The United States' International Food Assistance Programs: Issues and Options for the 2007 Farm Bill

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Background

The United States has run generous international food assistance programs – commonly known simply as "food aid" – for more than half a century since President Eisenhower signed the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, or PL 480) into law. Emergency food aid is one of several areas of international development assistance that have delivered demonstrably high returns over the years. U.S. food aid in particular has saved and improved millions of lives over that period and continues to account for half or more of global food aid volumes in any given year. U.S. food aid programs have enjoyed broad political support from agribusiness, shipping, foreign policy and charitable nongovernmental organizations (NGOs) over the past half century.

President Bush's 2001 management review nonetheless identified U.S. international food assistance programs as 1 of 14 government areas most in need of reform and the White House proposed a significant change to food aid programs in its FY06, FY07 and FY08 budget requests. Major international development NGOs, think tanks, United Nations organizations and academics have recently called for significant changes in U.S. food aid programs (Barrett and Maxwell 2005, CARE-USA 2005, Institute for Agriculture and Trade Policy 2005, Oakland Institute 2005, OXFAM 2005, Chicago Council on Global Affairs 2006, FAO 2006b). U.S. food aid policies have become a point of controversy in the World Trade Organization (WTO) Doha Round negotiations. Some commentators even argue that food aid programs should be eliminated entirely as wasteful. U.S. food aid programs are thus controversial in spite of a long history of broad-based support founded on many tangible successes.

This paper explains this puzzle of popular programs that are widely criticized and uses the resulting explanation to identify issues and propose options for the 2007 Farm Bill. The pressure for change has built as food aid has evolved dramatically since the 1990 Farm Bill enacted the last major revisions to US food aid policy. Up to that time, generous farm price support programs generated massive government-held stocks of

grain, and substantial tariff and non-tariff barriers in farm products and the high cost of international freight and communications limited global commodity trade, relative to current patterns. US food aid programs were designed for those conditions. PL480 offered a means to reduce government stock-carrying expenses by disposing of commodity surpluses beyond the U.S. agricultural marketshed, where it would not to drive down market prices and thereby force additional government procurement under price support programs. At the same time, legislators and program managers hoped that PL480 would yield added dividends in the form of promotion of future commercial agricultural exports, geopolitical support from developing countries, or humanitarian assistance to those suffering poverty and hunger. US food aid programs succeeded at some of these goals, notably in surplus disposal and in providing humanitarian assistance around the world.

Yet, much has changed and those changes fuel calls for substantive reforms to U.S. food aid programs. There remains a real need for food aid because food is an exceptionally effective resource for addressing acute food insecurity in crisis situations, and often an efficient and effective resource for longer-term development programming to prevent food emergencies by supporting carefully targeted interventions – such as maternal and child health or school feeding programs – for which food itself is intrinsically valuable as a resource. In a variety of circumstances – chiefly, in emergency situations in settings where food is extremely scarce and markets do not function well – commodities prove far more valuable than their delivered cost.

Nevertheless, the resource-driven nature of current programs leads to overuse and misuse of food aid, while a range of restrictions on food aid programs that exist purely to build political support for the programs not only waste scarce taxpayer dollars, but also diminish U.S. food aid programs' effectiveness in reducing hunger and human suffering around the world. Abstracted from the politics of Congressional appropriations and agency budgeting, the ideal arrangement might be to end food aid programs altogether and to simply allocate the equivalent amount of cash to international emergency and development assistance programs. After all, these could readily procure commodities

and shipping services from the United States when these were the best use of scarce dollars. Given that politics heavily condition actual resource allocation, however, the likelihood of such flexible appropriations and budgeting is virtually nil. Because support for emergency and development assistance remains a high-return investment for the United States, the challenge of food aid reform is thus not to throw the baby out with the bath water.

The complexity of the programs – and especially of the politics surrounding them – and widespread failure to recognize how much has changed since the 1990 Farm Bill limit most legislators' understanding of both the need for reform and of the options available in the 2007 Farm Bill. Opportunities exist for sensible reform. Like any reform, this will take some political courage. This paper is not, however, about the politics of food aid programs. Rather, it is about the economics of food aid programs. And the economic case for food aid reform – not the status quo and not elimination of U.S. international food assistance programs – is overwhelming.

U.S. Food Aid Programs

The U.S. government currently operates seven distinct food aid programs, two of which are presently dormant (Table 1). The overwhelming majority of U.S. food aid has always fallen under the three titles of Public Law 480 (PL 480), funded through annual and supplemental appropriations by the Congress and authorized in regular Farm Bills.[1] These are supplemented by two more specialized programs – Food for Progress and the McGovern-Dole International Food for Education and Child Nutrition program – and the Bill Emerson Humanitarian Trust, a food reserve on which the government can call to respond to emergency food needs in developing countries, all of which are likewise authorized by Farm Bills and covered by annual agriculture appropriations. Furthermore, historically food aid programs often employed commodity donations from Commodity

[1] PL480 Title III programs, administered by USAID, donate commodities to developing country governments that then generally sell the food to generate funds to support long-term economic development programs. Title III funding was phased out in 1999, although the Title remains on the books as an unfunded facility that could be used if the Congress appropriated funds for it.

Credit Corporation (CCC) surpluses, which are permanently authorized by Section 416(b) of the Agricultural Act of 1949 and thus do not require renewed Farm Bill authorization. The Bush Administration halted 416(b) food aid has discontinued shipments in recent years, but that can be reversed easily given permanent authorization.

Table 1: U.S. Food Aid Programs

Program	**PL 480 Title I**	**PL 480 Title II**	**PL 480 Title III**	**Food for Progress**	**Section 416 (b)**	**Bill Emerson Humanitarian Trust**	**McGovern-Dole IFECN***
Year Begun	1954	1954	1954	1985	1949	1980	2003
Managing agency	USDA	USAID	USAID	USDA	USDA	USDA	USDA
2005 actual funding ($ million)	44	1413	0	198	76	377	87
2006 estimated ($ million)	32	1138	0	205	0	Not reported	99

* International Food for Education and Child Nutrition
Data source: White House budget proposal for Fiscal Year 2007

PL480 Title I programs, administered by the Foreign Agricultural Service (FAS) of the USDA, offer concessional credit sales of agricultural commodities by the US government to developing countries. Historically, Title I was the largest U.S. food aid program. Title I sales have been to governments that buy directly from the U.S. market, although since the 1996 Farm Bill (the Federal Agriculture Improvement and Reform Act of 1996), sales can also be made to private entities in recipient countries. The President's budget for FY2007 reported that Title I debt owed to USDA by developing country governments totaled $8.6 billion and that fewer countries request Title I credit financing for food imports now than in years past.

