

Freight Forwarding Quotes in Monetization: A Report from the Food Aid Consultative Group Meeting

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On March 29, 2000, the Food Aid Consultative Group (FACG)¹ met at Africare House in Washington, D.C. to discuss the procedures for obtaining freight rates used in the calculation of cost recovery in the monetization of P.L. 480 Title II programs.

When USAID's *Monetization Field Manual* was being revised in 1997/98, the process of obtaining the necessary commodity and freight information was discussed at length. Previously, Title II Cooperating Sponsors (CSs) requested both commodity and freight quotes from USAID. Then the CSs utilized this information, along with other costs, such as inland freight and other relevant associated expenses, to develop the cost recovery equation. The PVOs often found that the delay in obtaining both the commodity and freight information could put them right up against the deadline for submitting a call forward of commodities, which could put undue pressure on both Food for Peace (FFP) and the PVO. While an acceptable alternative for obtaining the FAS price quote for commodities could not be agreed upon, it was recognized that all but a handful of CSs worked with their own freight forwarding agents for freight-related issues. Therefore, USAID agreed that the CSs could request a freight rate from their freight forwarding agent for use in the cost recovery benchmark equation. It was hoped that this would expedite the process for all parties. The language in the *Monetization Field Manual* states:

"Estimated non-U.S.-flag rates must be obtained from the CS's freight forwarding agent during proposal preparation and at the time of the call forward. At the time of the call forward, the CS must provide BHR/FFP/POD with the certification of sales price along with the freight indication in support of the call forward."

Cooperating Sponsors were advised to update their freight forwarding agents of the change in procedure, which would include a citation in the commodity request of the source and date of the quote. The freight forwarding agents were to provide a freight quotation for the lowest foreign flag bid of similar cargo under similar terms to the same port or neighboring port which typically commanded a similar freight rate. These bids would have been submitted through the U.S. Government tender process and thus were available to the freight forwarding agents who regularly participate in this process on behalf of the agency they represent.

When the *Monetization Field Manual* was finalized and the revised procedures were implemented, this new freight quote process moved along smoothly from the perspective of the CSs. But in mid-1999, several PVOs encountered difficulties in processing of calls forward because FFP determined that the

¹ Under Section 205 of P.L. 480, the Food Aid Consultative Group was established to regularly review the effectiveness of regulations and procedures governing emergency and private food assistance programs being implemented under Title II. It can also address other issues under Title II which involve private voluntary organizations (PVOs), cooperatives or indigenous non-governmental organizations (NGOs).

cost recovery benchmark requirement was not going to be met, despite the information provided by the PVO in the call forward submission. Several PVOs were asked to recalculate their cost recovery equations and to revisit the projected sales prices in order to determine whether or not the call forward would be accepted and processed. Generally speaking, the root of the problem was a difference in the estimation of freight rates. Some PVOs began to receive copies of their returned commodity request forms with typed notations on the right side of their forms which were seemingly included somewhere within USAID during the review of the call forward.

In telephone conversations with the Program Operations Division of the Office of Food for Peace (FFP/POD), some CSs were advised that POD was reviewing the estimated freight rates with USAID Transportation in order to verify their accuracy. Almost without exception, the freight rate provided by USAID was considerably higher than the rate quoted by the CS's freight forwarding agent. Although many calls forward were reviewed and processed, some calls forward were delayed and some were not processed at all. The CSs and USAID spent considerable time hashing over the details of the freight rates and renegotiating prospective sales prices with field offices. In some cases, the process was extensive and resulted in lengthy delays. In almost every case, the actual bids received for the cargo when it was booked reconciled with the original quote cited by the CSs. Even when actual invitation numbers from recent similar bids were cited in calls forward, FFP still sought verification from USAID Transportation.

Numerous individual PVOs explored the issue and discussed it at length in the 2nd Monetization Workshop of Food Aid Management (FAM), held in Johannesburg, South Africa, in November 1999, and attended by Title II Cooperating Sponsors from East and Southern Africa. On behalf of Africare's programs and with information from several PVO partners, Africare sent a letter of inquiry to FFP, requesting clarification on the change in procedures from the one clearly outlined in USAID's *Monetization Field Manual*. USAID's response indicated that, in their opinion, the procedure had not changed and that they would continue the verification process.

At the time of the February 2000 FACG meeting, when the draft guidelines for results reporting and resource requests were presented by FFP, the cost recovery analysis section was discussed. Questions were raised about the issues surrounding the freight quote matter which were not satisfactorily resolved in the exchanges between the PVOs and FFP. FFP's Director Tom Oliver requested a follow-up meeting to further pursue the unresolved questions.

