherence to quality standards and product specifications that would ensure food safety and nutritional content. Furthermore, experts and practitioners caution that scaling up LRP in recipient countries should be done gradually to ensure that the potential benefits of LRP are maximized while any potential adverse impacts are minimized or avoided. While accurate and reliable market data would help ensure that U.S. agencies and implementing partners make optimal decisions with regard to when, where, and how to procure food locally or regionally, such data are not yet available. Finally, the implementation of LRP may be constrained by U.S. agencies' disagreement on a number of requirements associated with cargo preference, thus elevating the importance of an updated interagency MOU that resolves existing ambiguities.

[66] GAO-07-560.

Recommendations for Executive Action

To enhance the impact that LRP can have on the efficiency of food aid delivery and the economies of countries where food is purchased, we recommend that the Administrator of the U.S. Agency for International Development and the Secretary of Agriculture take the following three actions:

- systematically collect evidence on LRP's adherence to quality standards and product specifications to ensure food safety and nutritional content;
- work with implementing partners to improve the reliability and utility of market intelligence in areas where the U.S.-funded LRP occurs, thereby ensuring that U.S.-funded LRP practices minimize adverse impacts and maximize potential benefits; and
- work with the Secretary of Transportation and relevant parties to expedite updating the MOU between U.S. food assistance agencies and the Department of Transportation, consistent with our 2007 recommendation, to minimize the cost impact of cargo preference regulations on food aid transportation expenditures and to resolve uncertainties associated with the application of cargo preference to regional procurement.

Agency Comments and Our Evaluation

DOT, USAID, USDA, and WFP provided written comments on a draft of this report. We have reprinted these agencies' comments in appendixes VII, VIII, IX, and X, respectively, along with our responses. Additionally, USAID, DOT, State, and WFP provided technical comments on a draft of our report, which we have addressed or incorporated as appropriate. Treasury and MCC did not provide comments.

USAID generally concurred with our recommendations. With regard to the first recommendation, however, USAID noted that it may be more efficient for us to recommend that all food aid organizations collaborate in the development and implementation of systems to monitor quality assurance and product specification issues in all food purchases, including LRP. The recommendation does not preclude such coordination among the agencies. We recognize USAID's and USDA's efforts to date to implement our 2007 recommendation to develop a coordinated interagency mechanism to update food aid specifications and products to improve food quality and nutritional standards. Including actions to systematically collect evidence on LRP's adherence to quality will make these efforts more efficient. With regard to the third recommendation, USAID commented that MARAD's position on the applicability of the 75 percent threshold to USAID-funded LRP, rather than the 50 percent threshold, is devoid of legal merit. In providing information on agencies' interpretations of cargo preference requirements as they pertain to LRP,

we sought to identify areas where agencies disagree on the applicability and interpretation of these requirements. We did not attempt to adjudicate the differences in interpretation among the agencies involved. However, in technical comments to a draft of this report, DOT changed its position regarding thresholds and now concurs with USAID'S interpretation, thus eliminating this issue as an area of ambiguity.

USDA generally agreed with our report, noting that our comparisons of costs and delivery times were insightful. However, USDA observed that aggregating some of the commodities such as vegetable oil and beans could cause a loss of precision in our methodology. To obtain an overall picture of costs, we worked to ensure that we had the largest number of observations, over the longest possible time period, so some aggregation was required. USDA also stated that our report does not specify how differences in quality or specifications were handled. We recognize that the price of different commodities in the same category may vary depending on quality or specifications. However, we noted WFP's assertion that its commodities meet both the importing and exporting countries' standards, and there is no systematic evidence that U.S. commodities differ in quality compared to LRP commodities. Nonetheless, we recognize that there may be differences in the quality of certain commodities, and we note such differences in our illustrative example of LRP for Tajikistan. In addition, both USDA and DOT noted that we did not compare delivery times for LRP and in-kind food aid from prepositioning sites. Although we did not differentiate prepositioned commodities in our cost comparison, we included them in our data analysis and note that prepositioned commodities were a very small part of U.S. food aid during the time period we examined.

DOT stated that additional analysis may be warranted before concluding that LRP offers a tool to reduce costs and shorten delivery time. Although further analysis of LRP practices would be useful, our analysis demonstrated consistent results across 8 years of data. For example, local procurement in sub-Saharan Africa cost about 34 percent less than USAID commodities procured at around the same time and delivered to the same country. DOT also stated that it implements the cargo preference statute through regulation, not through an interagency MOU. While this is true, the regulations contain ambiguities that have previously required resolution through an MOU. Our report describes new ambiguities that could arise in applying cargo preference in the context of regional procurement. We believe that these ambiguities can be resolved by updating the MOU. Further, there is no requirement that establishing regulation precede a MOU nor does a MOU preclude the issuance of new

regulation. The updated MOU, establishing consensus among the relevant agencies, could be reflected in any future regulation that DOT may draft and get finalized through the rule-making process.

WFP welcomed our timely examination of LRP as one of numerous tools to deliver effective and efficient food assistance to those in greatest need. However, WFP stated it was perplexed that concerns persist about the quality of food procured in developing countries, given the lack of evidence showing that LRP introduces quality challenges that are not already challenges to internationally procured and donor-provided food aid. We note that quality is one issue that many WFP procurement officers and several other officials we interviewed identified as a challenge for LRP. However, the lack of systematically collected data makes it difficult to objectively analyze how LRPs adhere to quality standards and product specifications. Our first recommendation addresses this issue. In addition, WFP offered some qualifications to our discussion of the impact of LRP on economies where food is procured, noting the lack of systematic evidence to suggest that current LRP practices adversely impact host markets. In this report, we explain several efforts that WFP and others have taken to significantly improve the availability and reliability of market intelligence in developing countries. Nonetheless, WFP, NGOs, U.S. agencies, host governments, and experts convened for our roundtable stated that the most significant challenge to avoiding potential adverse markets impacts when conducting LRP is unreliable market intelligence. Therefore, we are recommending improving the reliability and utility of market intelligence.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. We are sending copies of this report to interested Members of Congress, the Administrator of USAID, and the Secretaries of Agriculture, State, Transportation, and the Treasury. 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 XI.

Sincerely yours,

Thomas Melito
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine (1) the impact of local and regional procurement (LRP) on the efficiency of food aid delivery, (2) the impact of LRP on economies where food is procured, and (3) U.S. legal requirements that could affect U.S. agencies' use of LRP.

We selected four countries for fieldwork based on geographic region, WFP procurement data, and the presence of WFP procurement officers in-country. We selected countries in sub-Saharan Africa, excluding countries with current conflict, because these regions within Africa have high prevalence rates of undernourishment. While this selection is not representative in any statistical sense, it ensured that we had variation in the key factors we considered. We do not generalize the results of our fieldwork beyond that selection, using fieldwork primarily to provide illustrative examples.

To understand the experiences of other donors with local and regional food procurement and corroborate information gathered in our literature review, we conducted semi-structured interviews with 11 principal WFP procurement officers in Africa and Asia. We focused on Africa and Asia because that is where the majority of food procurement abroad takes place. The 11 we interviewed represented all the principal WFP procurement officers that were in place in Asia and Africa at the time we conducted our fieldwork. We asked each procurement officer a series of open-ended questions on the factors impacting and actions that could be taken to improve: cost, delivery time, quality, market impact, and development. To ensure that the questions were clear and unambiguous, did not place an undue burden on respondents, and that respondents had the necessary information and time to answer the questions, we conducted pre-tests with WFP procurement officers in Sudan and Thailand. To determine which factors and actions were mentioned most frequently, we coded the officer's responses to the questions. One analyst developed and applied the codes to the interviews and another analyst reviewed both the codes and their application. Based on that coding, we report data on the number of officers that mentioned each factor and action. The views we report are limited to WFP procurement officers in Africa and Asia and may not represent WFP procurement officers in other regions.

In addition, we reviewed economic literature on LRP practices and recent reports, studies, and papers issued by U.S. agencies, multilateral organizations, and bilateral donors. These sources were chosen because they represent a wide cross section of the discussion on LRP and are written by the leading authorities and institutions working in the field.

In the four African countries that we selected for fieldwork—Kenya and Uganda in East Africa, South Africa in southern Africa, and Burkina Faso in West Africa—we met with U.S. Agency for International Development (USAID) and other U.S. officials; World Food Program (WFP) country office staff; and representatives of nongovernmental organizations (NGO), smallholder farmer groups, and commodity exchanges. We also visited several sites where food aid may be locally purchased and where food aid is delivered.

In Washington, D.C., we interviewed officials from U.S. agencies, including USAID; USDA; the Departments of State, Transportation (DOT), and the Treasury; and the Millennium Challenge Corporation (MCC). We also met with the International Food Policy Research Institute (IFPRI) and the World Bank. In New York, we met with the Rockefeller Foundation, the Alliance for a Green Revolution in Africa (AGRA), and Columbia University. In Rome, we met with FAO, WFP, and the International Fund for Agricultural Development (IFAD). We also met with the U.S. Mission to the UN (USUN) in Rome and several bilateral donors' permanent representatives to the Rome-based UN food and agriculture agencies. In addition, in Washington, D.C., we convened a roundtable of 10 experts and practitioners—including representatives from academia, research organizations, multilateral organizations, NGOs, and others—to further delineate, based on our initial work, some of key issues and challenges to the implementation of LRP.

To examine the impact of LRP on the efficiency of food aid delivery, we focused on the cost, delivery time, and quality. To evaluate LRP cost efficiency, we compared WFP's costs with USAID's. WFP's costs are based on WFP's procurement data from 2001 to 2008 and USAID's costs are based on USAID's Line 17 reports from fiscal year 2001 to 2008.[1] We did not evaluate the impact of prepositioning on U.S. food aid costs, although we did not exclude the commodities shipped from prepositioning sites, albeit small in value relative to overall U.S. food aid for the time period we examined. WFP's procurement data include information on the commodities purchased, the date of the purchase, the origin of the commodities, the recipient of the food aid, the contract terms, and the purchase prices. To assess the reliability of the data, we (1) reviewed

[1]Line 17 reports are USAID's mechanism for commodity reporting at the individual country level. The USAID Office of Food for Peace uses these reports to account for commodities in metric tonnage and dollars.

existing documentation related to the data sources and (2) interviewed WFP and USAID officials familiar with the data sources. Accordingly, we determined that the data were sufficiently reliable for the purposes of this report. Since WFP's procurements are under different contract terms, the purchase prices include different costs. For example, most of WFP's international procurements are under the term free on board (FOB), which normally does not include ocean shipping and handling. USAID's data include the costs for commodities and ocean shipping and inland transportation, storage, and handling (ITSH). To make the costs comparable, we included different USAID cost components depending on the contract terms of the corresponding WFP purchase. See table 4 for details of the corresponding WFP contract terms and USAID cost components.

Table 4: WFP Contract Terms and USAID Cost Components Included in Cost Comparison

	WFP terms included in GAO analysis	Corresponding cost components in USAID data	Corresponding cost components in USAID data with ocean freight reimbursement
Local	Delivery duty unpaid (DDU)	Commodity cost, ocean freight, inland freight	Commodity cost, 65-75% of ocean freight and inland freight
Regional	DDU	Commodity cost, ocean freight, inland freight	Commodity cost, 65-75% of ocean freight and inland freight
International	FOB	Commodity cost, inland freight	Commodity cost, 65-75% of inland freight

Source: GAO.

For each WFP purchase, we searched for a "match" in USAID's data. A match is defined as a purchase transaction of a similar commodity, in the same quarter of the same year, for the same recipient country. The commodity groups we selected are beans, corn soy blend (CSB), maize, maize meal, rice, sorghum/millet, vegetable oil, and wheat, which represent the majority of food aid for both WFP and USAID. We aggregated the more detailed commodities in USAID's data. For example, we aggregated many types of beans (red beans, kidney beans, black beans, pinto beans, and other beans) into the bean commodity group. We compared the WFP's per metric ton cost with its match of USAID's cost. See table 5 for the number of matches in our analysis, which occurred for 8 commodities out of approximately 37,000 transactions from 2001 to 2008.