For many years, Title I sales came from government-held food surplus stocks. Now, private agribusinesses respond to invitations for bids (IFBs) from USDA. Countries (called "participants" in program language) finance Title I market purchases through long-term, low-interest rate loans provided through the CCC. The terms of sale on credit

typically involve quite a substantial "grant element" (i.e., effective discount relative to the open market cost). Recipient governments generally agree to sell ("monetize") shipments received and to use the proceeds for a range of other purposes, typically negotiated in advance with the US government. These programs are explicitly targeted at promoting American agricultural export markets and at advancing U.S. strategic interests. Because of this trade promotion objective and because the United States is the only major donor that continues to ship food aid on anything other than a completely free ("grant" in development assistance jargon) basis, other agricultural exporters complain that at least the Title I PL480 component of U.S. food aid is a disguised export credit program.

Title II of PL480, administered by USAID and by far the largest program today, provides donations of food to meet humanitarian and development needs abroad. Much of this addresses emergency needs and is channeled through NGOs, cooperatives or multilateral organizations such as the World Food Programme (WFP). Food aid is also furnished to NGOs and cooperatives to carry out non-emergency programs aimed at stimulating long-term economic development, generally of a type intended to improve household or individual food security and nutritional well being. Commodities and transport costs for Title II programs are furnished by the CCC, coordinated by USDA's Farm Services Agency (FSA), which is effectively the CCC's staff.

USDA's Food for Progress provides donations of agricultural commodities to developing countries and emerging democracies in exchange for commitments from recipient countries to promote free enterprise and competition in their agricultural economies. Food for Progress focuses on private sector development of agricultural infrastructure such as improved agricultural techniques, marketing systems, farmer education and cooperative development, expanding use of processing capacity, development and introduction of new foods and agribusiness development. Created by the Food for Progress Act of 1985, this program is funded by annual and supplemental appropriations by the Congress under Title I PL480 or Section 416(b) accounts to serve an array of prospective recipients, including not only developing country governments, but also NGOs, cooperatives and international organizations.

Section 416(b) of the Agriculture Act of 1949 authorizes the donation of CCC-owned commodities in surplus of domestic program requirements to assist developing countries. In the past, these commodities were commonly held as government stockpiles built up through farm price support programs. The 416(b) program was originally intended to prevent spoilage in government-held stocks by ensuring grains left storage within a reasonable period of time. In more recent years, FSA has more commonly procured CCC commodities for shipment overseas in response to weak prices and political pressures to stimulate demand for agricultural commodities. The commodities are donated to foreign governments, NGOs, cooperatives, and the World Food Programme. The Bush administration signalled in 2002 that it intends to sharply curtail the use of 416(b) shipments and has reiterated that position in recent years, most recently in its FY2007 and FY2008 budget requests.

The Bill Emerson Humanitarian Trust is a food reserve administered by USDA that is used to respond to emergency food aid needs in developing countries. Up to 4 million metric tons of U.S. wheat, corn, sorghum, and rice can be kept in the reserve, to be used for emergency food aid needs that cannot otherwise be met through P.L. 480, for example, when the annual PL 480 appropriations have already been committed or when domestic supplies available for procurement through standard channels prove insufficient. The Trust can also hold cash. Originally established by the Agricultural Trade Act of 1980 as the Food Security Wheat Reserve, and renamed the Food Security Commodity Reserve in the 1986 Farm Bill, this facility was renamed in 1998 for the late Missouri Congressman, who had been a champion of efforts to expand food donations to the poor. The law permits USDA to release up to 500,000 metric tons annually, plus up to another 500,000 metric tons that could have been released in prior years but was not released, to meet Title II unanticipated emergency needs, or to release food for use under P.L. 480 Titles if the domestic supply of that particular commodity is in short supply and would not meet the availability criteria of P.L. 480. Emerson Trust releases must be reimbursed by the procuring agency or by direct appropriations for reimbursement.

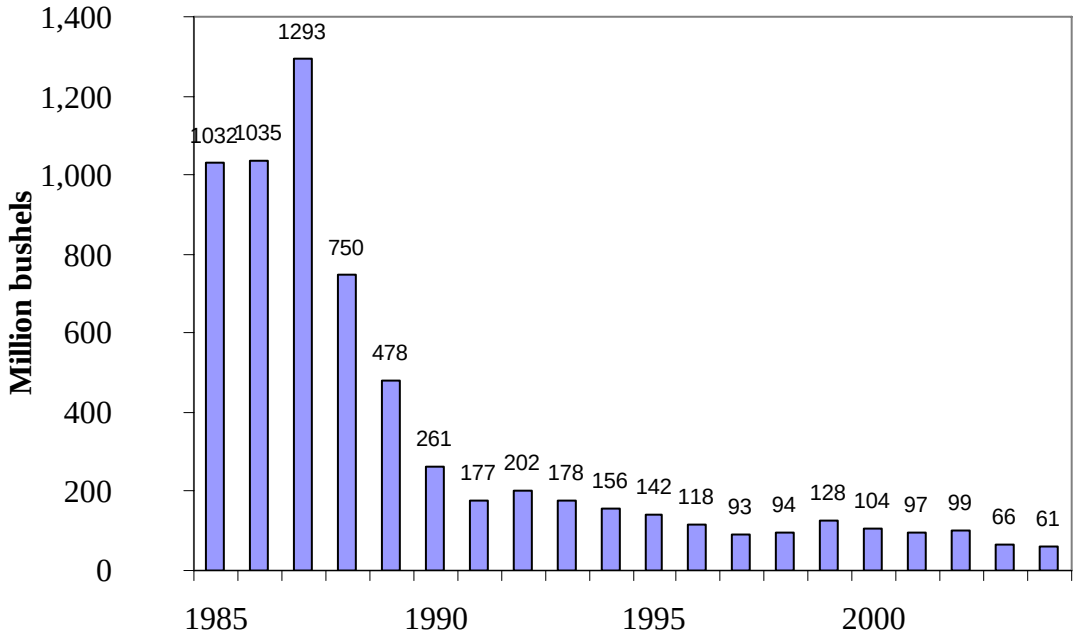
The 2002 Farm Bill (the Farm Security and Rural Investment Act of 2002) authorized the creation of a new U.S. food aid program, the McGovern-Dole International Food for Education and Child Nutrition Program, named for former Senators George McGovern and Robert Dole, each former champions of food aid in Congress. The McGovern-Dole program, administered by USDA's FAS, donates food commodities purchased by the CCC for school feeding and maternal and child nutrition projects in low-income countries.