FAM's Monetization Working Group mobilized the CSs to discuss the matter within their agencies and to recommend agenda items for the proposed meeting on freight quote procedures. CSs and their freight forwarding agents met in advance of the meeting with USAID and all participants in the FACG to establish a draft agenda. It was agreed that the purpose of the FACG meeting was to understand each party's process of preparing freight quotes and to come to common terms on establishing a workable procedure for obtaining the quotes and expediting calls forward without unnecessary delays.

On March 29th, representatives of FFP, USAID Transportation and other interested USAID divisions, along with the CSs and their respective freight forwarding agents, met to discuss freight quote procedures. Cooperating Sponsor representation included ACDI/VOCA, ADRA, Africare, CARE,

Catholic Relief Services, Counterpart International, OIC International, Project Concern International, Save the Children, TechnoServe, and World Vision, as well as Food Aid Management. A draft agenda had been previously provided to FFP/POD. The agenda included an initial citation of the procedures as per the *Monetization Field Manual*; a presentation by FFP/POD on their procedures for processing calls forward, with particular emphasis on the freight quote process, as well as elaboration on the seeming change in procedures; an explanation of the process used by USAID Transportation in deriving freight quotes; and, a presentation by the freight forwarding agents on their procedures for obtaining and providing freight quotes to the PVOs. This was followed by brief case studies of select PVOs recent experiences, an open discussion, wrap-up and adjournment.

In his presentation, Jon Brause, Chief of POD, stated that questions on cost recovery in monetization programs, which were under increased scrutiny, had come from both the Office of Management and Budget and USAID's Inspector General. Mr. Brause indicated that FFP's opinion was that some freight forwarders had been utilizing incorrect assumptions when preparing the freight quotes. Thus FFP/POD undertook the independent action of referring the cost recovery information in the calls forward to USAID Transportation (OP/TC) for verification.

Bob Goldman, Chief of OP/TC, described his unit's process of obtaining freight rates. Mr. Goldman explained that OP/TC generally does not know what the PVO quote is and thus prepares an independent assessment. The description of the process provided by OP/TC gave an understanding as to why there could be some differences in the rate quotes from USAID and the freight forwarding agents. OP/TC explained that they use what they determine to be a realistic and *average* foreign freight quote; this would likely be a different figure than the *lowest* foreign flag bid. The discussions also suggested that perhaps the information provided to OP/TC by POD may not be as detailed as is necessary to derive the quote. An example was the seemingly different perspective on whether or not one provides a quote as if a cargo would be sent in isolation or whether it would likely be consolidated with other cargo (and thus the freight rate would be lower). Mr. Brause indicated that POD provides OP/TC with everything it needs to determine a fair estimate; however, POD does not give all the specifications unless the staff member thinks it would have an impact on the price. OP/TC's Denise Stone-Scherl further explained details of obtaining rates for bulk cargo, which necessitated a market analysis, and the processing of obtaining packaged cargo rates, either from the U.S. Gulf or West Coast, depending on destination. Mr. Goldman also cited the volatility of freight rates and how a great variance can occur depending on the shipping period. It was generally acknowledged that this was rather an art than an exact science.

Ron Fettig of Fettig & Donalty, presented the procedures used by the freight forwarding agencies in obtaining a quote, which generally follow a four-step process: 1) the last/most recent tenders offered for similar commodities for the area of destination; 2) consultations with brokers and shippers in the market; 3) in the case of bulk cargo, interpolations of voyage calculations; and, 4) the possibility of combining shipments. All freight forwarding agents present acknowledged that they follow a similar process.

Case studies were presented by Amy Volz of TechnoServe, Lee Thompson of Africare, and Paul Blizzard of Muller Shipping. TechnoServe encountered difficulties when calling forward bagged wheat

for its program in Uganda; the higher freight quote from USAID forced the Uganda program to commit to an increase in its sales price at a time of severe market pressure. The process delayed the call forward for several months and used considerable USAID and TechnoServe personnel time. Africare's case did not involve delays in the processing of calls forward, but called to question the validity of the new freight quote on its commodity request forms which included a recalculation of the benchmark without consultation with Africare. Mr. Brause responded that the calculation by POD on the commodity request form was for internal use only; the PVO should use its numbers as presented in their call forward for the analysis of its achievement of benchmark. Mr. Brause stated that there were numerous examples of inaccuracies on the part of PVOs in commodity requests. For this and other reasons, USAID would continue its practice of verifying cost recovery numbers.

The key resolution reached in the meeting was based on a recommendation from Mr. Goldman. He suggested that during the time of preparation of calls forward, the freight forwarding agents could consult in advance with OP/TC in order to come to an agreement on a realistic freight quote. It was generally acknowledged that all parties better understood the various processes undertaken and that the meeting had allowed for constructive exchange on moving the programs forward by clarifying the freight rate quotation procedures.