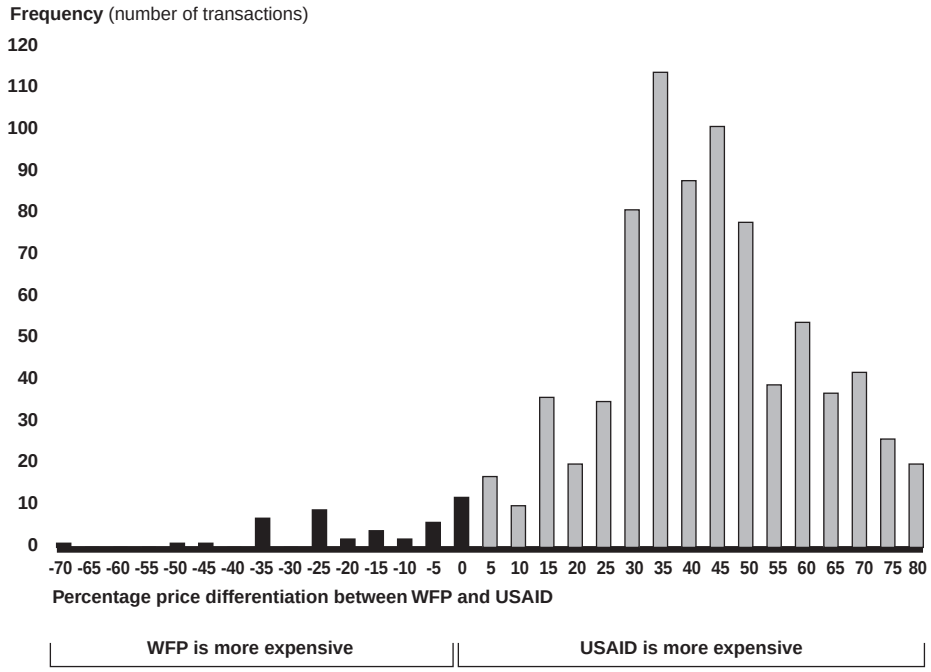
Table 5: Number of Matches in Cost Comparison

	Worldwide	Sub-Saharan Africa	Latin America	Asia
Local	1,197	843	198	156
Regional	672	389	40	243
International	1,580	1,319	178	83

Source: GAO based on WFP and USAID data.

We compared the costs by region (sub-Saharan Africa, Asia, and Latin America) and by procurement type (local, regional, and international). To account for DOT cargo preference reimbursements, we reduced USAID ocean freight costs from 25 to 35 percent and found that it did not change our results significantly. Based on previous GAO work, we consider 25 percent to be a reasonable value to account for cargo reimbursements over the 8-year period. We analyzed the percentage of WFP transactions that had lower costs than USAID's and the cost differential. See fig. 8 below for a histogram of cost differential comparison.

Figure 8: Cost Difference between USAID and WFP Local Procurement in Sub-Saharan Africa



Source: GAO analysis of USAID and WFP data.

Note: The difference ranges between -71% (USAID was 71 percent lower in per ton cost than WFP) and 78 percent (USAID was 78 percent higher in per ton cost than WFP). The chart shows that most of WFP transactions have a lower cost (to the right of zero) than USAID.

The cost differences between U.S. food aid and LRP of similar food products, around the same time frame, and for the same countries we identified represent potential cost-saving opportunities. However, many factors can reduce or even eliminate the amount of savings, including whether food is available in the local and regional markets, and how much additional purchases in these markets will drive up prices. We discussed this methodology at the expert roundtable we conducted, and the experts indicated that our methodology was sufficient in controlling for various factors that may influence costs to make the costs comparable.

To evaluate the impact of LRP on delivery time, we relied on interviews with WFP officials and representatives from various organizations we met with during fieldwork in the four countries we visited. In addition, WFP generated delivery time for 10 countries in sub-Saharan Africa that we selected by procurement type. The countries that we selected had received food aid purchased or donated internationally, as well as through LRP. Our

analysis of the aggregate delivery time consisted of the average of the median delivery times for each of the 10 countries across the four procurement types. To evaluate the impact of LRP on the quality, we interviewed U.S. agency officials, WFP officials, and NGO representatives. We reviewed assessments of WFP local and regional procurement. We discussed with WFP the methodology it used in order to generate the delivery time and the limitations of the methodology. We determined the data are sufficiently reliable for our purposes. We chose to use WFP data because they included a substantial amount of both international and local and regional procurements. We did not compare WFP's delivery time to U.S. in-kind delivery time. We also did not evaluate the impact of prepositioning on U.S. food aid delivery time.

To examine the impact of LRP on the economies of countries where food is procured, we relied on the responses of WFP procurement officers to our semi-structured interview questions; our economic literature review of LRP practices, reports, studies, and papers' and our interviews with WFP, U.S. government, NGO, World Bank, and private-sector officials in Washington, D.C.; Rome; and the countries we visited for fieldwork in sub-Saharan Africa. We also discussed our preliminary findings on the potential market risks, market intelligence, and development benefits associated with LRP at our expert roundtable and received validation and further input.

To examine U.S. legal restrictions that could affect U.S. agencies' use of LRP, we reviewed U.S. programs authorized in the 2008 Farm Bill, the Food for Peace Act of 1961, the Foreign Assistance Act, and the 1954 Cargo Preference Act, as amended, and appropriations for fiscal years 2002 to 2008. To better understand agency interpretations of applicability of cargo preference, we collected information from USAID, USDA, and DOT officials with regard to U.S.-flag vessel availability, compliance thresholds, notwithstanding authority, and application to international organizations.

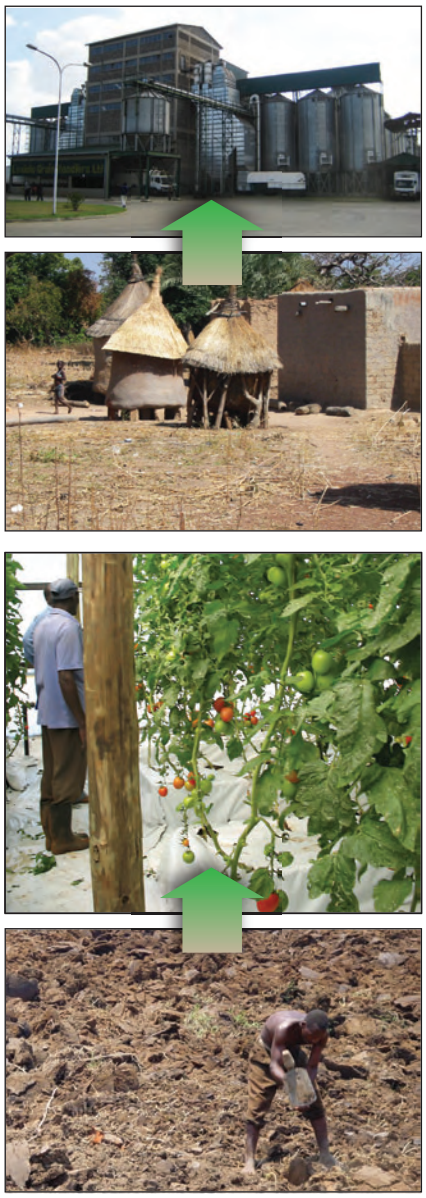
The information on foreign law in this report does not reflect our independent legal analysis but is based on interviews and secondary sources.

We conducted this performance audit from June 2008 to May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Key Donor Initiatives That Support LRP

The following is a summary of some of the key donor food security initiatives in recent years, many of which support LRP. (See fig. 9.)

Figure 9: Selected Key Donor Initiatives That Support LRP, 2006 to 2009



2009 Mar.	• As part of the Omnibus Appropriations Act, Congress appropriated $75 million to enhance global food security, including local or regional purchase and distribution of food
2009 Jan.	• At the Summit on the Global Agenda held in Davos, Switzerland, the World Economic Forum Council on Food Security called for integrating local communities and smallholder farmers into larger food production and distribution • High-Level Meeting on Food Security for All held in Madrid, Spain
2008 Dec.	• Millennium Challenge Corporation (MCC) and the World Food Program sign a Memorandum of Understanding establishing MCC-funded agricultural supply-chain investments and WFP-funded Purchase for Progress (P4P) initiative as possible areas of collaboration • World Bank set up a $2 billion Crisis Response Fast Track Facility, building on the Global Food Crisis Response Program, to provide rapid financing for social safety nets, in the world's poorest countries
2008 Sept.	• UN High-level Event on the Millennium Development Goals estimated generating $1.6 billion to bolster food security • WFP formally launched its P4P program, a $76 million pilot that in up to 21 countries over the next 5 years to enhance smallholder and low-income farmers' access to markets
2008 July	• The G8 Statement on Global Food Security called on donors to participate in making commitments to meet remaining immediate humanitarian needs, provide access to seeds and fertilizers, and look for opportunities to build up local agriculture by promoting local purchase of food aid • UN High-Level Task Force on the Global Food Security Crisis issued its Comprehensive Framework for Action highlighting the need for and the benefits of local and regional purchases in farming communities
2008 June	• Congress appropriated $150 million in supplemented funding for local procurement in response to emergencies, including the global food price crisis • In the 2008 Rome Declaration, 181 heads of state committed to use all means to alleviate the suffering caused by the food crisis, stimulate food production and to increase investment in agriculture, and address obstacles to food access
2008 May	• Congress passed the Farm Bill, authorizing USDA to develop and implement a 5-year, $60 million local and regional procurement pilot program • World Bank Global Food Crisis Response Program, a $1.2 billion rapid financing facility to address immediate needs, is established in addition to taking measures to boost its support for agriculture and food to $6 billion in 2009, up from $4 billion; launched risk management tools; and provided crop insurance to protect poor countries and smallholder farmers
2008 Apr.	• UN Task Force on the Global Food Security Crisis is established under the chairmanship of the Secretary-General • World Bank announced plans to boost overall support for agriculture and food from $4 billion to $6 billion in 2009 as well as the as creation of a new $1.2 billion Global Food Crisis Response Program to address immediate needs in countries most affected by the food crises, including support for food rations purchased locally
2007 Dec.	• FAO Initiative on Soaring Food Prices is launched to respond to the urgent needs of the most vulnerable people confronted with high food prices
2006	• U.S. Administration requested the authority to allow up to 25 percent of P.L. 480 Title II funds to be used for local and regional purchase in order to improve the timeliness, flexibility, and effective use of food aid for those threatened by food security crises

