

Testimony

Before the Committee on Agriculture, Nutrition, and Forestry

U.S. Senate

United States Government Accountability Office

GAO

For Release on Delivery Expected at 9:30 a.m. EDT

Wednesday, March 21, 2007

FOREIGN ASSISTANCE

U.S. Agencies Face Challenges to Improving the Efficiency and Effectiveness of Food Aid

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GAO-07-616T

Chairman Harkin, Ranking Member Chambliss, and Members of the Committee:

I am pleased to be here today to discuss ways to improve the efficiency and effectiveness of U.S. food aid. The United States is the largest provider of food aid in the world, accounting for over half of all global food aid supplies intended to alleviate hunger and support development in low-income countries. Since its last reauthorization of the Farm Bill in 2002, Congress has appropriated an average of \$2 billion per year in annual and supplemental funding for U.S. international food aid programs, which delivered an average of 4 million metric tons of agricultural commodities per year. In 2006, U.S. food aid benefited over 70 million people through emergency and development-focused programs. However, about 850 million people in the world are undernourished in 2007--a number that has remained relatively unchanged since the early 1990s, according to United Nations (UN) Food and Agriculture Organization (FAO) estimates.<sup>1</sup> Furthermore, the number of food and humanitarian emergencies has doubled from an average of about 15 per year in the 1980s to more than 30 per year since 2000, due in large part to increasing conflicts and natural disasters around the world. Despite growing demand for food aid, rising transportation and business costs have contributed to a 43 percent decline in average tonnages delivered over the last 5 years.<sup>2</sup> For the largest U.S. food aid program, Title II of the Food for Peace program, these costs now account for approximately 65 percent of expenditures, highlighting the need to maximize the efficiency and effectiveness of U.S. food aid.

My testimony is based on a report that we expect to issue in April 2007. Today, I will primarily focus on the need to improve the efficiency of delivery of U.S. food aid. I will also focus on the importance of efforts to monitor U.S. food aid programs in order to enhance their

effectiveness. In addition to these issues, our April report will address monetization, assessments, targeting, and commodity quality and nutritional standards.

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

2 While we acknowledge that commodity prices also affect tonnages, there has been no clear trend in total average commodity prices for food aid programs from fiscal year 2002 to fiscal year 2006.

We conducted the work for the forthcoming report and this testimony between April 2006 and March 2007 in accordance with generally accepted U.S. government auditing standards.

## Summary

Multiple challenges combine to hinder the efficiency of delivery of U.S. food aid by reducing the amount, timeliness, and quality of food provided. These challenges include

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

? transportation and contracting practices that differ from commercial practices and create high levels of risk for ocean carriers, increasing food aid costs. For example, food aid transportation contracts often hold ocean carriers responsible for costly delays that may result when food aid cargo is not ready for loading onto an ocean vessel, or when a destination port is not ready to receive cargo. Ocean carriers factor these costs into their freight rates, driving up the cost of food aid.

? legal requirements that result in the awarding of food aid contracts to more expensive providers and contribute to delivery delays. For example, cargo preference laws require 75 percent of food aid to be shipped on U.S.-flag carriers, which are generally more costly than foreign-flag carriers. The Department of Transportation (DOT) reimburses certain transportation costs, but the sufficiency of these reimbursements varies.

? inadequate coordination between U.S. agencies and stakeholders in tracking and responding to food delivery problems. For example, while food spoilage has been a long-standing concern, the U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) lack a shared, coordinated system to systematically track and respond to food quality complaints.

However, to enhance the efficiency of delivery of food aid, U.S. agencies have taken measures to improve their ability to provide food aid on a more timely basis. Specifically, USAID has been stocking food commodities, or prepositioning them, in Lake Charles (Louisiana) and Dubai (United Arab Emirates) for the past several years and is in the process of expanding this practice. Additionally, in February 2007, USAID and USDA implemented a new transportation bid process in an attempt to increase competition and reduce procurement time frames. Although both efforts may result in food aid reaching vulnerable populations more

quickly in an emergency, their long-term cost effectiveness has not yet been measured.

Despite the importance of ensuring the effective use of food aid to alleviate hunger, U.S. agencies' efforts to monitor food aid programs in recipient countries are insufficient. Given limited food aid resources and increasing emergencies, ensuring that food reaches the most vulnerable populations, such as poor women who are pregnant or children who are malnourished, is critical to enhancing its effectiveness and avoiding negative market impact. However, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries, due to limited staff, competing priorities, and restrictions in the use of food aid resources. For example, although USAID has some non-Title II staff assigned to monitoring, it had only 23 Title II-funded staff assigned to missions and regional offices in just 10 countries to monitor programs costing about \$1.7 billion in 55 countries in fiscal year 2006. USDA has even less of a field presence for monitoring than USAID. As a result, U.S. agencies may not be sufficiently accomplishing their goals of getting the right food to the right people at the right time.

In our draft report, which is under review by U.S. agencies, we recommend that the Administrator of USAID, the Secretary of Agriculture, and the Secretary of Transportation take actions to improve the efficiency and effectiveness of U.S. food aid. These actions include (1) improving food aid logistical planning; (2) modernizing transportation contracting practices; (3) minimizing the cost impact of cargo preference regulations on food aid transportation expenditures; (4) tracking and resolving food quality complaints systematically; and (5) improving the monitoring of food aid programs.

USAID, USDA, and DOT reviewed a draft of this testimony statement and provided us with oral comments, including technical comments that we have incorporated as appropriate. We also provided DOD, State, FAO, and WFP an opportunity to provide technical comments, which we have incorporated as appropriate.