What Has Changed

With the exception of the modest McGovern-Dole program, all U.S. food aid programs have been in place and largely unchanged for more than 20 years. In the meantime, many changes have occurred in the background conditions that originally informed the design of U.S. food aid programs. Concerns about contemporary U.S. food aid arise in large measure in response to these changes.

A. Price Supports and Disposal of Government Grain Surpluses

For many years, U.S. food aid provided an effective form of surplus disposal. The government was committed to buying up and storing surplus commodities under price support programs. Food aid provided a means to dispose of stocks, thereby limiting further storage expenditures. Thus the effective cost of donated food was low. Today, government grain surpluses are gone, a relic of an era when price support programs were a primary means of support for America's farmers. For example, year-end stocks of wheat – historically the main food aid commodity – held by the CCC or paid for by government under the farmer-owned reserve program, decreased more than 95% between 1987 and 2004 (Figure 1). With a few minor exceptions (nonfat dry milk most recently), the government is no longer off-loading surplus commodities purchased from American farmers that it would otherwise have to pay to hold; so food aid is no longer comparatively cheap.



Data source: USDA Economic Research Service

Figure 1: Government year-end wheat stocks (CCC and farmer-owned reserves)

Instead, the government now procures commodities on the open market, almost exclusively from large agribusiness concerns. Just four companies sold more than half the commodities purchased for U.S. food aid programs in 2004. On average, the government pays a slight premium above open market prices for those commodities due to limited competition (the median number of bidders per invitation for bid is two), end-of-budget-year pressures, and obscure restrictions that require minimum levels of bagging, processing and other services and substantially complicate matching commodity and freight bids to meet lowest-cost standards. So a product that used to be cheap and sourced mainly from farmers is now expensive and sourced largely from larger-scale agribusinesses.

What has not changed is the widespread but mistaken belief that food aid benefits American farmers financially. The $654 million spent on food aid commodities in fiscal year 2005 is a drop in the ocean of the nearly $1 trillion U.S. food economy and only about 1% of net farm income in the United States. Moreover, the actual crop value is

even less than $654 million because statutory requirements for bagging and processing (discussed below) cause a non-trivial portion of that sum to go for post-harvest value-added activities. Even food aid shipments of wheat, the leading commodity in U.S. food aid programs, represent less than 2% of national wheat production. Food aid programs are simply too small to move market prices for food, even for bulk commodities.

Originally, food aid was the *byproduct* of (price and income) support to farmers, not the *source* of such support. So there was a direct correlation between the government boosting farmers' incomes and government shipping food aid abroad. But the causation flowed from the former to the latter, not vice versa. As government price support programs ended and food aid procurement necessarily changed, the historical relation between farm income support and food aid flows broke down.

B. The Commercial Trade Promotion Hypothesis

In 1954, PL480 supporters conjectured that, rather like "try one free" offers by food manufacturers aiming to attract new customers, free food aid might cultivate new consumers for American grown and processed commodities and establish distribution channels necessary to make commercial agricultural exports to nontraditional markets viable. USDA's Foreign Agricultural Service (FAS) is therefore charged with responsibility for all food aid programs other than Titles II and III, as they fall under the heading of "Market Development" and "Trade Development" Programs in official government literature.

The intervening fifty-plus years' experience has proved false the hypothesis that food aid would create new commercial markets. The statistical evidence that disentangles changes in recipient countries' commercial agricultural imports that might be attributable to food aid receipts from changes due to other factors such as urbanization, independent income growth, increased recipient country agricultural productivity, etc. finds, perhaps surprisingly, that U.S. food aid *reduces*, rather than increases, American commercial agricultural exports for 20 years, on average (Barrett, Mohapatra and Snyder 1999). Why? The simple reason is that agribusinesses and shippers find it cheaper and easier to

sell to the U.S. government than to foreign buyers. The "try one free" metaphor is inappropriate because the vendors never give away the product. They get paid market value (or better) regardless of whether food flows via food aid or commercial trade. And once one controls for other factors at play, food aid does not appear to build up a taste among foreign consumers for U.S. food exports, nor does it stimulate sufficient income growth in recipient markets to induce expansion of commercial import demand that compensates for the commercial imports displaced by free food aid shipments.

Moreover, a considerable body of empirical research has consistently found that food aid can disrupt commercial markets when it is not carefully targeted to food insecure recipients in destination countries. In principle, it can discourage domestic food production by driving down prices, as the Nobel Laureate T.W. Schultz (1960) theorized. The empirical evidence suggests, however, that food aid displaces little or no domestic food production, on average. Although that most certainly happens in some places, there are also studies that find net positive effects on recipient country agricultural productivity (Abdulai, Barrett and Hoddinott 2005). Rather, food aid seems mainly to impact commercial imports, especially commercial imports from the donor country but also imports from third countries (Barrett, Mohapatra and Snyder 1999, OECD 2003, Lowder 2004). This is of course consistent with the simple observation that even poor economies have become reasonably well integrated into global food markets, thus limiting the national-level price effects of food aid shipments. Because there are no longer many countries that fall outside the global food marketshed, food aid tends to affect recipient country price and trade patterns, and the less well targeted the food aid is to needy, hungry subpopulations, the greater these market disruption effects.

Of course, third-party commercial import displacement naturally leads to trade conflicts and is a primary reason why food aid has become a serious source of conflict within the Doha Development Round negotiations under the WTO, especially between the European Union (EU) and the U.S. The EU contends that much US food aid – especially Title I and monetized non-emergency food aid through Title II and Food for Progress – represents a disguised farm subsidy program and should be treated as such. The reasons

are that (i) the Farm Bill makes trade promotion and surplus disposal explicit objectives of U.S. food aid programs, and (ii) these commodities are sold by recipient governments, NGOs and cooperatives in developing country markets and thus compete directly with commercial imports and domestic producers in these markets. Food aid that augments market-mediated supply must drive down prices, displace commercial sales, or both. Of course, since food aid does not change aggregate supply and represents a small share of total food trade volumes, these displacement effects, although real, can be seriously exaggerated. The main risk in the WTO negotiations is that over-reactions to the now-small share of food aid ineffectively used for trade promotion purposes threaten the majority of food aid that is used effectively for humanitarian response and legitimate, well-targeted development interventions.