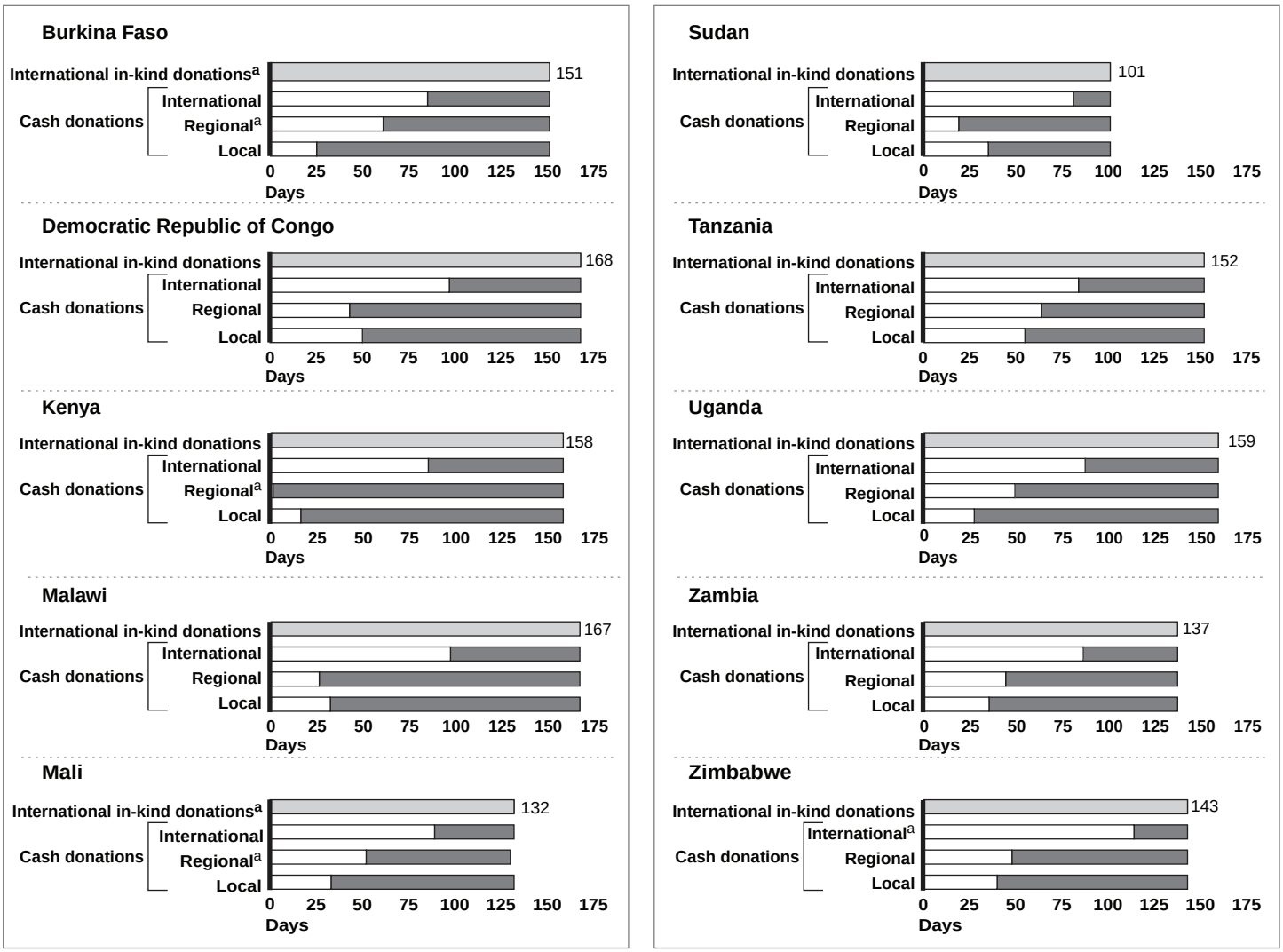
Source: GAO.

Appendix III: Delivery Time by Procurement Type in Ten Selected Countries

To evaluate the impact of local and regional procurement on delivery time, we relied on lead time data provided by WFP for 10 countries in sub-Saharan Africa that we selected, all of which had received locally and regionally procured food aid and food aid donated internationally. The delivery time (also referred to as "lead time") reflects the number of days elapsed between the date of the purchase order and the date WFP took possession of the food in the recipient country. The data cover the period from 2004 to 2008.

As shown in figure 10, international in-kind donations took the longest time, averaging 147 days. Local and regional purchases took on average 35 and 41 days, shortening the lead time from international donations by 112 days and 106 days, respectively.

Figure 10: Median Delivery Times for Selected Recipient Countries in Sub-Saharan Africa, 2004 to 2008



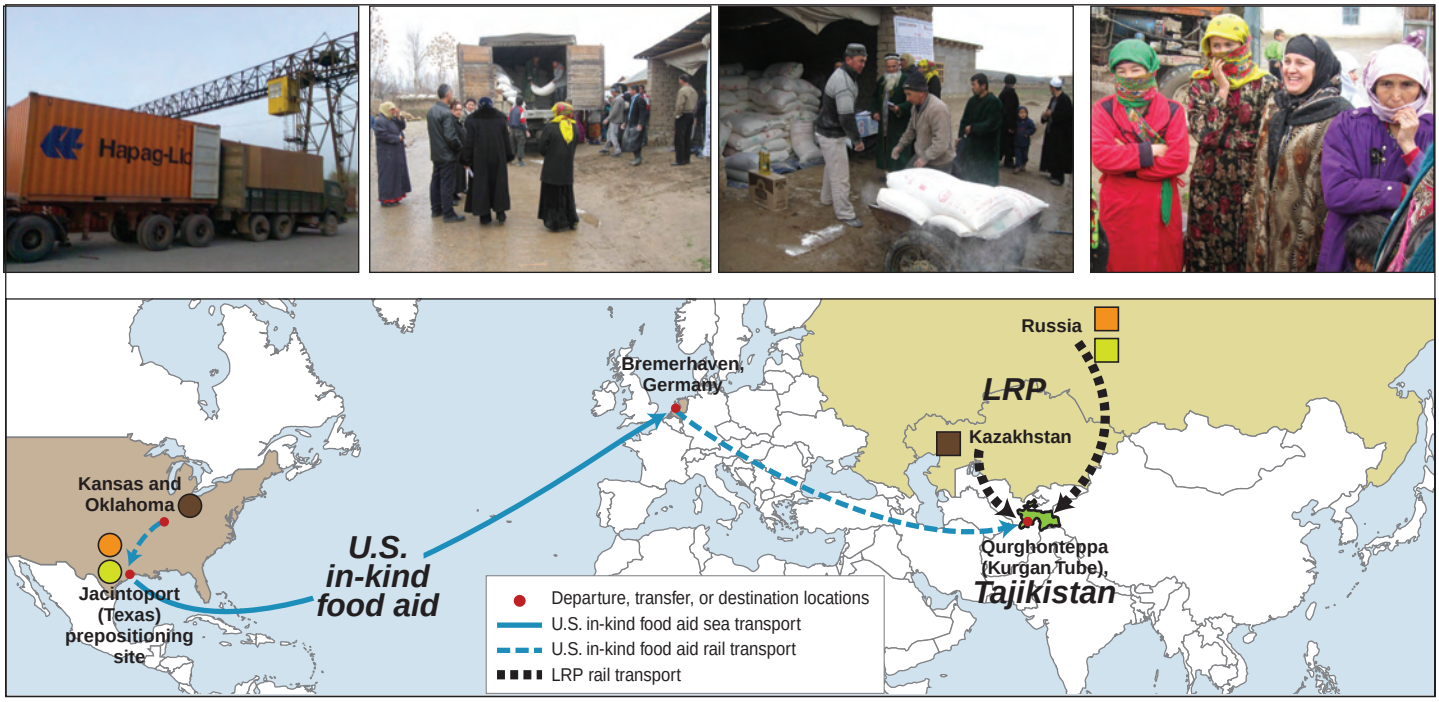
Source: GAO analysis of WFP data.

Note: Data reported in this figure are based on the median lead times for food aid through various procurement modes: international in-kind donations and international, regional, and local procurement made from cash donations.

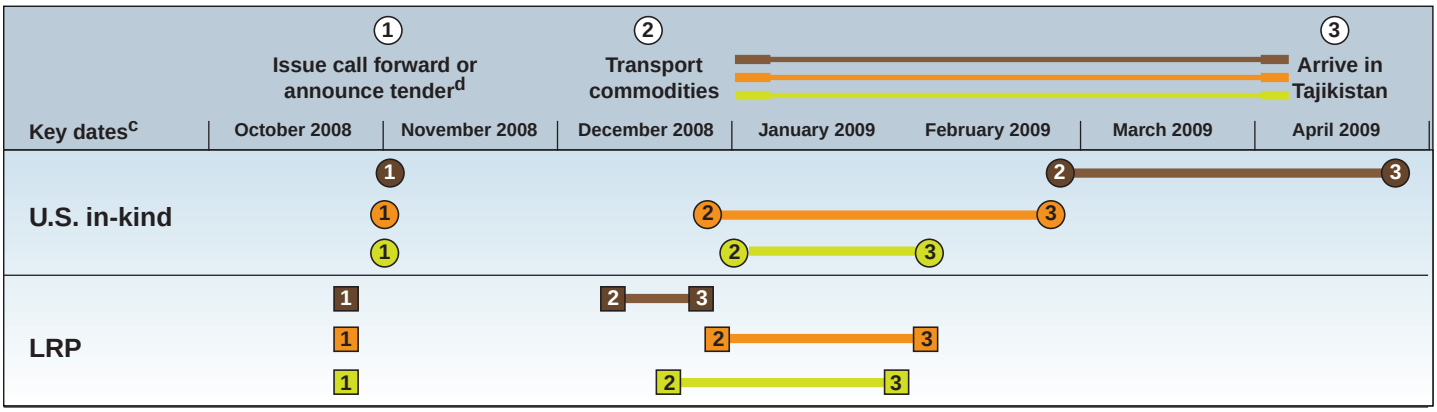
[a]All categories represent at least 20 purchases, except for these numbers.

Appendix IV: Illustrative Example of U.S. In-kind Food Aid Compared with LRP

Figure 11: An Illustrative Example of U.S. In-kind Food Aid Compared with LRP to Tajikistan



Commodity[a] (Cost per metric ton)	U.S. In-kind[b]		LRP	
	Wheat flour	$877	Wheat flour	$528
	Vegetable oil (fortified)	2,220	Vegetable oil (unfortified)	1,916
	Yellow peas	1,043	Lentils	980



Sources: Save the Children (data and photos); Map Resources (map).

[a]Commodities may not be identical. For example, the protein level for U.S. wheat flour may be different from the wheat flour from Kazakhstan. Soybean vegetable oil from the United States is fortified, while cotton seed oil from Russia is not fortified. Yellow peas were provided from the United States, and lentils were provided from Russia.

[b]Yellow peas and fortified vegetable oil were from the U.S. prepositioning site in Jacintoport, Texas, which allowed the commodities to be shipped more quickly.

[c]U.S. in-kind food aid was a USAID Single-Year Assistance Program funded through Title II of the Food for Peace Act. LRP was funded through USAID's 2008 supplemental appropriations.

[d]For U.S. in-kind food aid, we used the date the call forward was issued. For LRP, we used the date a tender was announced, which was then followed by the issuance of a purchase contract.

