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INTERNATIONAL FOOD ASSISTANCE

Funding Development Projects through the Purchase, Shipment, and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Impacts

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Highlights

Highlights of GAO-11-636, a report to congressional requesters

Why GAO Did This Study

Since the Food Security Act of 1985, Congress has authorized monetization—the sale of U.S. food aid commodities in developing countries to fund development. In fiscal year 2010, more than $300 million was used to procure and ship 540,000 metric tons of commodities to be monetized by the U.S. Agency for International Development and the U.S. Department of Agriculture. Through analysis of agency data, interviews with agency officials, and fieldwork in three countries, this report (1) assesses the extent to which monetization proceeds cover commodity and other associated costs and (2) examines the extent to which U.S. agencies meet requirements to ensure that monetization does not cause adverse market impacts.

What GAO Recommends

GAO recommends that Congress consider eliminating the 3-year waiting period for foreign vessels that acquire U.S.-flag registry to be eligible to transport U.S. food aid. Further, the USAID Administrator and the Secretary of Agriculture should develop a benchmark for “reasonable market price” for food aid sales; monitor these sales; improve market assessments and coordinate efforts; and conduct post-market impact evaluations. USAID and USDA generally agreed with our recommendations. DOT disagreed with our Matter for Congressional Consideration due to its concern that the proposed statutory change might be detrimental to the U.S. maritime industry.

View GAO-11-636 or key components.
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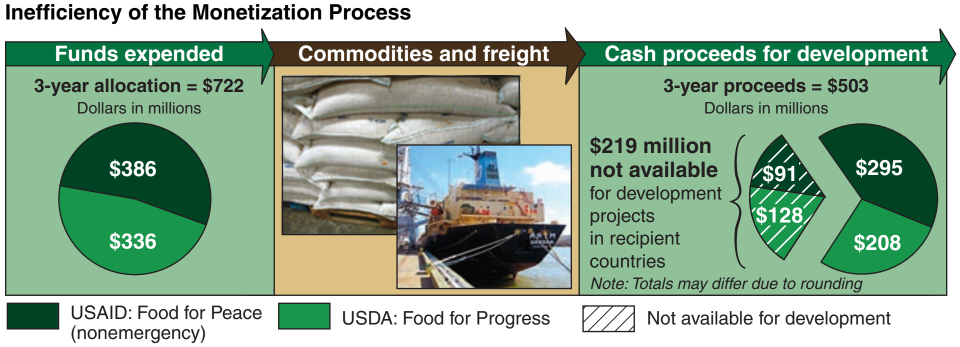
What GAO Found

GAO found that the inefficiency of the monetization process reduced funding available to the U.S. government for development projects by $219 million over a 3-year period (see figure below). The process of using cash to procure, ship, and sell commodities resulted in $503 million available for development projects out of the $722 million expended. The U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) are not required to achieve a specific level of cost recovery for monetization transactions. Instead, they are only required to achieve reasonable market price, which has not been clearly defined. USAID’s average cost recovery was 76 percent, while USDA's was 58 percent. Further, the agencies conduct limited monitoring of sale prices, which may hinder their efforts to maximize cost recovery. Ocean transportation represents about a third of the cost to procure and ship commodities for monetization, and legal requirements to ship 75 percent of the commodities on U.S.-flag vessels further increase costs. Moreover, the number of participating U.S.-flag vessels has declined by 50 percent since 2002, and according to USAID and USDA, this decline has greatly decreased competition. Participation may be limited by rules unique to food aid programs which require formerly foreign-flag vessels to wait 3 years before they are treated as U.S.-flag vessels.

Inefficiency of the Monetization Process



Sources: GAO based on selected transactions from data provided by USAID and USDA.

USAID and USDA cannot ensure that monetization does not cause adverse market impacts because they monetize at high volumes, conduct weak market assessments, and do not conduct post-monetization evaluations. Adverse market impacts may include discouraging food production by local farmers, which could undermine development goals. To help avoid adverse market impacts, the agencies conduct market assessments that recommend limits on programmable volume of commodities to be monetized. However, USAID’s assessments were conducted for just a subset of countries and have not yet been updated to reflect changing market conditions, and USDA’s assessments contained weaknesses such as errors in formulas. Both agencies have at times programmed for monetization at volumes in excess of limits recommended by their market assessments. Further, the agencies monetized more than 25 percent of the recipient countries' commercial import volume in more than a quarter of cases, increasing the risk of displacing commercial trade. Finally, the agencies do not conduct post-monetization impact evaluations, so they cannot determine whether monetization caused any adverse market impacts.