C. The Dramatic Shift from Program to Emergency Food Aid

What was initially a program based on government-to-government concessional sales on credit – commonly known as "program food aid" – under PL480 Title I through the 1970s is a completely different beast today. U.S. food aid donations now flow chiefly to NGOs and cooperatives – which received 43% of U.S. food aid shipments in the 2000-5 period – and to the WFP, which together with the International Emergency Food Reserve it administers, handled 35% of all U.S. food aid shipments from 2000-2005. These are straight donations, not concessional sales on credit.

Moreover, U.S. food aid now largely responds to emergencies. The main driver of this shift is exploding demand for emergency assistance. The number of natural disasters annually worldwide has increased roughly fourfold in the past 25 years, while the number of persons affected by disasters has increased roughly threefold over the same period (Figure 2).[2] FAO (2006b) reports that the number of food emergencies worldwide has doubled, on average, over the past two decades, from 15 to 30 per year, with most of the increase occurring in Africa, where they have tripled. Increased need and improved early warning and emergency response capacity in donor agencies, such as USAID, and in

[2] Source: EM-DAT, the OFDA/CRED International Disaster Database - www.em-dat.net - Université Catholique de Louvain - Brussels – Belgium.

relief and development NGOs and the WFP have helped spark a sharp reorientation in food aid flows. Including releases from the Emerson Humanitarian Trust, 83.4% of approved Title II funding in FY2005 and more than half of total U.S. food aid went to emergency response rather than to non-emergency development programming. U.S food aid has effectively been redirected from government-to-government budgetary and balance of payments support through program food aid to emergency response through NGOs and the WFP and, to an increasingly limited degree, investments in long-term development to reduce poverty and food insecurity globally.

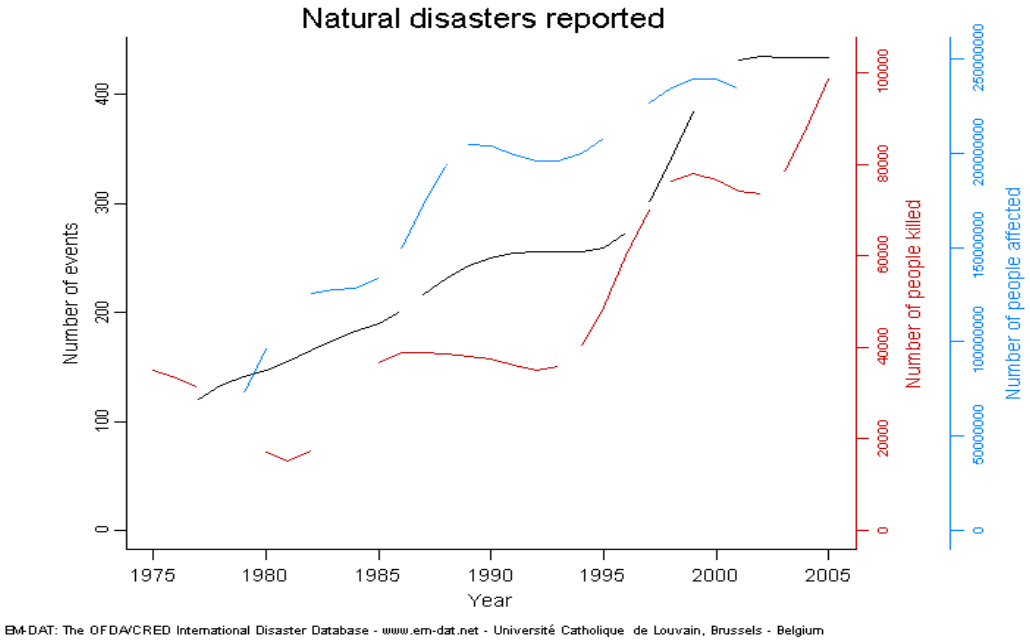
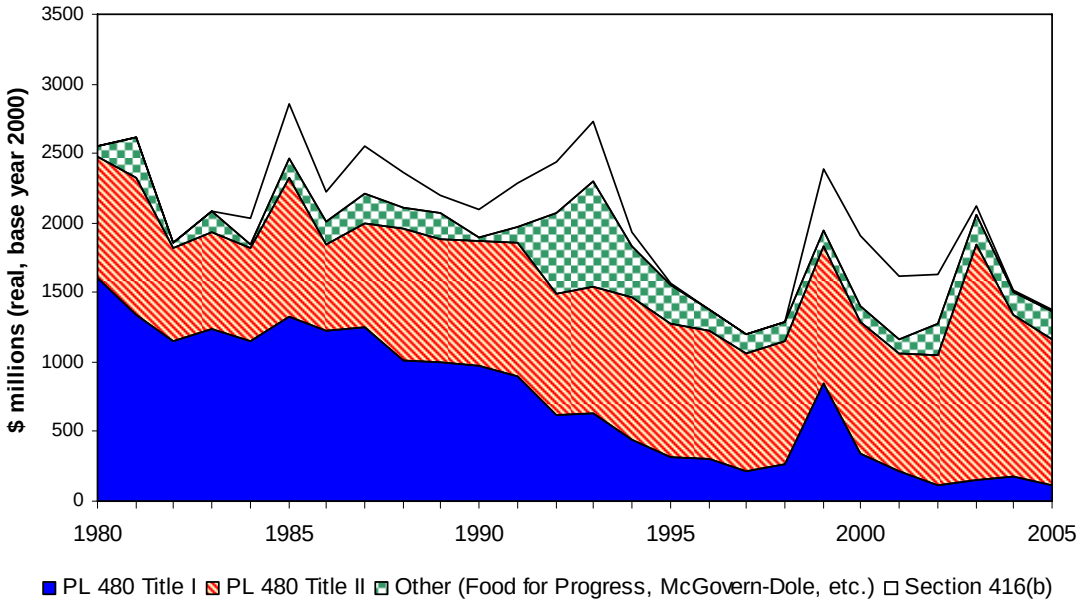


Figure 2: Global trends in natural disasters, 1975-2005

This shift has meant dramatic reallocation of resources across food aid programs with different objectives. Title I funding has declined 93.2% in inflation-adjusted terms since 1980 (Figure 3) and now comprises only 6.6% of the total U.S. food aid program, down from 62.6% in 1980. The Bush Administration's FY2007 and FY2008 budgets proposed to zero out Title I and Section 416(b) shipments entirely. Meanwhile, Title II has increased 19.3% in inflation-adjusted terms over the same period, constituting 77.7% of total U.S. food aid contributions in FY2005, more than double its 34.4% share in FY1980.