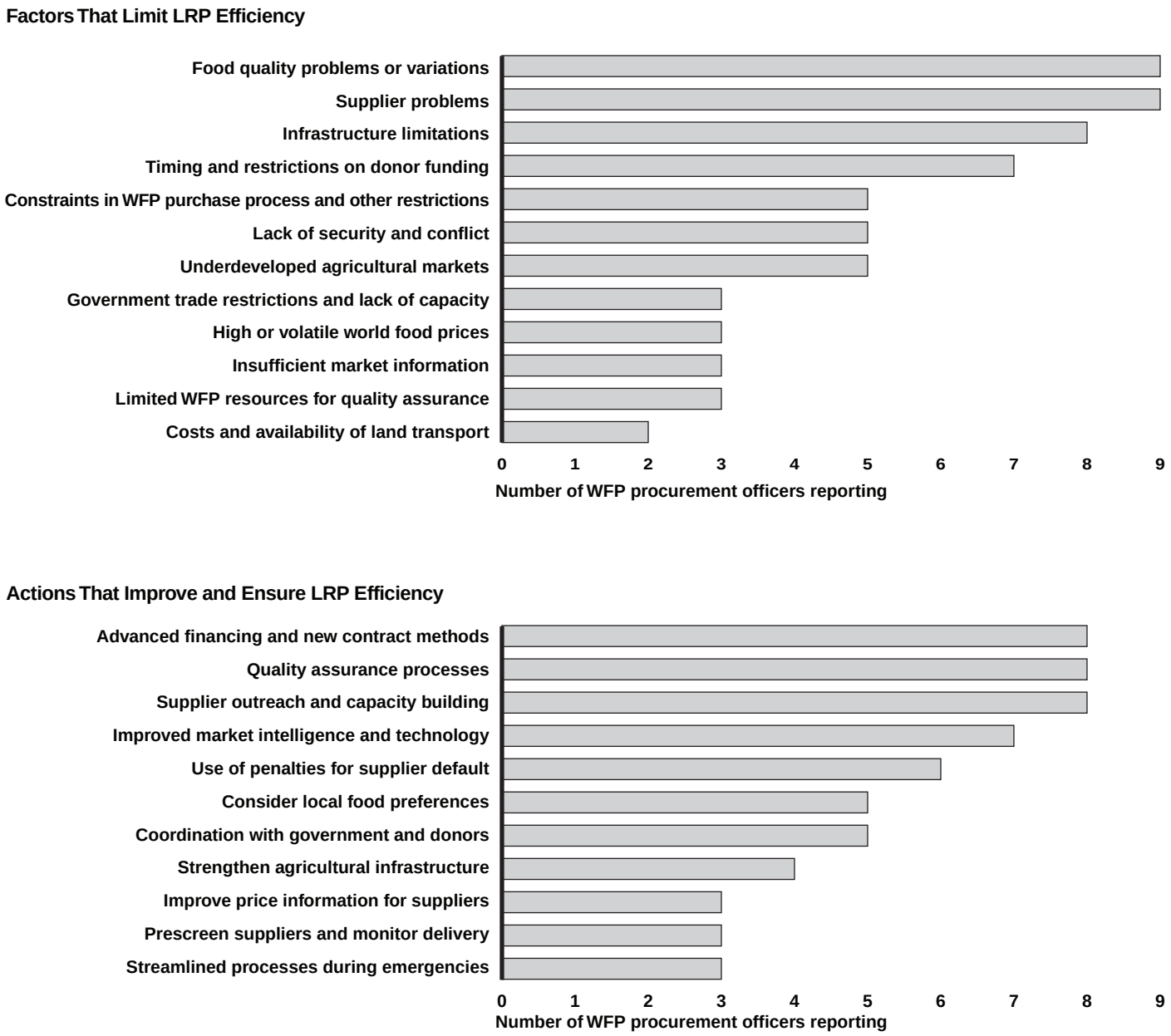
Note: USAID intends to issue updated guidance stipulating that LRP funding be used to purchase commodities whose source and origin are from developing countries.

Appendix V: Results of Interviews with WFP Procurement Officers

To identify factors that could limit the efficiency of LRP, steps WFP has taken to improve the efficiency of LRP, and factors that limit or strengthen the positive development impacts of LRP, we conducted semi-structured interviews with 11 WFP procurement officers in Africa and Asia.

Figure 12 lists the factors that WFP procurement officers reported limit the efficiency of LRP and steps they identified could improve and ensure the efficiency of LRP.

Figure 12: Factors Limiting LRP Efficiency and Actions That Improve and Ensure LRP Efficiency



Source: GAO.

Note: The category of underdeveloped agricultural markets includes factors such as farmers' lack of access to inputs and storage.

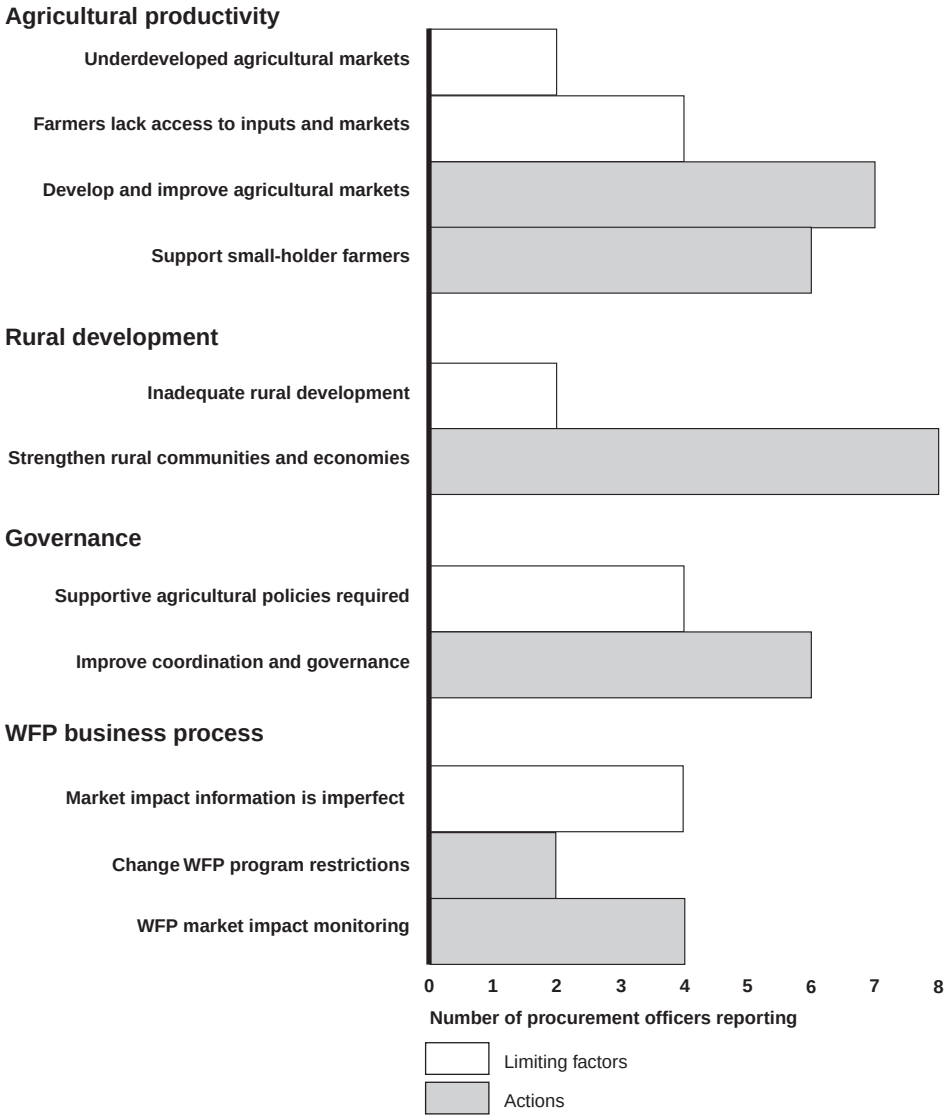
Strengthening agricultural infrastructure includes actions such as provision of raw materials or establishing bagging and processing facilities.

Figure 13 lists factors that limit the positive development impacts LRP could have and actions to improve or strengthen such impacts. The WFP procurement officers discussed topics, some of which we had identified as factors affecting food security in a previous report,[1] namely, agricultural productivity, rural development, and governance, as shown below. Officers also discussed specific characteristics of WFP business practices.

- *Agricultural productivity.* Several officers reported that small farmers' lack of access to inputs and markets or the underdeveloped nature of agricultural markets more generally limits their ability to create positive development impacts with LRP. Up to seven officers suggested actions to improve agricultural productivity. For example, the Thailand officer suggested actions to support small farmers in Laos by providing training on the corn soy production process. The Pakistan officer suggested strengthening agricultural markets by establishing seed nurseries.
- *Rural development.* Two officers indicated that poor rural development, such as inadequate land holdings or inadequate access to information in remote areas, limits their ability to create positive development impacts with LRP. However, eight officers suggested actions to strengthen rural development through, for example, providing equipment to dry grain or educating communities on food fortification.
- *Governance.* Several officers noted that due to the relatively small size of LRPs, particularly those conducted through WFP's P4P program, their ability to result in positive development impacts are limited and ultimately depends on whether local governments also have sound agricultural policies in place that support LRP.
- *WFP business practices.* Four officers mentioned that imperfect market impact information is a challenge to creating positive development impacts with LRP. Four officers discussed the importance of market impact monitoring. Two officers also suggested changes to WFP business practices, such as merging LRP with the P4P program.

[1]GAO, *International Food Assistance: Insufficient Efforts by Host Governments and Donors Threaten Progress to Halve Hunger in Sub-Saharan Africa by 2015* (Washington, D.C.: May 29, 2008).

Figure 13: Factors That Limit Positive Development Impacts of LRP and Actions to Improve or Strengthen Such Impacts



Source: GAO.

Appendix VI: GAO Literature Review of Selected Studies on the Use of LRP

This appendix summarizes selected studies on LRP, including several analytical studies conducted by WFP to assess its use of LRP in sub-Saharan Africa (see table 6). The studies describe the types of markets and the trading environment in which LRP is conducted, as well as the impact of LRP on local markets and the extent to which those markets are integrated; the studies also provide an estimate of savings achieved through LRP. The first study in the table presents the types of questions that should be addressed when undertaking LRP. The remaining studies can be reviewed with these questions in mind.

Table 6: Selected Studies on the Use of LRP

Study: *A Market Analysis and Decision Tree Tool for Response Analysis: Cash, Local Purchase and/or Imported Food Aid?* Daniel G. Maxwell, Erin C. Lentz, and Christopher B. Barrett, Cooperative for Assistance and Relief Everywhere (CARE), May 2007.

Findings:

- The report proposes a number of questions that should be asked when making decisions about LRP.

Limitations:

- What kind of supply response will the LRP market have?
- Can traders supply the demand without price increases on the local market?
- Is the market integrated with other supply markets so traders have incentive to import additional food into the market?
- What is the local price relative to the import parity price (IPP)? Should both of these prices include all costs?
- Do local traders behave competitively? Can traders exercise market power by raising prices so as to extract most of the gains from transfers?
- What is the likelihood of supply disruptions or delays due to breach of contract, insufficient storage capacity, supplier inability to deliver on contract terms, government interference (such as export bans and currency controls), and logistical bottleneck?

Study: Food Procurement in Developing Countries, World Food Program, Executive Board, First Regular Session, Feb. 2006, Rome.

Findings:

- Report summarizes other WFP studies on LRP in Bolivia, Burkina Faso, Ethiopia, Nepal, South Africa, Uganda, and Congo.

Limitations:

- The vast majority of WFP operations is in response to emergencies and has wide fluctuations in needs.
- WFP's food purchasing tends to be irregular and unpredictable, which seriously limits its ability to contribute to market development.
- WFP has not had success in procuring directly from farmers and farmer groups. The case studies indicate that supporting farmers and farmer groups has mixed results and may lead to higher prices paid, higher administrative costs, more contracts, and greater risk of default.
- In many low-income countries, national market intelligence systems are weak, and reliable and timely data are not available.

- Often, it is not the cost of the food, but the management costs associated with local procurement in surplus-producing regions where there is little or no market infrastructure that is prohibitive.
- These management costs include monitoring and supporting the completion of contracts, the costs and risks of contract default, and risk of inadequate food quality.

Study: World Food Program Local and Regional Food Procurement-An Analytical Review (Ethiopian Case Study), Final Report. Addis Ababa: June 2005.

- Year: 2001-2004
- Country: Ethiopia
- Commodity: Corn and wheat

Findings:

- In 2003 there would have been a cost savings of $78 per ton on locally purchased wheat and corn.
- Based on analysis in 1996-2004, 60-70 percent of the markets are integrated.
- Producers receive 75 percent of retail price in Addis Ababa, leaving a 25 percent retail margin.

Limitations:

- Ethiopia's grain marketing system is constrained by lack of access to financial resources, inadequate infrastructures, poor roads, inadequate access to market information, storage facilities, lack of standards and grades, high transfer costs, and nonfulfillment of delivery options.
- Traders deal with small annual volume and do not hold grain in storage for seasonal arbitrage.
- Delivery of the product is a real challenge, particularly ensuring the quality of the product delivered. Rejection of delivery for failure to fulfill quality standards is frequent.
- Since traders do not keep stocks on hand, contract default is a problem when traders are unable to procure the proper amount or quality at the expected price.
- Default occurs if traders get a better offer; there are problems with traders not honoring their commitments.
- Transport shortages and tariff increases hinder timely delivery.

Study: Local and Regional Food Procurement in Uganda an Analytical Review, A study report prepared for the Economic Analysis and Development Policy Unit in the Strategy, Policy and Program Support Division of the World Food Program, Serunkuuma and Associates Consult, June 2005.