Food aid comprises all food-supported interventions by foreign donors to individuals or institutions within a country. It has helped to save millions of lives and improve the nutritional status of the most vulnerable groups, including women and children, in developing countries. Food aid is one element of a broader global strategy to enhance food security<sup>3</sup> by reducing poverty and improving availability, access to, and use of food in low-income, less-developed countries. Donors provide food aid as both a humanitarian response to address acute hunger in emergencies and as a development-focused response to address chronic hunger. Large-scale conflicts, poverty, weather calamities, and severe health-related problems are among the underlying causes of both acute and chronic hunger.

Countries provide food aid through either in-kind donations or cash donations for local procurement. In-kind food aid is food procured and delivered to vulnerable populations,<sup>4</sup> while cash donations are given to implementing organizations for the purchase of food in local markets. U.S. food aid programs are all in-kind, and no cash donations are allowed under current legislation. However, the Administration has proposed legislation to allow up to 25

percent of appropriated food aid funds for purchase of commodities in locations closer to where they are needed. Other food aid donors have also recently moved from providing less in-kind to more or all cash donations for local, regional, or donor-market procurement. While there are ongoing debates as to which form of assistance is more effective and efficient, the largest international food aid organization, the World Food Program (WFP), continues to accept both.<sup>5</sup> The United States is both the largest overall and in-kind provider of food aid, supplying over one-half of all global food aid.

In fiscal year 2006, the United States delivered food aid to over 50 countries, with about 78 percent of its funding allocations for in-kind food donations going to Africa, 12 percent to Asia and the Near East, 9 percent to Latin America, and 1 percent to Eurasia. Of the 78 percent of the food aid funding going to Africa, 30 percent went to Sudan, 27 percent to the Horn of Africa, 17 percent to Southern Africa, 14 percent to West Africa, and 12 percent to Central Africa.

Food aid is used for both emergency<sup>6</sup> and non-emergency purposes. Over the last several years, the majority of U.S. food aid has shifted from a non-emergency to an emergency focus. In fiscal year 2005, the United States directed approximately 80 percent or \$1.6 billion of its \$2.1 billion expenditure for international food aid programs to emergencies. In contrast, in fiscal year 2002, the United States directed approximately 40 percent or \$678 million of its \$1.7 billion food aid expenditure to emergency programs (see fig. 1).

Figure 1: Emergencies Represent an Increasing Share of U.S. Food Aid Funding from Fiscal Year 2002 to Fiscal Year 2005

a These data represent all food aid programs administered by USAID and USDA.

U.S. food aid is funded under four program authorities and delivered through six programs administered by USAID and USDA,<sup>7</sup> which serve a range of objectives including humanitarian goals, economic assistance, foreign policy, market development and international trade (see app. I).<sup>8</sup> The largest program, Public Law (P.L.) 480 Title II, is managed by USAID and averaged approximately 74 percent of total in-kind food aid allocations over the past 4 years, most of which funded emergency programs (see fig. 2). In addition, P.L. 480, as amended, authorizes USAID to preposition food aid both domestically and abroad with a cap on storage expenses of \$2 million per fiscal year.

Figure 2: Average Shares of Total Funding for U.S. International Food Aid by Program Authority from Fiscal Year 2002 to Fiscal Year 2006 (Dollars in Millions)

aThis includes the Bill Emerson Humanitarian Trust.

U.S. food aid programs also have multiple legislative and regulatory mandates that affect their operations. One mandate that governs U.S. food aid transportation is cargo preference, which is designed to support a U.S.-flag commercial fleet for national defense purposes. Cargo

preference requires that 75 percent of the gross tonnage of all government-generated cargo be transported on U.S.-flag vessels. A second transportation mandate, known as the "Great Lakes Set Aside," requires that up to 25 percent of total food aid tonnage be allocated to Great Lakes ports each month.<sup>9</sup> Other mandates require that a minimum of 2.5 million metric tons of food aid be provided through Title II programs, and that of this amount, a "sub-minimum" of 1.825 million metric tons be provided for non-emergency programs.<sup>10</sup> (For a summary of congressional mandates for P.L. 480, see app. I.)

U.S. food aid programs involve multiple U.S. government agencies and stakeholders. For example, USAID and USDA administer the programs, USDA's Kansas City Commodity Office (KCCO) manages the purchase of all commodities, and the U.S. Maritime Administration (MARAD) of DOT is involved in supporting their ocean transport on U.S. vessels. These and other government agencies coordinate food aid programs through the Food Assistance Policy Council, which oversees the Bill Emerson Humanitarian Trust, an emergency food reserve.<sup>11</sup> Other stakeholders include donors, implementing organizations such as WFP and NGOs, agricultural commodity groups, and the maritime industry. Some of these stakeholders are members of the Food Aid Consultative Group, which is led by USAID's Office of Food for Peace and addresses issues concerning the effectiveness of the regulations and procedures that govern food assistance programs.

Multiple challenges reduce the efficiency of U.S. food aid, including logistical constraints that impede food aid delivery and reduce the amount, timeliness, and quality of food provided. While agencies have tried to expedite food aid delivery in some cases, the majority of food aid program expenditures is on logistics, and the delivery of food from vendor to village is generally too time-consuming to be responsive in emergencies. Factors that increase logistical inefficiencies include uncertain funding and inadequate planning; transportation contracting practices that disproportionately increase risks for ocean carriers (who then factor those risks into freight rates); legal requirements; and inadequate coordination to systematically track and respond to logistical problems, such as food spoilage or contamination. While U.S. agencies are pursuing initiatives to improve food aid logistics, such as prepositioning food commodities, their long-term cost effectiveness has not yet been measured.