Data sources: U.S. Dept. Of Agriculture, General Accounting Office, Bureau of Economic Analysis

Figure 3: U.S. Food Aid Programs, 1980-2005

D. Reduced Cash Resources for Food Security Programming in Developing Countries

Steady improvement in early warning systems, emergency needs assessment methods and operational agencies' supply chain management and recipient targeting over the past twenty years have enhanced the efficacy of emergency food aid in stemming injurious response to crises (e.g., distress sales of productive assets by the poor) and in sustaining recipients' nutritional status and health. This has elicited increased emergency food aid. Although the same tools enhance the performance of non-emergency food aid programs, funds for development purposes have nonetheless decreased sharply over the past twenty years, especially that channeled through developing country governments. This simply reflects that emergencies are the first-best uses of food aid. As reflected in Figure 3, overall food aid program appropriations are down 46.4% in inflation-adjusted terms since 1980. Other food aid donors' trends are similar. This reflects gradual realization that cash for development assistance often yields better returns than commodities do. Even as real overseas development assistance spending has increased in the United States in recent years, food aid appropriations and physical tonnage has decreased.

As a consequence, the big challenge facing the operational agencies handling food aid today is that available resources do not come close to meeting the demands they face. Despite repeated global commitments to reduce hunger, there has been no change in the number of hungry people in developing countries since 1990 (FAO 2006a). With more than 820 million people undernourished and perhaps more than double that number suffering micronutrient malnutrition associated within insufficient intake of essential minerals and vitamins, the need for interventions to reduce hunger and poverty – the main cause of chronic hunger and malnutrition – has never been greater.

Not only is food aid funding down by nearly half in real terms since 1980, other government cash resources for medium-to-long-term development programming targeted to advancing food security objectives likewise has grown scarce over the past generation. Overall development assistance has been climbing again in recent years after falling steadily for most of the 1990s. But funding for interventions aimed at reducing hunger and food insecurity has fallen. Increased cash resource scarcity for development interventions has induced NGOs and cooperatives involved in food aid to adopt more controversial practices.

When the 1990 Farm Bill relaxed rules on NGO and cooperative sales of food aid for local currencies in developing countries – a practice known as "monetization" – and increased the minimum monetization rate for non-emergency Title II programs from 10% to 15%, NGOs and cooperatives began using food commodities as a means to raise scarce cash for food security programming. The intent behind monetization authorization was to help operational agencies defray the very real costs of distributing food and implementing food-based development programs. But monetization of non-emergency food aid has exploded far beyond this use. Several new NGOs and cooperatives entered the food aid business after the 1990 change, engaging solely in non-emergency programming, overwhelmingly based on monetization, while several longstanding Title II partner organizations expanded their monetization activities. The result has been widespread transformation of non-emergency food aid out of direct distribution through

school feeding, maternal and child health and other development projects and into monetization to raise cash resources for other development projects. Only 10.3% of non-emergency Title II resources were monetized in 1990-91; by contrast, more than half have been monetized each year since 1999, peaking at 65.3% in 2001 (Figure 4). And Food for Progress resources are now almost entirely monetized.

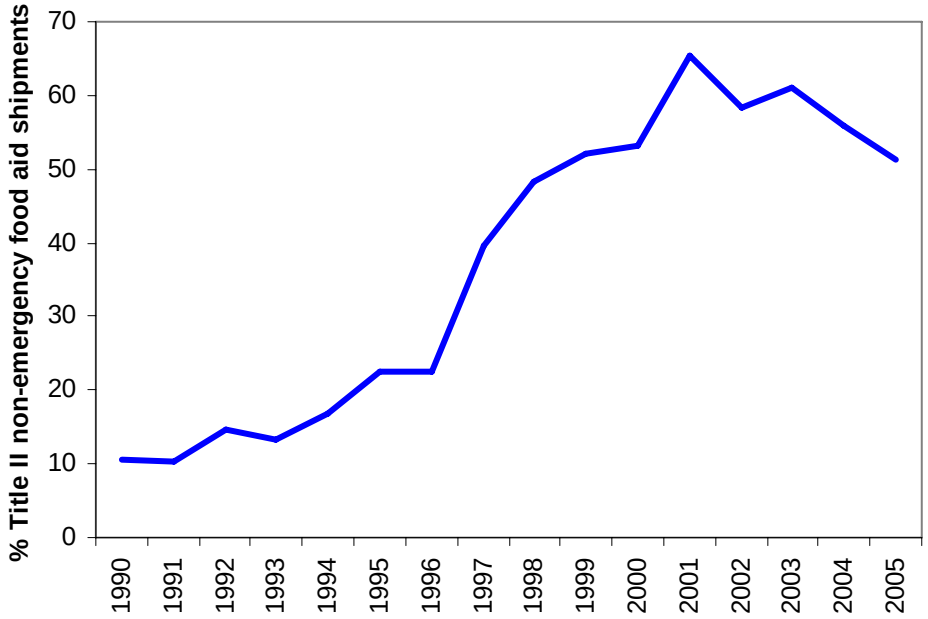


Figure 4: Approved USAID Title II Non-Emergency Monetization Rates

Monetization is controversial for several reasons. First, it is qualitatively similar to program food aid (e.g., Title I), with consequences for import displacement that excite opposition among other WTO member states and sometimes among U.S. commercial exporters, and possible adverse effects on local markets for recipient country producers and traders. Moreover, many observers consider monetization a terribly inefficient way to put tax revenues to work in valuable development programming in low-income countries, given the large share of expenditures lost to freight, commodity procurement premia and storage and administrative costs. Non-experts readily understand the inefficiencies inherent to using taxpayer dollars to buy food and shipping services, then converting the delivered commodities back into cash. NGOs that were heavily involved in food aid monetization as recently as a few years ago – such as Technoserve and CARE – are

therefore reducing or discontinuing monetization as inefficient and often disruptive for recipient country markets.