- Year: 2001-2004
- Country: Uganda
- Commodity: Corn and beans

Findings:

- In 2003, WFP spent $12 million less on corn and beans purchased from Uganda than if it had imported these commodities.
- While imports from the United States and South Africa may cost less at port, added inland transportation costs made them more expensive than LRP. LRP delivered food to beneficiaries in 3 months while international procurement delivery took an average of 6 months.
- Locally, in 2003, 7 of 8 markets in Uganda appeared integrated. Regionally, Uganda markets were integrated with Tanzania markets but not with Kenya markets.

Limitations:

- WFP contracts require higher quality than locally traded corn—high moisture content and is subject to rot.
- Poor post-harvest practices, storage facilities, and equipment such as dryers and shellers affect quality of final product leading to high post-harvest losses and increased costs to clean the grain.
- Intensification of local purchase contributed to reduction in corn exports.
- Supplies still come from a small number of companies or farmer groups, suggesting high concentration and potential for monopolistic behavior.
- Lack of sufficient storage capacity and access to bank loans without WFP contracts are constraints to smaller traders. High cost of borrowing and unavailability of long-term finance are additional constraints.
- Many traders enter into contracts with WFP before they have stock, putting them at a higher risk for contract default. This also adds pressure on markets because large quantities are purchased in a short period of time, which may lead to drastic price changes.

Study: Food Aid Procurement in South Africa: an Analytical Review of WFP Activities; Nick Vink, Thulasizwe Mkhabela, Ferdie Meyer, and Johann Kirsten; April 2005.

- Year: 2001-2004
- Country: South Africa
- Commodity: Corn

Findings:

- In June 2003, farmers received 53 percent of the retail value of corn meal.
- During the period of analysis, WFP's unit price for maize was above South Africa's average prices.
- This difference in price may be due to the transportation differential, contract delivery terms, and the exchange rate.
- Traders charge a $5-$10 risk premium to account for the time that elapses from submitting a tender to receiving an award.

Limitations:

- While WFP has been active in buying corn in the South African market, WFP purchases represent a very small portion of the market—1/5 to 3/4 of a percentage point of the gross value of South African agricultural production.
- South Africa has a functioning futures commodity market called the South African Futures exchange (SAFEX), which was established after deregulation when the corn board was abolished.
- Purchase prices are determined by comparing SAFEX prices to the IPP, which is the representative price for purchases on the world market.

Study: Democratic Republic of Congo Food Procurement Assessment Mission Euateur, Katanga, Orientale, North Kivu and South Kivu Provinces; World Food Program; May 2007.

- Years: 2001-2006
- Country: Democratic Republic of Congo
- Commodity: Corn and pulses

Findings:

- There is no continuity in WFP purchases; quantities vary significantly from year to year.

Limitations:

- There are zones of food insecurity alongside zones considered food-secure.
- Factors hampering production and purchases include the following:
  - Lack of permanent market buyers;
  - Lack of storage, drying, cleaning, milling, and bagging facilities;
  - Poor road and rail infrastructure;
  - Lack of access to seeds and fertilizers;
  - Excessive official and unofficial (illegal) duties and taxes;
  - Lack of substantial storage or stocks available;
  - Limited facilities for cleaning, drying, and milling;
  - Disruptions to the trading system, which are often/mainly political, such as war; and
  - Quality problems, including moisture content, infestation, and losses due to poor storage.

Study: Impact of WFP's Local and Regional Food Purchases (A Study Case on Burkina Faso) Final Report Submitted by Institut de Sahel Comite' Permanent Inter-Etats de Lutte Contre La Secheresse dans le Sahel, Mali.

- Year: 2002-2005
- Country: Burkina Faso
- Commodity: Corn, corn meal, sorghum, and cowpea

Findings:

- In 2004, prices paid for corn by WFP were lower than the IPP in 6 of 7 LRP operations.
- The price differential ranged from 43 to 72 percent of prices paid by WFP.
- During the period it took an average of 34 days between the invitation for tender and the signing and implementation of the contract.
- Suppliers stated that there were delays in WFP payments.
- WFP purchases did not change the level of integration between markets.
- Market participants indicated that WFP purchases resulted in price increases of between 5 to 10 percent.
- Many organizations intervene in local markets unexpectedly and without prior consultation, simultaneously purchasing large quantities. Such activity contributes to price increases and should be harmonized.

Limitations:

- WFP contracts were concentrated to a limited number of suppliers. There were 15 suppliers, and 3 of them received more than half the payments made.
- Other organizations enter the market with food aid purchases, contributing to price increases. Donors should coordinate.

Study: Local and Regional Food Aid Procurement: An Assessment of Experience in Africa and Elements of Good Donor Practice, David Tschirley, and Anne Marie Del Castillo, Michigan State University International Development Working Paper No. 91, 2007.

- Year: 2001-2005
- Country: Kenya, Uganda, Zambia and Mozambique
- Commodity: Corn and corn/soy blend

Findings:

- The report cites an analysis by Clay, Riley, and Urey to compare estimated costs of food aid from the United States with LRP in three countries.
- LRP was 66 percent less expensive than in-kind donations for all commodities. LRP cost 61 percent less for corn and 52 percent less for corn soy blend.

- Local purchase saved the United States nearly $68 million.
- These savings would allow 75 percent more food aid to be provided.
- Compared local prices to import parity prices, 2001-2005.
- The results were mixed. WFP paid a 10 percent premium in Kenya from 2001 to 2005, an 18 percent premium in Uganda from 2001 to 2004, and the local market price from 2000 to 2005. In Zambia, WFP paid the local price over the period. Some evidence shows that LRP contributed to price surges in Uganda in 2003 and Niger and Ethiopia in 2005 to 2006.

Limitations:

- Contract default is a major risk of LRP.
- Limited pool of qualified traders with certified financial capacity, access to physical infrastructure, and trading experience.
- Most sales remain concentrated in a very small number of trading companies and larger farmers.
- WFP instituted a program of direct procurement from small farmers. Assessments suggest that this approach is expensive, time-consuming, and unreliable, and has little developmental impact.
- Food quality is a risk of LRP. In Kenya, at least two documented cases of aflatoxin poisoning from infected corn resulted in dozens of deaths.

Study: The United States' International Food Assistance Programs: Issues and Options for the 2007 Farm Bill, Christopher B. Barrett, February 2007.

- Year: 2007
- Country: United States
- Commodity: Not applicable; general discussion of U.S. food aid

Findings:

- On average, LRP is 66 percent cheaper across all commodities than direct purchase.
- 36 percent of U.S. food aid shipments to Ethiopia, Kenya, and Tanzania from 1998 to 2002 cost less than comparable local market purchases.
- The study mentions timeliness of LRP versus direct shipment.

Limitations:

- Local and regional purchases are not always simple, available, or effective everywhere.
- Some markets are too thin to absorb a significant increase in commercial food demand without driving up prices.
- Quality control, transport capacity, and trader market power limit donors' procurement options.
- Even taking freight and administrative costs into account, it is sometimes cheaper to import food aid from the United States.
- Legislative restrictions on food aid program result in added costs, delayed deliveries, and reduced cultural appropriateness of commodities.
- These costs are attributable to restrictions placed on food aid with respect to shipping, bagging, and processing.
- These restrictions include the tying of food aid to domestic procurement of commodities, minimum volumes, minimum nonemergency volumes, value-added minimum, bagging minimum, cargo preference, restrictions on use of ports, monetization requirements, and overhead reimbursement for operational agencies.

Study: The Development Effectiveness of Food Aid: Does Tying Matter? Organization for Economic Cooperation and Development, 2006

- Year: 2002-2003
- Country: Various donating and recipient countries
- Commodity: Wheat, corn, cornsoy blend, vegetable oil, and rice

Findings:

- Analysis of food aid transactions by a representative group of 16 donors and 15 selected recipient countries.
- The study looked at resource transfer efficiency (RTE) by comparing the cost of direct aid transfers with the hypothetical cost of an alternative commercial transaction (ACT).
- The actual cost of direct transfers was on average 50 percent more than local food purchases and 33 percent more than food procured in third countries. The range of difference in costs varies widely among donors, commodities, mode of transport and destinations—from 10 percent below to 55 percent higher than the cost of alternative commercial imports.
- While LRP generally cost the least, its cost-effectiveness varied widely. LRP in Africa— Ethiopia, Malawi, Zambia, and Kenya—appeared to cost the least. LRP in India, Jordan and Mauritania cost more than LRP in Africa. The highest costs for LPR were in Haiti.

Limitations:

- The ACT equates to the import parity price (IPP); therefore, local purchase would not be efficient if the overall cost exceeded the IPP.
- Therefore it would be expected that LRP costs would be less than IPP or most cost-efficient.
- LRP is the least-cost alternative.
- For purpose of study treated all direct transfers of food aid as de facto “tied.”
- Comparison includes international transport costs to the same destination, overland transport cost to the point of border entry for land locked countries.
- Comparison does not include internal transport from port or borders to point of distribution, handling, and/or internal storage.
- Calculations do not account for transaction costs of organizing and importing food products.

Source: GAO based on literature review.

Appendix VII: 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.

USAID
FROM THE AMERICAN PEOPLE

MAY 15 2009

Mr. Thomas Melito
Director
International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Melito:

I am pleased to provide the formal response of the U.S. Agency for International Development (USAID) to the GAO draft report "International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid but Challenges May Constrain Its Implementation" (GAO-09-570) (May 2009).

The enclosed USAID comments are provided for incorporation with this letter as an appendix to the final report.

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

Sincerely,

Drew W. Luten
Acting Assistant Administrator
Bureau for Management

Enclosure: a/s

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

USAID COMMENTS ON GAO DRAFT REPORT 09-570

USAID international food assistance programs have proven increasingly responsive to global efforts at reducing food insecurity and targeting those most in need. By responding to assessment and situational information, focusing on reducing risk and vulnerability, targeting the poorest of the poor and better integrating individual programs into larger—often international—efforts, USAID aims to improve the effectiveness of food aid to help reach global targets for reducing hunger, malnutrition and poverty.

As noted by the GAO, in FY 2008, prices of major food commodities increased significantly worldwide, pushing an estimated 40 million more people into hunger, according to the United Nations Food and Agriculture Organization. Each day, over 963 million people do not have enough to eat—more than the populations of the United States, Canada and the European Union combined.

Vulnerable populations will continue to be affected by natural disasters, adverse climate changes and civil strife. The global economic downturn imposes additional constraints that could exacerbate the severity of emergencies and further strain the capacity to respond to them.

In this regard, the GAO report on local and regional procurement (LRP) is very valuable as USAID continues to seek ways to enhance the tools at its disposal to ensure greater effectiveness and efficiency to deliver appropriate and timely food assistance to vulnerable populations in need around the world.

Especially over the past 12 months, the ability to procure food aid commodities locally and regionally has offered USAID an exceptional opportunity to meet humanitarian needs in an efficient and timely fashion; fill pipeline gaps prior to the arrival of food shipped from the United States; and increase the total amount of life-saving food aid U.S. assistance resources can provide in response to the current food security crisis.

For example, when an emergency suddenly occurs with little notice (such as a natural disaster or outbreak of fighting), when food deliveries are unexpectedly interrupted, or when a cease-fire allows rapid access to populations in need, LRP can provide the speed and flexibility needed to deliver food aid as quickly as possible, without the months needed to ship in-kind food aid from the United States.

As noted by the GAO, LRP has stretched the food aid dollar because food purchased locally and regionally is often less expensive than commodities procured and shipped from the United States. In addition to its value as a tool for rapid humanitarian response, LRP also has the potential to strengthen and expand commercial markets, stimulate local and regional food production, and ultimately reduce emergency food aid requirements.

It is important to recognize, however, that LRP, despite its advantages in some situations, is not a viable choice in every food aid situation. Procurement of sufficient amounts of food is not always possible in the country or region where aid is needed without negatively affecting local markets. Export bans and non-trade barriers—including internal transport control posts, customs clearance procedures and import and technical regulations—continue to impede trade in some regions.

