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# FOOD FOR PEACE - ITSH COSTS

## REPORT TO CONGRESS



# FOOD FOR PEACE INTERNAL TRANSPORTATION, STORAGE, AND HANDLING (ITSH) COSTS

## REPORT TO CONGRESS

Pursuant to House Report 114-531, which accompanied H.R. 5054, the Department of Agriculture Appropriations Act, 2017, the U.S. Agency for International Development (USAID) is pleased to submit this report, which outlines how USAID defines and uses Internal Transportation, Storage, and Handling (ITSH) costs within programs funded by Title II of the Food for Peace Act.

*The Committee directs the Department and USAID to provide a clear definition of these costs, how they are incurred, and how they differ from Inland Freight Costs. The Committee is concerned that these costs have increased significantly in recent years and seeks to understand the causes. The Committee also directs USAID to identify whether local and regional purchases, cash, and vouchers are counted as a part of these costs. USAID is directed to provide this information within 60 days of enactment of this Act.*

## DEFINITION OF ITSH AND INLAND FREIGHT COSTS

Sections 406 and 407(c)(1)(B) of the Food for Peace Act (7 U.S.C. §1736 & §1736a) provides the authority to pay for the associated costs for the movement of Title II commodities, including internal transportation, storage, handling, inland freight, and other incidental costs. Consistent with this authority, USAID outlines its definitions for ITSH and Inland Freight costs in the annual International Food Assistance Report and the Food for Peace Information Bulletin (FFPIB) 14-01. The U.S. Department of Agriculture (USDA) has complementary definitions for its programs, consistent with the activities it supports:

- USAID defines **Inland Freight costs** as costs required to move commodities through the transit country in the case of landlocked countries, or instances in which commodities cannot be delivered to a port in the destination country because of conflict or natural disaster. Inland Freight funds are awarded for transport from the discharge port to the extended delivery point (the first warehouse) or designated point(s) of entry (the border crossing) within the destination country. Inland Freight costs represent a subset of ITSH; however, USAID is required to track and report on Inland Freight costs separately from ITSH costs because of the reporting requirements outlined in the Food for Peace Act.
- USDA defines Inland Freight costs as the transportation costs from port of discharge to the implementing partner's designated warehouse, which is either at a port or, in the case of a landlocked country, the border. This cost includes everything from the transport of the commodities from the designated discharge port to the identified initial storage site and stacking the commodities in a designated warehouse.

- USAID defines **ITSH costs** as the direct program costs of a Title II emergency program or a non-emergency program in a Least Developed Country (LDC) associated with the in-country movement, management and monitoring of Title II U.S. agricultural commodities necessary for distribution, and in direct support of eligible Title II activities.
- USDA defines ITSH costs as the costs of transporting commodities from the implementing partner’s warehouse (at the port or border) to each school’s storage site, unloading and storing the commodities at the school warehouse, and handling and distributing the commodities from the school’s warehouse to the designated school.<sup>1</sup>

## TYPES OF ITSH COSTS

ITSH funding is available to eligible organizations for in-country costs directly associated with the following:

1. Movement of Title II U.S. food aid to storage and distribution sites;
2. Storage of the food aid; and
3. Distribution of the food aid in all emergency programs, and in non-emergency programs in LDCs that meet the poverty level and other eligibility criteria established by the International Bank for Reconstruction and Development for financing the International Development Association.

Eligible uses for ITSH funding must be allowable, reasonable, and allocable according to the Office of Management and Budget (OMB) Cost Principles in 2 CFR Part 200 Subpart E, and must support costs associated with the provision of Title II U.S. agricultural commodities to the final distribution point, including to the household-level or to a local warehouse. Some illustrative costs include the following:

- Clearing and handling;
- Storage, warehousing and commodity-distribution costs;
- Internal transport via rail, truck, barge or air;
- Monitoring, including commodities en route, in storage, and at distribution sites, including activities tied to environmental compliance;
- Staff directly associated with the in-country movement, management, and monitoring of Title II commodities;

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<sup>1</sup> USDA incurs ITSH costs in the course of administering its McGovern Dole Food for Education Program.

- Vehicle lease, fuel, and maintenance in short-term programs, or when leasing a vehicle is more cost-effective than purchasing a vehicle;
- Vehicle procurement;
- In-country operational costs;
- Capital expenditures;
- Local processing; and
- Branding and marking.

ITSH funds **may not** pay for costs associated with local and regional procurement, food vouchers or cash transfers. As noted, ITSH funds are limited to supporting the movement, management, and monitoring of Title II U.S. agricultural commodities.

In response to a recent report from the U.S. Government Accountability Office (GAO) focused on USAID's implementation costs (GAO-17-224), the Agency took additional steps to ensure that partners cannot request ITSH costs to support local and regional procurement programs. USAID recently updated its Food for Peace Management Information System (FFPMIS) to prevent partners from making such requests. Partners can now request funding specifically for transportation, storage, and distribution costs. Further, USAID is currently updating Food for Peace Information Bulletin 14-01 on Section 202(e) and ITSH to provide additional specificity on the eligible uses of these two associated cost categories.

## **TRENDS IN ITSH COSTS**

The increase in ITSH costs over the past several years is primarily related to the increasingly complex and insecure environments in which USAID and our partners operate. Countries such as South Sudan, Nigeria, and Yemen have ongoing conflicts that can impede the provision of our assistance.

In South Sudan, for example, USAID has had to rely on airdrops (by airplane) of bulk commodities and airlifts (by helicopter) of vegetable oil and high-nutrition commodities. Air delivery is often necessary to reach beneficiaries made inaccessible by conflict, poor roads during the rainy season, lack of barges, and the closure of Sudan's border to South Sudan; however, it is incredibly expensive. Similarly, in Somalia, USAID has seen increases in ITSH costs because of higher warehousing expenses needed to protect and safeguard food.

USAID recently started to require additional financial and programmatic information relating to ITSH costs from the U.N. World Food Programme (WFP), the Agency's largest partner in the provision of emergency food assistance. This enhanced reporting will enable USAID program officers to undertake regular reviews of ITSH expenditures and provide analysis on ITSH funding trends.