Transportation costs represent a significant share of food aid expenditures. For the largest U.S. food aid program (Title II), approximately 65 percent of expenditures are on inland transportation (to the U.S. port for export), ocean transportation, in-country delivery, associated cargo handling costs, and administration. According to USAID, these non-commodity expenditures have been rising in part due to the increasing number of emergencies and the expensive nature of logistics in such situations. To examine procurement costs (expenditures on commodities and ocean transportation)<sup>12</sup> for all U.S. food aid programs, we obtained KCCO procurement data for fiscal years 2002 through 2006. KCCO data also suggest that ocean transportation has been accounting for a larger share of procurement costs with average freight rates rising from \$123 per metric ton in fiscal year 2002 to \$171 per metric ton in fiscal year 2006 (see fig. 3).<sup>13</sup> Further, U.S. food aid ocean transportation costs are relatively

expensive compared with those of some other donors. WFP transports both U.S. and non-U.S. food aid worldwide at reported ocean freight costs averaging around \$100 per metric ton--representing less than 20 percent of its total procurement costs.<sup>14</sup> At current U.S. food aid budget levels, every \$10 per metric ton reduction in freight rates could feed about 1.2 million more people during a typical hungry season.<sup>15</sup>

### Figure 3: U.S. Food Aid Ocean Transportation Costs

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

Delivering U.S. food aid from vendor to village is also a relatively time-consuming task, requiring on average 4 to 6 months. Food aid purchasing processes and example time frames are illustrated in figure 4. While KCCO purchases food aid on a monthly basis, it allows implementing partners' orders to accumulate for 1 month prior to purchase in order to buy in scale. KCCO then purchases the commodities, receives transportation offers, and awards transportation contracts over the following month. Commodity vendors bag the food and ship it to a U.S. port for export during the next 1 to 2 months.<sup>16</sup> After an additional 40 to 50 days for ocean transportation to Africa, <sup>17</sup> for example, the food arrives at an overseas port, where it is trucked or railroded to the final distribution location over the next few weeks. While agencies have tried to expedite food aid delivery in some cases, the entire logistics process often lacks the timeliness required to meet humanitarian needs in emergencies and may at times result in food spoilage. Additionally, the largest tonnages of U.S. food aid are purchased during the months of August and September. Average tonnages purchased during the fourth quarter of the last 5 fiscal years have exceeded those purchased during the second and third quarters by more than 40 percent. Given a 6-month delivery window, these tonnages do not arrive in country until the end of the peak hungry season (from October through January in southern Africa, for example) in most cases.<sup>18</sup>

### Background

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

#### Most U.S. Food Aid Goes to Africa

<sup>3</sup>Food security exists when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life.

<sup>4</sup>In-kind food aid usually comes in two forms: non-processed foods and value-added foods. Non-processed foods consist of whole grains such as wheat, corn, peas, beans, and lentils. Value-added foods consist of processed foods that are manufactured and fortified to particular specifications, and include milled grains such as cornmeal and bulgur, and fortified milled products such as Corn Soy Blend (CSB) and Wheat Soy Blend (WSB).

5WFP relies entirely on voluntary contributions to finance its humanitarian and development projects, and national governments are its principal source of funding. More than 60 governments fund the humanitarian and development projects of WFP.

#### Emergencies Represent an Increasing Share of U.S. Food Aid

6WFP defines emergencies as "urgent situations in which there is clear evidence that an event or series of events has occurred which causes human suffering or imminently threatens human lives or livelihoods and which the government concerned has not the means to remedy; and it is a demonstrably abnormal event or series of events which produces dislocation in the life of a community on an exceptional scale."

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

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

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

#### Multiple U.S. Government Agencies and Stakeholders Participate in U.S. Food Aid Programs

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

9P.L. 104-239, 110 Stat. 3138. See GAO, Maritime Security Fleet: Many Factors Determine Impact of Potential Limits on Food Aid Shipments, GAO-04-1065 (Washington, D.C.: Sept. 13, 2004).

10Due to increasing emergency food aid needs, USAID has not met this sub-minimum requirement since 1995 and has regularly requested and received a waiver from Congress.

11The Bill Emerson Humanitarian Trust, a reserve of up to 4 million metric tons of grain, can be used to help fulfill P.L. 480 food aid commitments to meet unanticipated emergency needs in developing countries or when U.S. domestic supplies are short. The Secretary of Agriculture authorizes the use of the Trust in consultation with the Food Assistance Policy Council, which includes senior USAID representatives. The Trust, as presently constituted, was enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385) and replaced the Food Security Wheat Reserve of 1980.

#### Food Aid Procurement and Transportation are Costly and Time-Consuming

12 Inland transportation costs are included in commodity and ocean transportation contracts.

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

14 World Food Program, WFP in Statistics, July, 2006 and Review of Indirect Support Costs Rate, Report WFP/DB/A.2006/6-C1 (Rome, Italy: May 2006).

15 In this testimony, we use USAID's estimate that 1 metric ton can feed approximately 1,740 people per day. Given that the current average U.S. program cost for 1 metric ton of food aid is \$585, if that average cost had been reduced by \$10 per metric ton through a reduction in ocean transportation freight rates, the fiscal year 2006 food-aid budget could have funded an additional 62,500 metric tons--enough to feed approximately 1.2 million people for a typical peak hungry season lasting 3 months.

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

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

18 GAO has previously reported on the poor timing of food aid delivery. See *Famine in Africa Improving U.S. Response Time for Emergency Relief*, GAO/NSIAD-86-56 (Washington, D.C.: Apr. 3, 1986).