Another important consideration is that the bulk of USAID's food aid resources today are directed to ongoing emergencies, such as Darfur and Somalia, rather than sudden and unexpected crises such as earthquakes and tsunamis. For USAID, the optimal humanitarian pipeline is one that delivers a seamless flow of aid and is well-calibrated to match beneficiaries' needs. This is achieved through meticulous planning and a sound understanding of the nature of the needs on the ground. Yet LRP can serve as an important bridge, quickly providing sufficient food supplies to address emergency food aid needs until U.S. in-kind food aid arrives.

In-kind food aid and other tools at our disposal—including pre-positioning commodities near the countries where they are most likely to be needed, and early warning systems—continue to be important elements in USAID's emergency response capabilities.

Pre-positioning

USAID is expanding its pre-positioning capabilities as part of its efforts to be as flexible as possible in emergency food aid responses. Pre-positioning has enabled USAID to reduce food aid delivery time by several months, reducing human suffering and ultimately saving lives. This has proven essential in USAID's reliable delivery of lifesaving assistance to millions in Sudan, Ethiopia and Somalia, for example. USAID is building on its successful practice of pre-positioning commodities by instituting a new management approach that allows it

to use a variety of locations as circumstances warrant, without committing long-term to specific locations to store commodities.

For pre-positioning to work, however, a robust budget for in-kind food aid is required. Unless sufficient funds are regularly available to respond to emergencies and restock pre-positioned supplies, all commodities that are pre-positioned are quickly used, leaving strategic warehouses empty.

Food Aid Quality

USAID concurs that efforts need to increase to jointly develop and implement a system for monitoring and reporting commodity adherence to quality standards and production specifications in all commodity purchases, including recommended approaches to quality assurance in the context of LRP and potential in-country fortification activities.

In order to be able to collect evidence on LRP adherence to quality standards and product specifications, there should be a defined, funded process for this type of monitoring. WFP is working on the framework for such a system. USAID and USDA are also working on a framework for such a system focused on domestic food aid manufacturing and processing.

As part of this process, USAID recently awarded a contract to Tufts University's School of Nutrition to examine the nutritional needs of food aid beneficiary populations and the commodities currently available to meet those needs in the context of total available food resources, including LRP. The study will include a scientific review of current enrichment and fortification technologies, a review of methods for delivery of micronutrients and an active consultative process that involves industry, academic and operational experts and ultimately produces recommendations as to how to most cost-effectively meet the nutritional needs of beneficiary populations with food aid commodities, including through LRP.

This study may lead to revisions in commodity specifications and recommendations for approaches to product monitoring and quality assurance throughout the supply chain, from procurement through programming. Both USDA and WFP are participating in that review, along with representatives of the Food Aid Consultative Group (FACG), and experts in nutrition, quality assurance, food technology and policy.

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USAID and USDA have begun a process of tracking quality issues through a quality feedback loop developed by the FACG Commodity Working Group. This will need to be incorporated into a database that will be able to provide information on food aid processors' and manufacturers' adherence to product specifications and quality standards.

See comment 1.

Considering that all of these processes are currently ongoing, it may be more efficient for GAO to recommend that all food aid organizations collaborate as much as possible in the development and implementation of systems to monitor and follow up on quality assurance and product specification/reformulation issues in all food aid purchases, including local and regional purchase.

Market Impacts and Intelligence

USAID concurs that current and reliable market intelligence, along with coordination among donors, WFP and other LRP stakeholders, is critically important to ensure that increased LRP strengthens local and regional markets and does not distort or cause price increases for low-income consumers.

USAID is working closely with LRP implementing partners to monitor local and regional food prices for any indication of destabilization linked to local purchases. Other factors that are or will be tracked are volumes of food procured, costs and time invested, beneficiaries reached and impact on specific markets. The specific indicators that partners are responsible to monitor and report on are included in USAID grants or cooperative agreements under which LRP resources are provided, and are subject to continuous review and updating.

Moreover, WFP, a major recipient of USAID LRP funds in FY 2008-2009, has an effective system to ensure that LRP is not only a cost-effective alternative, but also does not disrupt local and regional markets. This system includes structural analyses of many key market impact elements, including main crops; agro-ecological zones; levels of production; agricultural seasons; latest food balance sheets; size, location and importance of food markets; principal exports and imports; major barriers to the free flow of food; and inter-regional trading and transport patterns. Market intelligence is also gathered on the expected harvest; the quality of food likely to be available; significant food purchases, including those made by local institutions; commercial exports; estimates of stocks held by traders; potential disruptions to transport networks; and expected flows of food within a region. USAID plans to build upon this system.

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USAID is exploring the use of futures markets to hedge against price risks and increase the cost-efficiency of LRP in developing countries. In South Africa, for example, maize prices for future contracts and options are generated on the futures exchange, SAFEX. This exchange allows buyers to bargain with sellers for cheaper prices on contracts to be fulfilled at a future date. Many African countries have nascent commodity markets, including Ethiopia, Zambia, Malawi and Uganda, and channeling LRP transactions through these emerging markets could be instrumental in ensuring transparency in the LRP activity as well as increasing the visibility and credibility of the commodity market.

USAID plans to conduct an evaluation to review the delivery of FY 2008-2009 local and regional procurement of food aid. This evaluation will review constraints, timeliness, quality, market impact and cost effectiveness regarding LRP activities undertaken in FY 2008-2009.

USAID recognizes the potential for LRP to improve markets for smallholder farmers, especially in Africa, and in FY 2008 allocated $30 million in development assistance funds to facilitate access to markets and enhance smallholder farmers' capacity to benefit from LRP. USAID is providing funding to build the capacity required to alleviate the policy and infrastructure constraints preventing small farmers from accessing markets; promote a transition from subsistence to market-oriented agricultural production; and broaden the geographic and demographic coverage of LRP actions in key countries, including Africa.

Improved local and regional trade, increased income and investment in rural areas, and strengthened linkages among producers, traders, processors and consumers of food staples will reduce vulnerability and encourage markets to respond to shocks in lieu of food aid, including LRP. These advances will encourage local and regional stakeholders to reinforce the need and accountability for pro-trade policies and regulation—a critical element in reducing vulnerability and making increasing global demand work for farmers, especially those in Africa.

In FY 2009, USAID is also supporting with $20 million the WFP "Purchase for Progress" program. The key objectives of the "Purchase for Progress" program are to increase the income of smallholder farmers by sustainably increasing their access to and participation in commercial markets; and to transform WFP food purchase programs so that they better support sustainable production and address the root causes of hunger.

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MARAD and Cargo Preference

See comment 2.

Although USAID appreciates the report's recognition of the difference of opinion about the applicability of the 75 percent threshold to USAID-funded LRP rather than the 50 percent threshold, USAID does not believe that the report goes far enough. It is USAID's view that MARAD's position is devoid of legal merit. As such, we believe that the report should unambiguously indicate this rather than taking the neutral stance that it does.

The Cargo Preference Act of 1954 (Section 901(b)(1)) requires that at least 50 percent of the gross tonnage of certain equipment, materials and commodities be transported on privately owned U.S.-flag commercial vessels. Nevertheless, Section 901b, "Shipment Requirements for Certain Exports Sponsored by Department of Agriculture," emphasis added, requires an additional 25 percent of the gross tonnage of certain agricultural commodities or products thereof be transported on U.S.-flag commercial vessels. This is the basis for the 75 percent threshold applicable to the shipment of commodities under the Food for Peace Act. However, Section 901b(b) provides that "[t]his section shall apply to any export activity of the Commodity Credit Corporation or the Secretary of Agriculture . . .." Emphasis added. Because LRP will be carried out by USAID with Foreign Operations Appropriations Act funding, and has no connection to CCC or the Secretary of Agriculture activities, the plain language of the statute makes clear that the additional 25 percent found in section 901b does not apply to USAID-funded LRP. Furthermore, even if the program in question were carried out by or for CCC or the Secretary of Agriculture, USAID is of the view that the statutory language would preclude its applicability to LRP because 901b applies only to "any export activity." LRP, by definition, does not constitute an export activity. Commodities are purchased locally or regionally, they are not exported from the United States.

See comment 3.

In light of the forgoing, although USAID supports updating the MOU, there is no need to address ocean freight differential and 20 percent excess freight for purposes of LRP in the MOU. Specifically, at the 50 percent threshold, there would be no reimbursement of excess freight costs under USAID's LRP programs.

The report also states that MARAD has authority to require the transportation of U.S.-flag vessels of cargo shipments not otherwise subject to cargo preference when it determines that an agency has failed to sufficiently utilize U.S.-flag vessels. As MARAD has not yet issued regulations to implement this

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new authority, USAID cannot comment until proper vetting takes place on the new regulations.

See comment 4.

Finally, regarding vessel type, USAID does not believe there is disagreement between USAID and MARAD regarding vessel type. The November 8, 2002, MARAD policy document defines a "dry cargo liner."

> A service will be designated as liner service if the service is advertised to the public as ocean freight service of packaged goods by regularly scheduled common carriers, or vessels that follow specific routes to a range of ports on a trade route in U.S. foreign trade. Specific port call may be added or dropped according to cargo availability or other competitive factors. It is not necessary to the designation of liner service for the carrier to have called any particular port on the trade route with any particular vessel. Nor does it matter to the designation of liner service whether the transportation contract is in the form of bookings notes or by voyage or time charter.

This loose definition of vessel type allows for flexibility and healthy competition among U.S.-flag carriers who can, if need be, trade in both parcel and bulk grain shipments. This definition is good for the program.

Summary

Last year's high food price crisis demonstrated the need to have the flexibility to respond to food aid needs with the right tools to suit each situation. Especially over the past 12 months, LRP has demonstrated that commodities can, in some cases, be delivered faster and at a lower cost. This ultimately means that vulnerable people in emergency situations may be helped more rapidly and more people may receive help. LRP and other innovative and flexible tools, such as pre-positioning, strategic and early warning planning, as well as in-kind food aid, should be included in a full range of response options and used when conditions deem that it would contribute to the most efficient and effective response.

The following are GAO's comments on the U.S. Agency for International Development letter dated May 15, 2009.

GAO comments

1. Our recommendation to systematically collect evidence on LRP's adherence to quality standards and product specifications does not preclude such collaboration as part of efforts, consistent with our 2007 recommendation, to develop a coordinated interagency mechanism to update food aid specifications and products to improve food quality and nutritional standards. We agree with USAID that including actions to collect evidence on LRP's adherence to quality will make ongoing efforts to improve food quality more efficient.

2. In providing information on agencies' interpretations of cargo preference requirements as they pertain to LRP, we sought to identify areas of ambiguity where agencies disagree on the applicability of these requirements. We did not attempt to adjudicate the differences in interpretation among the agencies involved. However, in technical comments to a draft of this report, DOT changed its position regarding thresholds and now concurs with USAID's interpretation, thus eliminating this issue as an area of ambiguity. This is reflected in the final report.

3. See comment 2.

4. We modified text to reflect USAID'S agreement with DOT's definition of vessel type.

Appendix VIII: Comments from the U.S. Department of Agriculture

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

USDA

MAY 1 5 2009

United States Department of Agriculture

Farm and Foreign Agricultural Services

Foreign Agricultural Service

1400 Independence Ave, SW
Stop 1060
Washington, DC 20250-60

FAS
Linking U.S. Agriculture to the World

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) appreciates the opportunity to provide a substantive response to the Government Accountability Office (GAO) draft report on international food assistance titled "Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid but Challenges May Constrain Its Implementation" (GAO-09-570). The following comments are based on a draft that was provided to USDA by GAO on Friday, May 1, 2009.

USDA agrees that local and regional procurement is an important tool that, when used appropriately, at the right time and under the right conditions, can reduce commodity and transportation costs, and shorten delivery times. The timing of food aid deliveries is especially critical to the success of life-saving emergency food aid programs. Moreover, the potential cost-savings afforded by local and regional procurement can enable food aid donors to purchase larger volumes of commodities where available and assist greater numbers of people with the same level of resources. In addition to meeting immediate food aid needs, a well-targeted local and regional procurement program with a reliable source of funding can have a developmental impact in the countries in which the commodities are sourced.