Monetization is mainly a response to the diminished availability of cash resources for essential non-emergency food security programming. United States foreign assistance has become caught in a "relief trap", with emergency response crowding out longer-term investments to preempt future emergencies, causing a vicious cycle of emergency, relief response and predictable, follow-on emergencies (Barrett and Carter 2002). Development interventions are as necessary as ever to reduce the likelihood of emergencies. But as the most comprehensive recent study emphasizes, outside of a few special circumstances when monetization is intrinsically valuable as an activity, it is vastly more efficient and effective to replace commodity support for non-emergency development programs via monetization with cash for NGOs and cooperatives to undertake these same activities (Tschirley and Howard 2003).

E. Changed Food Aid Policies Among Operational Agencies and Other Donors

Food aid plays an essential role in saving lives in emergencies by preventing widespread famine. Food aid plays a valuable role in response to natural disasters and violent conflict by helping meet international commitments to fulfill the human right to food, as agreed under the 1948 Universal Declaration of Human Rights (Article 25) and the 1966 International Covenant on Economic, Social and Cultural Rights (Article 11), and universally reaffirmed at the 1996 World Food Summit in Rome. Food aid can also be a valuable complement to non-food resources in non-emergency settings. When properly targeted to food insecure recipients, food aid is important to protecting the few productive assets the poor own, most especially the health and labor power of adults and children (Quisumbing 2003, Yamano et al. 2005). And when it is not only properly targeted to needy individuals but also distributed during periods when need is most acute, food aid can likewise obviate seasonal liquidity constraints that otherwise cause periodic undernutrition and underuse of productive inputs, thereby helping boost productivity on semi-subsistence farms (Bezuneh, Deaton and Norton 1988, Barrett, Bezuneh and Aboud

2001, Abdulai, Barrett and Hoddinott 2005). The return to food aid can thus be quite high, even higher than cash in food deficit areas with poorly functioning agricultural markets.

The effectiveness of food aid programming has, if anything, grown with the increased professionalization of development and humanitarian organizations' operations over the past twenty or so years. These changes are driven in large measure by radically improved understanding of the etiology of famine and food insecurity, as well as technological and logistical improvements that have reduced costs and increased flexibility and accuracy. These changes run the gamut from improved early warning systems and emergency needs assessment methods, to more flexible and efficient supply chain management, better targeting protocols, and increasingly professionalized staffing.

One manifestation of this is the increased attention paid to the nutritional content of commodities distributed. In many cases, bulk grains supplemented by legumes, vegetable oil, or both, suffice to top up the energy and protein intake of target populations to minimal levels. But the use of micronutrient fortified foods has become increasingly widespread due to their importance in emergency feeding, as well as school feeding and maternal and child health programs. Fortified foods – especially therapeutic foods designed for severely malnourished children – are not commonly available through commercial channels in poor communities, and dietary diversity is commonly limited among low-income households, thus serious micronutrient deficiencies are distressingly widespread. Rations designed to meet these needs can work wonders. For example, a recent program evaluation of USAID/Food for Peace Title II programs showed a decline in the prevalence of stunting (low height for age, a measure of chronic malnutrition) of 2.4% per year among targeted participants of programs, with nutritional improvement better than national averages in three-quarters of the programs examined, suggesting that the Title II programs contributed significantly to food security (Swindale et al. 2004).

WFP and NGOs' improved focus on assessed recipient need (divorced from the secondary objectives that bedevil government-to-government program food aid) appears

to give them comparative advantage in increasing and stabilizing food availability in poor, food-deficit countries and in timely, appropriate response to disasters as well as chronic poverty and food insecurity situations.[3] This helps account for the sharp increase in U.S. food aid channeled through these agencies, as documented previously. Moreover, operational agencies' successes have helped spark significant reforms in many donor countries, notably Australia, Canada and the European Union.

In 1996, the European Union enacted Regulation 1292/96, combining its non-emergency food aid and food security budgets into a consolidated Food Security Budget Line (FSBL) focused on advancing a single goal of improving food security. The FSBL both allowed for more flexible programming between cash and commodities and eliminated restrictions tying procurement of food aid (either commodities or freight services) to European suppliers. This marked a significant departure from past policies and has encouraged increased use of local and regional purchases (in or near the destination developing country) so as to reduce delivery lags, ensure that food aid distributed is suited to local tastes and dietary habits, achieve greater cost-efficiency in food aid procurement and delivery and channel the demand stimulus from food aid procurement so as to benefit developing country farmers. While European food aid has not entirely lived up to this promise, perhaps especially regarding reduced delivery lags, this nonetheless represents a sharp break from traditional food aid reliant entirely on sourcing food in the donor's domestic market. Belgium, Germany, the Netherlands, Norway, Sweden and the United Kingdom now give almost all their food aid in cash for local and regional purchases by NGOs and WFP.

Perhaps the most dramatic reforms occurred in Denmark, which substantially overhauled its food aid program in the early 1990s, replacing canned meat and processed cheese with bulk basic grains, wheat flour, peas and vegetable oil. As a direct result of these relatively simple changes, by 1997 Danish food aid provided six times more calories and three

[3] Needs assessments remain controversial, however. One reason is that WFP deals only in food; therefore its analysts are motivated to find food-based responses even when those might be inferior to other forms of emergency response. This distortion mirrors the distortions NGOs face in U.S. food aid programs based entirely on commodity shipments. The form in which resources are available too often drives needs assessments and the design of interventions, even by the most progressive operational agencies.

times more protein than it did in 1990, and at lower cost. Total sales from Danish agriculture were unchanged, but with some redistribution of earnings and employment from the processing, dairy and meat subsectors to the grains, peas and vegetable oil subsectors. Furthermore, responsibility for the program was transferred from the Ministry of Agriculture to the Ministry of Foreign Affairs, underscoring the food aid program's new focus on efficacy in achieving development objectives.

The Canadian government followed suit in September 2005, increasing the share of its food aid open to local and regional purchases from 10% to 50%. Australia has similarly relaxed domestic procurement rules and moved to more cash-based food aid programming. Even China, which became the world's third largest food aid donor in 2005 due to expanded donations to Africa and North Korea, has been using cash-based programming of food aid donations to achieve greater cost-effectiveness and timeliness.