Figure 4: An Example of a U.S. Food Aid Purchase and Its Delivery from Vendor to Village

#### Various Factors Cause Inefficiencies in Food Aid Logistics

Food aid logistics are costly and time-consuming for a variety of reasons. First, uncertain funding processes for emergencies can result in bunching of food aid purchases, which increases food and transportation costs and lengthens delivery time frames. Many experts, officials, and stakeholders emphasized the need for improved logistical planning. Second, transportation contracting practices--such as freight and payment terms, claims processes and time penalties--further increase ocean freight rates and contribute to delivery delays. A large percentage of the carriers we interviewed strongly recommended taking actions to address these contracting issues. Third, legal requirements such as cargo preference can increase delivery costs. Although food aid agencies are reimbursed by DOT for certain transportation expenditures, the sufficiency of reimbursement levels varies. Fourth, when food delivery problems arise, such as food spoilage or contamination, U.S. agencies and stakeholders lack adequately coordinated mechanisms to systematically track and respond to complaints.

#### Funding and Planning Processes Increase Costs and Lengthen Time Frames

Uncertain funding processes, combined with reactive and insufficiently planned procurement, increase food aid delivery costs and time frames. Food emergencies are increasingly common

and now account for 80 percent of USAID program expenditures. To respond to sudden emergencies--such as Afghanistan in 2002, Iraq in 2003, Sudan, Eritrea, and Ethiopia in 2005, and Sudan and the Horn of Africa in 2006--U.S. agencies largely rely on supplemental appropriations and the Bill Emerson Humanitarian Trust (BEHT) to augment annual appropriations by up to a quarter of their budget. Figure 5, for example, illustrates that USAID supplemental appropriations have ranged from \$270 million in fiscal year 2002 and \$350 million in fiscal year 2006 to over \$600 million in fiscal years 2003 and 2005. Agency officials and implementing partners told us that the uncertainty of whether, when, and at what levels supplemental appropriations would be forthcoming hampers their ability to plan both emergency and non-emergency food aid programs on a consistent, long-term basis and to purchase food at the best price. Although USAID and USDA instituted multi-year planning approaches in recent years, according to agency officials, uncertain supplemental funding has caused them to adjust or redirect funds from prior commitments.

Figure 5: Funding for U.S. Food Aid Programs, Annual and Supplemental Appropriations, Fiscal Year 2002 to Fiscal Year 2006 (Dollars in millions)

Agencies and implementing organizations also face uncertainty about the availability of Bill Emerson Humanitarian Trust funds. As of January 2007, the Emerson Trust held about \$107.2 million in cash and about 915,350 metric tons of wheat valued at \$133.9 million--a grain balance that could support about two major emergencies based on an existing authority to release up to 500,000 metric tons per fiscal year and another 500,000 of commodities that could have been, but were not, released from previous fiscal years. Although the Secretary of Agriculture and the USAID Administrator have agreed that the \$341 million combined value of commodity and cash currently held in the trust is more than adequate to cover expected usage over the period of the current authorization, the authorization is scheduled to expire on September 30, 2007. Resources have been drawn from the Emerson Trust on 12 occasions since 1984. For example, in fiscal year 2005, \$377 million from the trust was used to procure 700,000 metric tons of commodities for Ethiopia, Eritrea, and Sudan. However, experts and stakeholders with whom we met noted that the trust lacks an effective replenishment mechanism--withdrawals from the trust must be reimbursed by the procuring agency or by direct appropriations for reimbursement, and legislation establishing the Emerson Trust capped the annual replenishment at \$20 million.<sup>19</sup>

Inadequately planned food and transportation procurement reflects the uncertainty of food aid funding. As previously discussed, KCCO purchases the largest share of food aid tonnage during the last quarter of each fiscal year. This "bunching" of procurement occurs in part because USDA requires 6 months to approve programs and/or because funds for both USDA and USAID programs may not be received until mid-fiscal year (after OMB has approved budget apportionments for the agencies) or through a supplemental appropriation. USAID officials stated that they have reduced procurement bunching through improved cash flow management.<sup>20</sup> Although USAID has had more stable monthly purchases in fiscal years 2004 and 2005, food aid procurement in total has not been consistent enough to avoid the higher prices associated with bunching. Higher food and transportation prices result from procurement bunching as suppliers try to smooth earnings by charging higher prices during their peak seasons and as food aid contracts must compete with commercial demand that is seasonally

high. According to KCCO data for fiscal years 2002 through 2006, average commodity and transportation prices were each \$12 to \$14 per metric ton higher in the fourth quarter than in the first quarter of each year.<sup>21</sup> Procurement bunching also stresses KCCO operations and can result in costly and time-consuming congestion for ports, railways, and trucking companies.

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

<sup>19</sup>Additionally, Congress can appropriate funds to augment the Trust. The Emergency Wartime Supplemental Appropriations Act, 2003 (Pub. L. 108-11) appropriated \$69 million for that purpose.

<sup>20</sup>USAID has taken steps to improve its management of (1) committed and anticipated cash outflows for development and emergency programs, prepositioning, and other accounts; and (2) anticipated cash inflows from annual and supplemental budgets, DOT reimbursements, and other carryover accounts. However, according to a KCCO study, though both USDA and USAID experience an upsurge in purchasing at the end of the year (particularly in September), USDA's is more pronounced.

<sup>21</sup>These figures exclude prices for non-fat dry milk and vegetable oil.