Local and regional procurement, in-kind food aid, and prepositioning facilities provide the U.S. Government with a valuable array of tools to fight global food insecurity. Each of these tools has its strengths and weaknesses, but the U.S. Government needs access to all of them in order to respond to a variety of food security threats.

See comment 1.

USDA notes the results of the analysis in the report that show insightful comparisons of costs and delivery times, as well as the challenges of matching like transactions. The results may provide an estimate of cost differences, but USDA believes that precision is lost by aggregating some of the commodity groups, including vegetable oil and beans. The report does not specify how differences in quality or specifications were handled, and comparing the costs of different qualities of the food products would affect the calculated cost differences. USDA also notes that GAO did not report on any comparison between delivery times for locally and regionally procured aid and prepositioned, in-kind food aid.

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Mr. Thomas Melito
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Commodity Quality Standards:

USDA recognizes the importance of having enforceable commodity quality standards and product specifications in local and regional procurement. The authorizing law requires that USDA and grant recipients ensure that locally and regionally procured bulk and processed commodities are fit for human consumption and meet the specifications, as well as the nutritional, quality, and labeling standards of the importing country (i.e., the recipient country). USDA plans to require grant recipients to enter into written contracts with commodity suppliers. These contracts will state the minimally acceptable commodity quality standards and specifications that must be met. USDA plans to require the grant recipients to report on the quality, specifications, and purchase process of all local and regional procurements. The nature of each response will determine where and from whom commodities are sourced.

During an emergency operation, implementing partners are likely to procure commodities in the regional market from mid to large-scale commercial wholesalers. Such entities can easily supply a large volume of high-quality commodities in a timely manner, enabling implementing partners to get food to beneficiaries as fast as possible. By contrast, when carrying out an agricultural development program, implementing partners may target local purchases to small-holder farmers, farmer cooperatives, or other small-scale suppliers. Commodities that are purchased locally from a variety of small suppliers will not necessarily be of identical quality or have the same specifications as those that are purchased regionally from mid to large-scale commercial wholesalers. However, this does not automatically mean that they are not fit for human consumption or that they are of lesser nutritional value. For example, the moisture content of whole grain such as wheat that has been purchased from small-holder farmers or farmer cooperatives in most instances will be higher than the moisture content of wheat that has been purchased on the commercial market. This is because small-holder farmers lack proper drying and warehousing facilities. In such cases, implementing partners will have to take care to ensure that the moisture content still meets the specifications of the recipient country, and that the grain has been adequately tested for infestation, excess foreign matter, and the presence of molds and fungi.

Food aid agencies make purchases from small-holder farmers and farmer cooperatives in order to address developmental concerns such as endemic poverty and chronic food insecurity. The primary goal of purchasing from such producers is to boost their income in the short-term and reduce food insecurity while improving their ability to meet commercial quality standards and product specifications in the long-term.

See comment 2.

To date, there is no evidence that any food aid program beneficiaries have ever received locally and/or regionally purchased commodities that were unsafe or unfit for human consumption.

Mr. Thomas Melito
Page 3

Cargo Preference:

USDA agrees that greater clarity on how to interpret cargo preference regulations would be helpful. USDA recognizes the importance of the cargo preference Memorandum of Understanding (MOU) and is eager to work with United States Agency for International Development (USAID) and the U.S. Maritime Administration (MARAD) to update this agreement. USDA is in frequent communication with USAID and MARAD on a variety of policy and operational issues, and hopes that similar discussions can take place soon with respect to the MOU.

USDA also agrees that 75 percent of all CCC-funded commodities for USDA food aid programs must be shipped on U.S.-flag vessels, and that a portion of the transportation costs that are in excess of 20 percent of the total program costs are subject to reimbursement by MARAD. However, it needs to be clarified whether or not USDA will receive reimbursement for excess freight costs for regionally procured commodities that are shipped on U.S.-flag vessels under the local and regional food aid procurement pilot program. USDA believes that such costs are subject to reimbursement by MARAD.

See comment 3.

USDA believes that for programs administered under USDA, USDA is the determining agency for U.S.-flag vessel availability. USDA will confer with MARAD prior to making such a determination. This determination is made on the basis of USDA programmatic needs. Contrary to the GAO's interpretation, USDA would like to clarify that MARAD is the determining agency of what constitutes a fair and reasonable rate.

USDA recognizes that it will face challenges when booking ocean freight under this program due to the likelihood that U.S.-flag carriers will not always be available. However, USDA will work with MARAD to ensure that grant recipients comply with cargo preference requirements to the greatest extent possible. It should be noted that USDA food aid programs have been fully compliant with cargo preference requirements for a number of years, and USDA will endeavor to the best of its ability to continue to meet cargo preference requirements.

Reliability of Market Intelligence:

Local and regional procurement is an important tool that has the potential to improve the timeliness and effectiveness of USDA food security programs, but it also is a tool that must be used in the appropriate place and at the appropriate time. USDA shares GAO's concern that poorly targeted local and regional purchases have the potential to lead to price spikes and shortages of staple foods in source countries, just as poorly targeted distributions of in-kind food aid have the potential to depress prices and negatively impact domestic production in recipient countries. USDA agrees that the best way to mitigate these potential adverse effects is through improved market intelligence.

In a recent USDA study titled "The Use of Local and Regional Procurement in Meeting the Food Needs of Those Affected by Disasters and Food Crises", USDA recommended several timely and reliable sources that food aid donors and implementing agencies could

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reference when gathering information about commodity prices, average estimates of production, and local and regional trading patterns. Among those are reports from the USAID Famine Early Warning System Network, World Food Program (WFP) Vulnerability Assessment Mission (VAM) reports, joint WFP/Food and Agriculture Organization of the United Nations Crop and Food Supply Assessment Mission reports, and WFP and Private Voluntary Organization (PVO) emergency needs assessment reports.

As noted by GAO, the USDA study also recommended that food aid donors and implementing partners closely coordinate with host-country governments and utilize data from host-country government information systems wherever possible. Local and regional procurement presents an opportunity for donors and implementing partners to collaborate more closely with one another and with host-country governments to build their capacity to effectively monitor the food security situation in recipient countries.

Improving host-country government capacity to gather market intelligence and to undertake ongoing analyses of the food security situation is a cost-effective way to improve existing early warning systems and avoid causing harm to markets and low-income consumers in areas where food is locally procured. As greater numbers of host-country governments begin to implement or expand their own social welfare programs, this strategy also will ensure that WFP and PVOs do not find themselves in competition with host-country governments for the same limited supply of surplus commodities. In fact, USDA strongly believes that coordination among all stakeholders is critical to avoiding harm to low-income consumers and fragile market systems.

See comment 4.

USDA recognizes the challenges and risks of working in areas without solid market intelligence, but the USDA study found no widespread evidence of adverse impacts from local and regional procurement. On the contrary, it appeared that the majority of food aid agencies have begun to put additional safeguards in place to avoid causing harm. WFP has been working to build a more robust monitoring and information system with funding from other donors, and it is also increasing its number of staff in the field. PVOs, which traditionally have received less funding for local and regional procurement, are developing procurement plans and increasing the number of staff with the experience to engage in local and regional procurement.

For its part, USDA will take appropriate steps to ensure that grant recipients under the local and regional procurement pilot program adhere to the "Do No Harm" principles outlined in the Farm Bill legislation, including ensuring that USDA-funded local and regional procurements:

- Do not increase the price of food for low-income consumers,
- Do not disrupt global agricultural commodity markets,
- Do not disrupt normal patterns of commercial trade, and
- Do not harm farmers in the recipient country or in a neighboring country in the region.

Mr. Thomas Melito
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USDA also will require that grant recipients demonstrate their capacity to conduct local and regional procurements, as well as their capacity to engage in ongoing monitoring and reporting of standard indicators, including pre-purchase and post-purchase prices, prior to receiving funding.

At this time there are few publications available on the lessons learned from local and regional procurement, and even fewer quantitative analyses of its impact. During the final year of the local and regional procurement pilot program, USDA will hire an experienced contractor to conduct an independent evaluation of the program in order to gain a clearer picture of how local and regional procurement can be used in combination with other interventions to more effectively address global food insecurity.

Sincerely,

Michael V. Michener
Administrator
Foreign Agricultural Service

The following are GAO's comments on the U.S. Department of Agriculture's letter dated May 15, 2009.

GAO comments

1. To obtain an overall picture of costs, we worked to ensure that we had the largest number of procurement transactions, over the longest possible time period for which we had data so some aggregation was required. We acknowledge the variations in the cost differentials in figure 4 that provides the range of differences between USAID and WFP local procurement in sub-Saharan Africa. Our analysis demonstrated consistent results across 8 years of data. For example, 95 percent of local purchases in sub-Saharan Africa cost less than USAID commodities to the same country procured at around the same time. We did not differentiate the prepositioned commodities in the cost comparison, but they were included in our data. However, they represented a small part of U.S. food aid during the period of time that we examined.

2. The issue of quality is one that many WFP procurement officers and others we interviewed identified as a challenge for LRP. However, the lack of systematically collected data makes it difficult to objectively analyze how LRPs adhere to quality standards and product specifications and whether LRP differs in quality from U.S. commodities. Our first recommendation addresses the issue of quality, which would also include improving nutritional standards.

3. We added information to clarify MARAD's role as the determining agency of "fair and reasonable rates" but note that DOT interprets its role as the sole agency responsible for determining U.S.-flag availability.

4. While we recognize that there is no widespread evidence of LRP causing adverse impacts in markets, we believe that there is a preponderance of information to show that in many developing countries there is a lack of reliable market information. Widespread evidence of any impacts, adverse or otherwise, will not become available in many countries until market intelligence systems are made more reliable and widely used. Therefore, it is important to focus on the potential risk for adverse impacts on markets in areas where LRP is practiced.

Appendix IX: Comments from the U.S. Department of Transportation

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

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

Assistant Secretary for Administration

1200 New Jersey Avenue, SE
Washington, DC 20590

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

Dear Mr. Melito:

The Government Accountability Office (GAO) draft report provides useful information on the concept, now being pilot tested, of Local and Regional Purchases (LRP) for food aid programs. Based on its analysis, the GAO draft report concludes that LRP offers a tool to reduce costs and shorten delivery time. In light of factors described below, there is reason to believe that additional analysis may be warranted before reaching that conclusion.

See comment 1.

The food aid and cargo preference statutes of 1954 were envisioned by the Congress to offer a win-win-win approach to addressing hunger in the world. First, the laws were intended to provide food to hungry people throughout the world in need of assistance, and to help develop their economies. Second, the laws were structured to support U.S. farmers, millers and associated American workers. Finally, the laws provided a means to sustain the American shipping industry, which is vital to the nation's defense, by requiring the use of U.S.-flag carriers for the preponderance of food aid shipments. Support of the U.S. fleet was structured in a way that reimbursed the food programs to ensure that efforts in support of the American shipping industry do not come at the cost of feeding the hungry.

While there are certainly opportunities to improve the functioning of this carefully balanced approach to feeding the world's hungry, LRP's potential to serve this function warrants careful scrutiny based on a full analysis of all variables.

Evaluation of LRP Should Consider Additional Factors

The GAO draft report's evaluation of LRP's merits offers little source of comparison to alternatives such as prepositioning of goods, and dismisses other

See comment 1.

potential constraints citing lack of data. The previous GAO report on food aid,[1] explicitly recommended improving efficiency in terms of its amount, timeliness, and quality by cost-benefit analysis of overseas pre-position warehouses and we fully supported the recommendation. However, the current GAO draft report does not consider the cost and time benefits from the previously recommended expansion of pre-position warehouses in comparison to LRP. While the GAO draft report compares the benefits of LRP against in-kind food aid with transportation from the U.S., there is no analysis or comparison to the pre-positioning of food aid overseas.