These changes have fuelled a sharp increase in WFP's use of local and regional purchases since 2000. In 2005, 2.55 million metric tons were sourced through local or regional purchases, including triangular transactions, up 40% over the comparable 2004 figure. Take away food aid from the U.S., the only major donor that does not permit local and regional purchases, and over 60% of global food aid flows are now procured outside the donor country (WFP 2006). This is a striking shift in just the past several years.

What Remains The Same: Legislative Restrictions On Food Aid Programs

The *President's Management Agenda* of 2002 opines that food aid's "humanitarian purpose is being eroded by other uses having little to do with food" (OMB 2001, p.65). While improvement in operational agency management of food resources has resulted in part from increased flexibility in response and greater focus on timeliness of response and appropriate nutritional content to maximize food security impact, U.S food aid programs have continued to labor under politically-driven restrictions that limit programs' flexibility to respond to needs appropriately. Legislative restrictions on food aid programs cause four core problems: added cost, delay deliveries, reduced cultural and

nutritional appropriateness of commodities, and internal contradictions that impede the Executive Branch's ability to comply with all legislative requirements within the food aid appropriations ceiling. Jointly, these problems feed the broad-based perception that they compromise the effectiveness of U.S. food aid programs in addressing the 2002 Farm Bill's stated primary goal for these programs: "enhancing food security in the developing world."

In FY2005, the cost of food procured by USAID was $654 million. But add in $482 million for ocean and overland freight, $410 million for transport and storage in developing countries, and $81 million in administrative costs, and the value of the commodities procured was barely 40% of total expenditures, while freight was . Barrett and Maxwell (2005), using different methods, come up with the comparable estimate that the value of commodity delivered in developing countries was only 47% of total U.S. food aid appropriations. Plainly, non-commodity costs in current programs are high. A recent GAO study of U.S. food aid deliveries to Afghanistan in 2001-2 concluded that buy-America restrictions on procurement of commodities and freight services cost the U.S. government an extra $178 million, enough to feed an extra 685,000 people for one year (GAO 2003).

These costs are attributable to the many restrictions placed on food aid, in particular with respect to shipping, bagging, processing. Other donors, operating without those added restrictions, face far lower program costs. For example, in FY2003, the most recent year for which detailed data were available, 68.1% of Canada's food aid budget was spent on commodities, and only 24.6% on total transport costs (overland, ocean and in recipient countries). Even though freight costs within and from Canada to most tropical recipient countries are the same as or greater than comparable costs within and from the United States, the U.S. government spends roughly a 70% larger share of its food aid budget on transport and about 40% less on commodities than Canada does. That means it can feed far fewer hungry people per taxpayer dollar than other donors, signalling significant inefficiencies that limit program effectiveness in achieving the stated food security objectives of U.S. international food assistance programs.

In emergency medicine, the "Golden Hour" is the first 60 minutes after an accident or the onset of acute illness, the window during which the chances for saving a patient and permitting full recovery are greatest. The international humanitarian community has generally internalized the principle of the Golden Hour: Rapid response is essential. Food aid procurement policy nonetheless stands in the way. In 2000, the average delay in delivering emergency food aid — the time between a formal, bureaucratic request and port delivery in the affected country — was nearly five months because current rules require all U.S. food aid to be grown in and shipped from the United States (Barrett and Maxwell 2005). The same GAO study cited earlier found that had the U.S. authorized regional purchases by WFP – which made regional purchases with 93% of all its non-U.S. funding for Afghanistan during that period – it could have saved 120 days in delivery time for food aid rations (GAO 2003).

In addition to authorizing each of the food aid programs above, various bills enacted by the Congress, including past Farm Bills, have mandated seven specific restrictions on these programs. In no case are these restrictions driven by the needs of operational agencies to improve effective response to intended recipients' food security needs. And in several cases, these restrictions are mutually incompatible. We explore these restrictions now in turn.

A. Minimum volumes

Under the 2002 Farm Bill, and consistent with the United States' obligations under the international Food Aid Convention, the minimum level of mandated assistance is 2.5 million metric tons (MMT) per year. This minimum has become an issue in recent years as higher costs for freight and some foods (e.g., therapeutic foods for responding to late stage emergencies) and reduced budgets have threatened the programs' ability to meet this minimum. The solution is obvious: increase appropriations for food aid and reduce non-commodity costs in the programs. The former is difficult given current federal budget deficits, however, and the latter arises from a host of different politically-popular

restrictions discussed below. Meeting minimum volume requirements is therefore likely to remain challenging for the foreseeable future.

B. Minimum non-emergency volumes

The sub-minimum volume for non-emergency food aid programs was set at 1.875 MMT –75% of the Title II minimum tonnage level – by the 2002 Farm Bill. That minimum has not been met in a single year since 1995 because emergency food aid demands combined with lower real food aid budgets have crowded out spending on non-emergency food aid. Indeed, the 75-25 implicit non-emergency-to-emergency target ratio in the 2002 Farm Bill has been turned on its head, with 75% or more of Title II resources going to emergencies in recent years. The USAID Administrator routinely waives this requirement, as permitted in the authorizing legislation, because the Agency is unable to meet the non-emergency minimum, given available resources and emergency demands. Moreover, since emergency uses are first best for food resources, this prioritization is appropriate. But food commodity resources can be effectively used as complements to cash in non-emergency safety net (e.g., food-for-work employment guarantee schemes) and food-based (e.g., school feeding or maternal and child health) programs. Routine violation of the non-emergency food aid subminimum has created enormous problems for NGOs operating such programs, as resource pipelines are increasingly delayed, disrupted and discontinued.

C. Value-added minimum

The 1985 farm bill established that at least 75 percent of the non-emergency minimum tonnage be fortified, bagged or processed, ensuring demand from the federal government for the services of a modest number of vendors registered with the U.S. government in that industry. Two agribusiness giants alone, Cargill and Archer-Daniels Midland, combined to ship 1.9 million metric tons of food aid in fiscal year 2003, more than one-third of all U.S. food aid shipments that year (Thurow and Kilman 2003). There is no evidence that U.S. farmers enjoy any gains from the value-added minima and this drives

up the cost per nutrient for recipients, helping to account for the high cost of U.S. food aid relative to other donor countries.

In practice, however, this requirement is rarely met because it directly contradicts the sub-minimum requirement for non-emergency tonnage. Because processing costs reduce the tonnage procurable with sharply limited non-emergency food aid budgets, USAID must necessarily choose between these competing mandates. It has typically compromised, failing to meet either restriction.