? Improved communication and coordination. KCCO and WFP representatives suggested that USAID and USDA improve coordination of purchases to reduce bunching. KCCO has also established a web-based system for agencies and implementing organizations to enter up to several years' worth of commodity requests. However, implementing organizations are currently only entering purchases for the next month. Additionally, since the Food Aid Consultative Group (FACG) does not include transportation stakeholders, DOT officials and ocean carriers strongly recommended establishing a formal mechanism for improving coordination and transportation planning.

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

? Increased use of historical analysis. DOT representatives, experts, and stakeholders emphasized that USAID and USDA should increase their use of historical analysis and forecasting to improve procurement. USAID has examined historical trends to devise budget proposals prepared 2 years in advance, and it is now beginning to use this analysis to improve timing of procurement. However, neither USAID nor USDA has used historical analysis to establish more efficient transportation practices, such as long-term agreements commonly used by DOD.<sup>22</sup> Furthermore, WFP is now using forecasting to improve purchasing patterns through advanced financing but is unable to use this financing for U.S. food aid programs due to legal and administrative constraints.

Transportation contracting practices are a second factor contributing to higher food aid costs. DOT officials, experts, and ocean carriers emphasized that commercial transportation contracts include shared risk between buyers, sellers, and ocean carriers. In food aid transportation contracts, risks are disproportionately placed on ocean carriers, discouraging participation and resulting in expensive freight rates.<sup>23</sup> Examples of costly contracting practices include:

? Non-commercial and non-standardized freight terms. Food aid contracts define freight terms differently than commercial contracts and place increased liability on ocean carriers.<sup>24</sup> For example, food aid contracts hold ocean carriers responsible for logistical problems such as improperly filled containers that may occur at the load port before they arrive. Food aid contracts also hold ocean carriers responsible for logistical problems such as truck delays or improper port documentation that may occur at the discharge port after they arrive. Further, several carriers reported that food aid contracts are not sufficiently standardized. Although USAID and USDA created a standard contract for non-bulk shipments, contracts for bulk shipments (which currently account for 63 percent of food aid tonnage delivered) have not yet been standardized. To account for risks that are unknown or outside their control, carriers told us that they charge higher freight rates.

? Impractical time requirements. Food aid contracts may include impractical time requirements, although agencies disagree on how frequently this occurs. Although USAID officials review contract time requirements and described them as reasonable, they also indicated that transportation delays are a common result of poor carrier performance and the diminishing number of ocean carriers participating in food aid programs.<sup>25</sup> Several implementing organizations also complained about inadequate carrier performance. WFP representatives, for example, provided several examples of ocean shipments in 2005 and 2006 that were more than 20 days late. While acknowledging that transportation delays occur, DOT officials indicated that some contracts include time requirements that are impossible for carriers to meet. For example, one carrier complained about a contract that required the same delivery date for four different ports. When carriers do not meet time requirements, they must pay costly penalties. Carriers reported that they review contracts in advance and, where time requirements are deemed implausible, factor the anticipated penalty into the freight rate.<sup>26</sup> While agencies do not systematically collect data on time requirements and penalties associated with food aid contracts, DOT officials examined a subset of contracts from December 2005 to September 2006 and estimated that 13 percent of them included impractical time requirements. Assuming that the anticipated penalties specified in the contracts analyzed were included in freight rates, food aid costs may have increased by almost \$2 million (monies that could have been used to provide food to an additional 66,000 beneficiaries).

? Lengthy claims processes. Lengthy processes for resolving transportation disputes discourage both carriers and implementing organizations from filing claims. According to KCCO officials, obtaining needed documentation for a claim can require several years and disputed claims must be resolved by the Department of Justice. USAID's Inspector General reported that inadequate and irregular review of claims by USAID and USDA has also contributed to delayed resolution.<sup>27</sup> Currently, KCCO has over \$6 million in open claims, some of which were filed prior to fiscal year 2001. For ocean carriers, the process is burdensome and encourages them to factor potential losses into freight rates rather than pursue claims. Incentives for most implementing organizations are even weaker given that monies recovered from claims reimburse the overall food aid budget rather than the organization that

experienced the loss.<sup>28</sup> According to KCCO and WFP officials, transportation claims are filed for less than 2 percent of cargo. However, several experts and implementing organizations suggested that actual losses are likely higher. In 2003, KCCO proposed a new administrative appeals process for ocean freight claims that would establish a hearing officer within USDA and a 285-day timeframe. While DOT and some carriers agreed that a faster process was needed, DOT officials suggested that the process for claims review should include hearing officers outside of USDA to ensure independent findings. To date, KCCO's proposed process has not been implemented.

? Lengthy payment time frames and burdensome administration. Payment of food aid contracts is slow and paperwork is insufficiently streamlined. When carriers are not paid for several months, they incur large interest costs that are factored into freight rates. While USDA now provides freight payments within a few weeks, several ocean carriers complained that USAID often requires 2 to 4 months to provide payment. USDA freight payments are timelier due to a new electronic payment system,<sup>29</sup> but USAID officials said this system is too expensive, so they are considering other payment options. In addition, a few carriers suggested that paperwork in general needs streamlining and modernization. The 2002 Farm Bill required both USDA and USAID to pursue streamlining initiatives that the agencies are in the process of implementing. KCCO officials indicated that they are updating food aid information technology systems (to be in place in fiscal year 2009).

Through structured interviews, ocean carriers confirmed the cost impact of food aid transportation contracting practices. For example, 9 (60 percent) and 14 (100 percent) of the carriers reported that "inefficient claims processes" and "liabilities outside the carriers' control" increase costs, respectively. To quantify the impact, two carriers estimated that non-standardized freight terms increase costs by 5 percent (about \$8 per metric ton) while another carrier suggested that slow payment increases costs by 10 percent (about \$15 per metric ton). Over 70 percent of the carriers strongly recommended actions to address contracting practices.