Other important variables are also not fully considered. The GAO draft report's analysis externalizes or otherwise does not quantitatively consider key factors citing lack of data. This includes factors such as availability of adequate production, transportation, food quality, sales and legal infrastructure in potential LRP source nations. While these factors are identified in the GAO draft report, they are not factored into the GAO draft report's overall conclusion that LRP offers cost and time savings compared to alternatives. For example, with regard to adequate production, the GAO draft report cites Ethiopia as a cost advantageous provider of food aid during the fourth quarter of 2002. During the same time period Ethiopia was also suffering a massive humanitarian crisis due to drought and crop failure, and was appealing for additional food aid. It is unclear how Ethiopia could have been both a cost advantageous source of LRP food aid and simultaneously, a major recipient of food aid, particularly during this period.

See comment 2.

Transit Time Comparison Should Offer Additional Details

A key element of the GAO draft report's analysis regarding transit time could be improved by providing additional detail. The GAO draft report found that on average World Food Program (WFP) data show that between 2004 and 2008, international in-kind food aid donations to the 10 countries in sub-Saharan Africa, required 147 days of lead time compared to about 35 days and 41 days for locally and regionally procured food. DOT analyzed specific data for ocean borne transit times for the 10 Sub-Saharan countries identified in the GAO draft report. Based on analysis of transit times from the U.S. gulf port of Houston, where the domestic pre-position food aid warehouse is located to each foreign port of entry, we found average ocean transit was just 24.5 days or a little over 3 weeks. The longest transit was 31.6 days and the shortest transit was 9.42 days. These transit times do not include loading time which would add an average of 3 days. Based on the information provided in the draft report, we are unable to determine the source of the significant additional lead time required in the draft report's estimate of 147 days compared to the transit times shown above. It would be useful for the draft report to clearly identify the breakdown of elements included in its estimate and the proportion of time required for each.

[1] "Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid" report, GAO-07-560, April 2007

The Maritime Administration performed a time and cost benefit analysis for pre-positioning food aid as compared to an actual regional purchase that took place in the third quarter of 2008. This analysis demonstrates that pre-positioning U.S. sourced food aid yielded shorter transit times and lower cost when compared to regional or hemispheric procured agricultural commodities. Specifically the analysis indicated that utilizing preposition food aid could have resulted in a 52 percent decrease in ocean transit time and a 42 percent cost savings compared to the actual LRP results. The details of our analysis are included with the specific and technical comments that accompany this letter.

Improving Interagency Coordination

See comment 3.

DOT is concerned by the divergence of statutory interpretation of the Cargo Preference requirements conveyed in Table 3 of the GAO draft report. While it is clear that each agency views these requirements through the lens of its own statutory mandate, be that feeding the world's hungry, securing markets for America's farmers, or perpetuating the existence of a U.S. merchant marine, it is necessary for each to work together effectively in recognition of these complementary mandates. By statutory direction, DOT implemented its mandate through regulation, not through an interagency memorandum of understanding (MOU), as described in the GAO draft report. The MOU discussed in the draft report merely describes the process for reimbursement of any ocean freight differential. We have long recommended that the regulations would benefit from updating and revision and we stand ready to work with all shippers and carriers of government-impelled cargoes to accomplish that objective.

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

The following are GAO's comments on the U.S. Department of Transportation's letter received May 22, 2009.

GAO comments

1. Although further analysis of LRP practices would be useful, we believe that the results of our analysis demonstrate consistent results over 8 years of data, with 95 percent of local purchases in sub-Saharan Africa costing less than USAID commodities to the same country around the same time. Although we did not differentiate prepositioned commodities in our cost comparison, they were included in our data analysis. However, it is important to note that prepositioned commodities were a very small part of U.S. food aid during this time period. Nonetheless, we recognize that prepositioning can affect delivery time, which was the case in the Tajikistan example where prepositioned food from Jacintoport shortened delivery time. Additionally, DOT questioned an illustrative example we used in this report on potential cost savings in purchasing wheat in Ethiopia because it believed the country had severe shortage in 2002. Although there may be limited capacity for local procurement, disasters are often localized, and there may be surplus regions within the country or in nearby countries. This is precisely a rationale for LRP. In fact, WFP purchased 74,000 metric tons of wheat in Ethiopia locally in the last quarter of 2002, and the average price was lower than wheat procured from the United States.

2. Ocean shipping is one of the many stages in food aid procurement and delivery. While DOT found that the ocean transit time from a prepositioning site averaged only 24.5 days, trans-Atlantic shipping, which account for majority of U.S. food aid to sub-Saharan Africa takes longer. Therefore, the ocean transit time DOT provided in its letter does not represent the typical U.S. food aid delivery time. In addition, other stages of food procurement and delivery add time to the entire process. In order to do a fair comparison of delivery time among various procurement types and to ensure comparability in the procurement and delivery stages, we identified countries that had received significant amount of LRP and international food aid from the WFP. Although the breakdown of the different elements in the delivery time might be useful (which we could not do from the data provided to us by WFP), it does not change our finding that LRP to these countries took less time than international food aid.

3. Although DOT does implement cargo preference statutes through regulation, the regulations often contain ambiguities that have required resolution through a MOU. Our report describes new ambiguities that

could arise in applying cargo preference in the context of regional procurement. We believe that these ambiguities need to be resolved—and can be resolved—by updating the MOU. Further, there is no requirement that establishing regulation precede an MOU nor does a MOU preclude the issuance of new regulation. The updated MOU, establishing consensus among the relevant agencies, could be reflected in any future regulation that DOT may draft and get finalized through the rule-making process.

Appendix X: Comments from the World Food Program

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

World Food Programme

Programa Mundial de Alimentos

Programme Alimentaire Mondial

برنامج الأغذية العالمي

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15 May 2009

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

Dear Mr Melito,

The flexibility to undertake local or regional food procurement (LRP) is a potent tool that, when used appropriately, can maximize the impact of effective, efficient food assistance. WFP welcomes the GAO's timely and thoughtful exploration of this key issue in international food aid.

See comment 1.

It is perplexing though to read that "concerns persist about the quality of food procured in developing countries." There is no body of evidence showing that LRP introduces quality challenges that are not already challenges to internationally procured and donor provided food aid (such as those associated with US food aid cited in the report GAO-07-560). Moreover, ***WFP quality control measures are designed to ensure appropriate quality standards irrespective of the procurement modality.*** For all our food purchases (local, regional, or international), WFP specifications meet and usually exceed both the country of origin specifications and Codex Alimentarius recommendations. All food purchased by WFP is inspected by globally respected inspection companies prior to shipment and distribution. In the case of more sensitive processed foods, samples are taken for lab testing as well. Food is also examined upon arrival at destination and at various points along the supply chain. If at any point food is found not to conform to standard, WFP initiates additional rigorous sampling exercises following the Codex CAC/GL 50-2004 guidelines with an Acceptable Quality Limit at a medium to higher inspection level. The product is analyzed in pre-identified reference labs and subsequent actions taken are then based on scientific evidence.

WFP also regularly inspects food processors to ensure that they comply with Good Manufacturing Practices and Hazard Analysis Critical Control Points. As the report notes, our surveyors have found plants that did not comply with the standards. We have suspended engagements with plants that failed to comply with major requirements and restored activity only after all issues were resolved. ***Rather than raising concerns about LRP, these considerations strengthen confidence that WFP control measures already in operation do detect and respond appropriately to quality lapses regardless of where food is procured.***

See comment 2.

There is a similar tension between hypothetical lapses and operational realities in the market impact sections in the report. Despite presumed "potential" for LRP, if practiced carelessly, to adversely affect host markets, ***there is no systematic evidence to suggest that current LRP practices actually are careless or actually do adversely impact host markets*** let alone generate difficulties for consumers in host markets.

See comment 3.

One tool used by WFP to help decide whether any given local purchase transaction will have adverse market impact is import parity price comparisons. The cost of import parity can help indicate in many local markets whether commercial stocks are reducing in country and demand is pushing over supply, due to, for instance, an impending drought. Noting WFP's practice of import parity pricing, the report argues that WFP's use of import parity "is based on the assumption that markets are well integrated and that the country imports food". This is not in fact the case. WFP does not use an *import price in country* as the basis for calculating import parity. Instead, WFP compares costs of local procurement against FOB prices drawn from multiple tenders and integrates these prices with transport costs to the destination. Thus our use of import parity pricing as a tool to help guide LRP decisions is not premised on an assumption of integrated markets and national imports but instead reflects real costs to deliver food to specific locations in country even when markets are not integrated.

See comment 4.

More generally, although WFP is a large buyer of humanitarian food aid, WFP tends to buy small proportions of total production in the markets where we procure food – often less than one percent. Regardless of whether it is a government, a commercial trader, or a humanitarian organization that is procuring food, "potential" no doubt exists for transactions to exert price pressures. However, on the modest scale at which WFP operates compared to total market activity in the markets where we operate, it is hard to substantiate arguments that it is a humanitarian food purchase that is responsible for any given price increase. And it is difficult indeed to link any short term localized price effect of a small scale commodity purchase to any general negative impact on consumers in that market.

The above qualifications notwithstanding, WFP would again like to thank the GAO for broaching this important topic. We are facing a world where thousands of people die of hunger related causes each and every day. For nearly a billion hungry people around the world, there is no single solution. We must deploy all the resources and techniques we can muster. Local and regional procurement of food aid is not a panacea. It is one of numerous tools that we need in the toolkit to deliver effective efficient food assistance to those in greatest need.

Thank you for taking on this important report.

Yours sincerely

Amir Mahmoud Abdulla

The following are GAO's comments on the World Food Program's letter dated May 15, 2009.

GAO comments

1. The issue of quality is one area that many WFP procurement officers we spoke with mentioned as a challenge in local and regional procurement. In addition, quality is an area of concern expressed by organizations such as the U.S. Wheat Associates. However, the lack of systematically collected data makes it difficult to objectively analyze how LRPs adhere to quality standards and product specifications. Our first recommendation addresses this issue.

2. In our report, we explain several of the efforts that WFP and others have taken to significantly improve the availability and reliability of market intelligence in developing countries. Yet, as WFP's own documents state, in many low-income countries national market intelligence systems are weak and unreliable, and timely data are not always available, which may limit the effectiveness of WFP's market intelligence efforts.

3. We modified text, adding language in the report to explain that the use of import parity prices to determine when to switch from local procurement to regional or international procurement may be constrained. Specifically, in some countries, commodity prices may be so much lower than import parity prices that it would take substantial price increases to reach the import parity price threshold.

4. We recognize that WFP's market position in many countries is very small (less than 1 percent in Burkina Faso, for example) and we state that in the report, noting that this limits the effects that LRP can have on prices. Also, recognizing that it is difficult to demonstrate an absolutely causal relationship between a discrete WFP local purchase and a discrete price increase, we note that LRP, when combined with other market interventions, unreliable market intelligence, poorly functioning and unintegrated markets, and other factors, has the potential to cause price hikes and reduce consumers' access to food. Therefore, we recommend improving the reliability and utility of market intelligence in order to guard against the risks associated with a lack of reliable market information.

Appendix XI: GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito (202) 512-9601 or melitot@gao.gov

Staff Acknowledgments

In addition to the person named above, Phillip Thomas (Assistant Director), Sada Aksartova, Kathryn Bernet, Carol Bray, Ming Chen, Debbie Chung, Lynn Cothern, Martin De Alteriis, Mark Dowling, Etana Finkler, Katrina Greaves, Kendall Helm, Joy Labez, Andrea Miller, Julia A. Roberts, Jerry Sandau, and David Schneider made key contributions to this report.

Related GAO Products

International Food Security: Insufficient Efforts by Host Governments and Donors Threaten Progress to Halve Hunger in Sub-Saharan Africa by 2015. GAO-08-680. Washington, D.C.: May 29, 2008.

Foreign Assistance: Various Challenges Limit the Efficiency and Effectiveness of U.S. Food Aid. GAO-07-905T. Washington, D.C.: May 24, 2007.

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