Legal requirements governing food aid procurement are a third factor that can increase delivery costs and time frames, with program impacts dependent on the sufficiency of associated reimbursements. In awarding contracts, KCCO must meet various procurement requirements such as cargo preference and the Great Lakes Set Aside. Each requirement may result in higher commodity and freight costs. Cargo preference laws, for example, require 75 percent of food aid to be shipped on U.S.-flag carriers, which are generally more expensive than foreign-flag carriers by an amount that is known as the ocean freight differential (OFD). The total annual value of this cost differential between U.S.- and foreign-flag carriers averaged \$134 million from fiscal years 2001 to 2005. Additionally, since only a relatively small percentage of cargo can be shipped on foreign-flag vessels, agency and port officials believe that cargo preference regulations discourage foreign-flag participation in the program and result in delays when a U.S.-flag carrier is not available. DOT officials emphasize that USAID and USDA receive reimbursements for most if not all of the total OFD cost--DOT reimbursements varied from \$126 million in fiscal year 2002 to \$153 million in fiscal year 2005.<sup>30</sup> However, USAID officials expressed concern that the OFD calculations do not fully account for the costs of cargo preference or the uncertainties regarding its application. For example, OFD reimbursements do not account for the additional costs of shipping on U.S.-flag vessels that are

older than 24 years (approximately half of these vessels) or shipments for which a foreign-flag vessel has not submitted a bid.<sup>31</sup> USAID officials estimate that the actual cost of cargo preference in fiscal year 2003 exceeded the total OFD cost by about \$50 million due to these factors. Finally, USAID and DOT officials have not yet agreed on whether cargo preference applies to shipments from prepositioning sites.

U.S. agencies and stakeholders do not coordinate adequately to respond to food and delivery problems when they arise. USAID and USDA lack a shared, coordinated system to systematically track and respond to food quality complaints, and food aid working groups and forums are not inclusive of all stakeholders.<sup>32</sup> Food quality concerns have been long-standing issues provoking the concern of both food aid agencies and the U.S. Congress.<sup>33</sup> In 2003, for example, USAID's Inspector General reported some Ethiopian warehouses in poor condition, with rodent droppings near torn bags of corn soy blend (CSB), rainwater seepage, pigeons flying into one warehouse, and holes in the roof of another. Implementing organizations we spoke with also frequently complained about receiving heavily infested and contaminated cargo. For example, in Durban, South Africa we saw 1,925 metric tons of heavily infested cornmeal that arrived late in port because it had been erroneously shipped to the wrong countries first. This food could have fed over 37,000 people. When food arrives heavily infested, NGOs hire a surveyor to determine how much is salvageable for human consumption or for use as animal feed, and destroy what is deemed unfit.

When such food delivery problems arise, U.S. agencies and food aid stakeholders face a variety of coordination challenges in addressing them. For example:

? KCCO, USDA and USAID have disparate quality complaint tracking mechanisms that monitor different levels of information. As a result, they are unable to determine the total quantity of and trends in food quality problems. In addition, because implementing organizations track food quality concerns differently, if at all, they cannot coordinate to share concerns with each other and with U.S. government agencies. For example, since WFP--which accounts for 60 percent of U.S. food aid shipments--independently handles its own claims, KCCO officials are unable to track the quality of food aid delivery program-wide. Agencies and stakeholders have suggested that food quality tracking and coordination could be improved if USAID and USDA shared the same database and created an integrated food quality complaint reporting system.

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

? When food quality issues arise, there is no clear and coordinated process for seeking assistance, creating costly delays in response. For example, when WFP received 4,200 metric tons of maize in Angola in 2003 and found a large quantity to be wet and moldy, it did not receive a timely response from USAID officials on how to handle the problem. WFP incurred \$176,000 in costs in determining the safety of the remaining cargo, but was later instructed by USAID to destroy the whole shipment. WFP claims it lost over \$640,000 in this case, including destruction costs and the value of the commodity. Although KCCO established a hotline to provide assistance on food quality complaints, KCCO officials stated that it was discontinued because USDA and USAID officials wanted to receive complaints directly, rather than from KCCO. Nevertheless, agencies and stakeholders have suggested that providing a standard questionnaire to implementing organizations would ensure more consistent reporting on food quality issues.

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

USAID has prepositioned food aid on a limited basis to improve timeliness in delivery.<sup>34</sup>

USAID has used warehouses in Lake Charles (Louisiana) since 2002 and Dubai (United Arab Emirates) since 2004 to stock commodities in preparation for food aid emergencies and it is now adding a third site in Djibouti, East Africa. USAID has used prepositioned food to respond to recent emergencies in Lebanon, Somalia, and Southeast Asia, among other areas. Prepositioning is beneficial because it allows USAID to bypass lengthy procurement processes and to reduce transportation timeframes. USAID officials told us that diverting food aid cargo to the site of an emergency before it reaches a prepositioning warehouse further reduces response time and eliminates storage costs.<sup>35</sup> When the 2005 Asian tsunami struck, for example, USAID quickly provided 7,000 metric tons of food to victims by diverting the carrier at sea, before it reached the Dubai warehouse. According to USAID officials, prepositioning warehouses also offer the opportunity to improve logistics when USAID is able to begin the procurement process before an emergency occurs, or if it is able to implement long-term agreements with ocean carriers for tonnage levels that are more certain.<sup>36</sup>

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

Table 1: USAID Tonnage and Costs for Prepositioning, Fiscal Year 2005 to Fiscal Year 2006

Source: USAID.

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

? Food aid experts and stakeholders expressed mixed views on the appropriateness of current prepositioning locations.<sup>37</sup> Only 5 of the 14 ocean carriers we interviewed rated existing sites positively and most indicated interest in alternative sites. KCCO officials and experts also expressed concern with the quality of the Lake Charles warehouse and the lack of ocean carriers providing service to that location. For example, many carriers must move cargo by truck from Lake Charles to Houston before shipping it, which adds up to an extra 21 days for delivery.

? Inadequate inventory management increases risk of cargo infestation. KCCO and port officials suggested that USAID had not consistently shipped older cargo out of the warehouses first. USAID officials emphasized that inventory management has been improving but that limited monitoring and evaluation funds constrain their oversight capacity.<sup>38</sup> For example, the current USAID official responsible for overseeing the Lake Charles prepositioning stock was able to visit the site only once in fiscal year 2006--at his own expense.

? Agencies have had difficulties ensuring phytosanitary certification for prepositioned food because they do not know the country of final destination when they request phytosanitary certification from APHIS.<sup>39</sup> According to USDA, since prepositioned food is not imported directly from a U.S. port, it requires either a U.S.-reissued phytosanitary certificate or a foreign-issued phytosanitary certificate for re-export. USDA officials told us they do not think that it is appropriate to reissue these certificates, as once a food aid shipment leaves the United States, they cannot make any statements about the phytosanitary status of the commodities, which may not meet the entry requirements of the country of destination. USDA officials are concerned that USAID will store commodities for a considerable period of time during which their status may change, thus making the certificate invalid. Although USDA and USAID officials are willing to let foreign government officials issue these certificates, U.S. inspection officials remain concerned that the foreign officials might not have the resources or be willing to recertify these commodities. Without phytosanitary certificates, food aid shipments could be rejected, turned away, or destroyed by recipient country governments.

? Certain regulations applicable to food aid create challenges for improving supply logistics. For example, food aid bags must include various markings reflecting contract information, when the commodity should be consumed, and whether the commodity is for sale or direct distribution. Marking requirements vary by country (some require markings in local language), making it difficult for USAID to divert cargo. Also, due to the small quantity of total food aid tonnage (about 3 percent) allocated for the prepositioning program, USAID is unable to use the program to consistently purchase large quantities of food aid earlier in the fiscal year.

In addition to prepositioning, KCCO is implementing a new transportation bid process to reduce procurement time frames and increase competition between ocean carriers. In the prior two-step system, during a first procurement round, commodity vendors bid on contracts and

ocean carriers indicated potential freight rates. Carriers provided actual rate bids during a second procurement round, once the location of the commodity vendor had been determined. In the new 1-step system, ocean carriers will bid at the same time as commodity vendors. KCCO expects the new system to cut 2 weeks from the procurement process and potentially provide average annual savings of \$25 million in reduced transportation costs. KCCO also expects this new bid process will reduce cargo handling costs as cargo loading becomes more consolidated. When asked about the new system, many carriers reported uncertainty as to what its future impact would be, while several expressed concern that USDA's testing of the system had not been sufficiently transparent.

Despite the importance of ensuring the effective use of food aid to alleviate hunger, U.S. agencies' efforts to monitor food aid programs are insufficient. Limited food aid resources make it important for donors and implementers to ensure that food aid reaches the most vulnerable populations, thereby enhancing its effectiveness. However, USAID and USDA do not sufficiently monitor food aid programs, particularly in recipient countries, due to limited staff, competing priorities, and legal restrictions in use of food aid resources.

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

USAID and USDA require NGOs and WFP to conduct regular monitoring of food aid programs. USAID Title II guidance for multi-year programs requires implementing organizations to provide a monitoring plan, which includes information such as the percentage of the target population reached, as well as mid-term and final evaluations of program impact. USDA requires implementing organizations to report semi-annually on commodity logistics and the use of food. According to WFP's agreement with the U.S. government, WFP field staff should undertake periodic monitoring at food distribution sites to ensure that commodities are distributed according to an agreed-upon plan. Additionally, WFP is to provide annual reports for each of its U.S.-funded programs.

In addition to monitoring by implementing organizations, agency monitoring is important to ensure targeting of food aid is adjusted to changes in conditions as they occur, and to modify programs to improve their effectiveness, according to USAID officials. However, various USAID and USDA Inspectors General reports have cited problems with agencies' monitoring of programs. For example, according to various USAID Inspector General reports on non-emergency programs in 2003, while food aid was generally delivered to intended recipients, USAID officials did not conduct regular and systematic monitoring.<sup>40</sup> One such assessment of direct distribution programs in Madagascar, for example, noted that as a result of insufficient and ad hoc site visits, USAID officials were unable to detect an NGO reallocation of

significant quantities of food aid to a different district that, combined with late arrival of U.S. food aid, resulted in severe shortages of food aid for recipients in a USAID-approved district. The Inspector General's assessment of food aid programs in Ghana stated that the USAID mission's annual report included data, such as number of recipients, that were directly reported by implementing organizations without any procedures to review the completeness and accuracy of this information over a 3-year period. As a result, the Inspector General concluded, the mission had no assurance as to the quality and accuracy of this data.

Limited staff and other demands in USAID missions and regional offices have constrained their field-level monitoring of food aid programs.<sup>41</sup> In fiscal year 2006, although USAID has some non-Title II staff assigned to monitoring, it had only 23 Title II-funded staff assigned to missions and regional offices in just 10 countries to monitor programs costing about \$1.7 billion in 55 countries.<sup>42</sup> For example, USAID's Zambia mission had only one Title-II funded foreign-national and one U.S.-national staff to oversee \$4.6 million in U.S. food aid funding in fiscal year 2006. Moreover, the U.S.-national staff only spent about one-third of his time on food aid activities and two-thirds on the President's Emergency Plan for AIDS Relief program.

USAID regional offices' monitoring of food aid programs has also been limited. These offices oversee programs in multiple countries, especially where USAID missions lack human-resource capacity. For example, USAID's East Africa regional office, which is located in Kenya, is responsible for oversight in 13 countries in East and Central Africa, of which 6 had limited or no capacity to monitor food aid activities, according to USAID officials.<sup>43</sup> This regional office, rather than USAID's Kenya mission, provided monitoring staff to oversee about \$100 million in U.S. food aid to Kenya in fiscal year 2006.<sup>44</sup> While officials from the regional office reported that their program officers monitor food aid programs, according to an implementing organization official we interviewed, USAID officials visited the project site only 3 times in 1 year. USAID officials told us that they may have multiple project sites in a country and may monitor selected sites based on factors such as severity of need and level of funding. In another case, monitoring food aid programs in the Democratic Republic of Congo (DRC) from the USAID regional office had been difficult due to poor transportation and communication infrastructure, according to USAID officials. Therefore, USAID decided to station one full-time employee in the capital of the DRC to monitor U.S. food aid programs that cost about \$51 million in fiscal year 2006.

Field-level monitoring is also constrained by limited resources and restrictions in their use. Title II resources provide only part of the funding for USAID's food aid monitoring activities and there are legal restrictions on the use of these funds for non-emergency programs. Other funds, such as from the agency's overall operations expense and development assistance accounts, are also to be used for food aid activities such as monitoring. However, these additional resources are limited due to competing priorities and their use is based on agency-wide allocation decisions, according to USAID officials. As a result, resources available to hire food aid monitors are limited. For example, about 5 U.S.-national and 5 foreign-national staff are responsible for monitoring all food aid programs in 7 countries in the Southern Africa region, according to a USAID food aid regional coordinator. Moreover, because its operations expense budget is limited and Title II funding only allows food monitors for emergency programs, USAID relies significantly on Personal Services Contractors (PSCs) --both U.S.-national and

foreign-national hires--to monitor and manage food aid programs in the field.<sup>45</sup> For example, while PSCs can use food aid project funds for travel, USAID's General Schedule staff cannot. Restrictions in the use of Title II resources for monitoring non-emergency programs further reduce USAID's monitoring of these programs.

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

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

To address these objectives, we analyzed food aid procurement and transportation data provided by USDA's KCCO and food aid budget data provided by USDA, USAID and WFP. We determined that the food aid data obtained was sufficiently reliable for our purposes. We reviewed economic literature on the implications of food aid on local markets and recent reports, studies, and papers issued on U.S. and international food aid programs. We conducted a structured interview of the 14 U.S.- and foreign-flag ocean carriers that transport over 80 percent of U.S. food aid tonnages. We supplemented our structured interview evidence with information from other ocean carriers and shipping experts. In Washington, D.C., we interviewed officials from USAID, USDA, the Departments of State (State), DOD, DOT, and the Office of Management and Budget (OMB). We also met with a number of officials representing NGOs that serve as implementing partners to USAID and USDA in carrying out U.S. food aid programs overseas; freight forwarding companies; and agricultural commodity groups. In Rome, we met with officials from the U.S. Mission to the UN Food and Agriculture Agencies, the UN World Food Program headquarters, and FAO. We also conducted field work in three countries that are recipients of food aid--Ethiopia, Kenya, and Zambia--and met with officials from U.S. missions, implementing organizations, and relevant host government agencies in these countries and South Africa. We visited a port in Texas from which food is shipped; two food destination ports in South Africa and Kenya; and two sites in Louisiana and Dubai where U.S. food may be stocked prior to shipment to destination ports. For the countries we visited, we also reviewed numerous documents on U.S. food aid, including all the proposals that USDA approved from 2002 to 2006 for the food aid programs it administers,

and approximately half of the proposals that USAID approved from 2002 to 2006 for the food aid programs it administers.<sup>46</sup> Finally, in January 2007, we convened a roundtable of 15 experts and practitioners including representatives from academia, think tanks, implementing organizations, the maritime industry, and agricultural commodity groups to further delineate, based on GAO's initial work, some key challenges to the efficient delivery and effective use of U.S. food aid and to explore options for improvement. We took the roundtable participants' views into account as we finalized our analysis of these challenges and options. We conducted our work between April 2006 and March 2007 in accordance with generally accepted U.S. government auditing standards.

U.S. international food aid programs have helped hundreds of millions of people around the world survive and recover from crises since the Agricultural Trade Development and Assistance Act (P.L. 480) was signed into law in 1954. Nevertheless, in an environment of increasing emergencies, tight budget constraints, and rising transportation and business costs, U.S. agencies must explore ways to optimize the delivery and use of food aid. U.S. agencies have taken some measures to enhance their ability to respond to emergencies and streamline the myriad processes involved in delivering food aid. However, opportunities for further improvement in such areas as logistical planning and transportation contracting remain. Moreover, inadequate coordination among food aid stakeholders has hampered ongoing efforts to address some of these logistical challenges. Finally, U.S. agencies' lack of monitoring leaves U.S. food aid programs vulnerable to wasting increasingly limited resources, not putting them to their most effective use, or not reaching the most vulnerable populations on a timely basis.

In a draft report that is under review by U.S. agencies, we recommend that to improve the efficiency of U.S. food aid--in term