D. Bagging minimum

Beyond but clearly overlapping with the value-added requirement noted above, the law requires that 50% of Title II non-emergency grain purchases be bagged in the United States. This adds modestly to costs, but is met in most years. One of the chief beneficiary groups from this restriction is, non-obviously, shippers, for reasons explained below. The shippers' extraordinary political power over food aid programs, manifest especially in cargo preference (see the next sub-section) is the chief reason this subminimum is usually met. There is no underlying economic, humanitarian or nutritional reason why bagging commodities is essential in U.S. food aid programs.

E. Cargo Preference

Shipping restrictions on food aid are especially contentious. Cold War – and broader national security – concerns led to restrictions on food aid shipping intended to help maintain a viable U.S. merchant marine fleet that could be made available to the Department of Defense (DoD) in time of war. In accordance with the cargo preference provisions of Section 901d of the 1936 Merchant Marine Act, as amended several times subsequently, and the Cargo Preference Act, enacted alongside PL 480 in 1954, a minimum share of U.S. food aid must be shipped on American-flagged ships. From 1954 until 1985, cargo preferences restrictions required that at least half of the gross tonnage of U.S. food aid commodities be shipped on privately owned, registered U.S.-flag

commercial vessels. The 1985 Farm Bill increased that proportion to 75 percent in a deal between shippers and agricultural exporters to keep cargo preference from being applied to USDA's commercial export credit programs. The increase did not apply to other government-directed commodity shipments, only to food aid.

The Congress created a new Maritime Security Program (MSP) in 1996 to help the U.S. merchant marine fleet meet the higher costs of maintaining U.S. citizen crews and meeting Department of Defense standards for military readiness. MSP subsidies are currently $2.6 million/ship annually. These subsidies are essentially call options that give the Pentagon the legal right to use ships and crews for military operations when necessary. Thus there now exists a distinct program created explicitly for the purpose for which cargo preference was intended.

The existence of two distinct programs to support the maritime industry creates perverse incentives. For example, shippers benefit handsomely from the 1985 farm bill provision mandating that at least 75 percent of the non-emergency minimum tonnage be fortified, bagged or processed and the 50 percent minimum bagging requirement on non-emergency grain shipments because they must surrender subsidies they receive from Maritime Security Program (MSP) on any days that they carry more than 7500 tons of bulk food aid under cargo preference provisions. Since more than three-quarters of vessels in the MSP also carry cargo preference food aid shipments,[4] this is an important opportunity for shipping lines to "double dip" by carrying bagged food aid commodities, thereby collecting both the substantial premia that accrue from the cargo preference restriction and the MSP subsidy of more than $7000/day per vessel.[5]

Predictably, cargo preference restrictions drive up freight costs. The U.S. Government Accounting Office (1994a,b) estimated that in the early 1990s, cargo preference inflated freight costs by 69%, on average, without advancing legitimate national security interests in military sealift capacity. 1999-2000 data reinforce those findings, showing a 78%

[4] GAO (2004) reports that 37 of 47 then in MSP also carried cargo preference food aid shipments.
[5] Bagged food aid – and almost all fortified or processed product is bagged rather than bulk – also uses container or roll-on/roll-off ships that are of greater commercial value to shippers than bulk vessels.

premium paid for ocean freight due to cargo preference, although the U.S. merchant marine continued to shrink (Barrett and Maxwell 2005). USAID reports that in FY2006, open market freight costs had increased substantially, to as much as $180/metric ton for processed commodities, due to higher fuel costs and greater global demand for freight services, thanks especially to burgeoning demand from China. Largely as a result, estimated cargo preference premia had shrunk to 15% on bulk freight and 54% on processed products.

Using its permanent, off-budget borrowing authority, the Department of Transportation, through MARAD, partially reimburses USDA and USAID for a portion of the ocean freight differential (OFD) on food aid shipments and, under Section 901d of the Merchant Marine Act of 1936 (as amended), any costs of ocean freight beyond 20% of total food aid program costs, defined as the value of commodities and the cost of ocean freight less OFD reimbursements on previous years. So while the aggregate costs of cargo preference to taxpayers are as reported above, the net costs to USDA and USAID are somewhat reduced. Nonetheless, because cargo preference drives up total costs (e.g., including inland transport, not just ocean freight), MARAD reimbursements fall well short of covering all of the costs of cargo preference to USAID or USDA. For example, USAID analysis of FY2003 shipments finds that MARAD reimbursements of $78.5 million covered only 58.5% of the $134.3 million in total cargo preference-driven costs to the Agency. The unreimbursed differential amounted to 18.9% of total freight costs. One reason for this is that OFD reimbursement does not apply to vessels that are more than 25 years old – it is only for "militarily useful vessels" – although many older, bulk cargo and break-bulk vessels nonetheless qualify for cargo preference.[6] This difference between vessels eligible for cargo preference and "militarily useful" vessels for which MARAD provides (partial) reimbursement provides windfall gains to a small number of line operators while driving up unreimbursed program costs for USAID and taxpayers.

[6] These details are specified in the July 1987 Memorandum of Understanding between CCC, MARAD and USAID governing implementation of the newly-increased cargo preference rates.

Yet because food aid volumes are a tiny share of global shipments and most ocean freight is not subject to cargo preference restrictions – cargo preference accounts for only 5-15 percent of U.S.-flagged ships' total containerized cargoes and three-quarters of U.S.-owned ships are now flagged outside the United States – this program cannot realistically keep shipping lines afloat. Moreover, dry bulk ships are of negligible value today to the U.S. military. As a result, the GAO has repeatedly concluded that cargo preference on food aid shipments does not advance the objectives for which it is designed (GAO 1990, 1994a, 1994b, 1995).

Because more than 95 percent of U.S. international commercial trade is carried on foreign-flagged vessels (Baron and Kranish 2006), and due to restrictions on government registered vendors, there is limited competition for food aid freight contracts under cargo preference provisions. In 2005, 68.6% of USAID food aid shipments were carried by just four lines. While the largest, Sealift, is American-owned, the next three largest freight lines were foreign-owned: A.P. Moller-Maersk (Denmark), DP World (United Arab Emirates) and Mediterranean Shipping (Switzerland). Indeed, foreign-owned ships carried 57.6% of USAID food aid, by weight, in FY2005. Just as three-quarters of ships in the Pentagon's Maritime Security Program are owned by foreign companies (Baron and Kranish 2006), so do foreign-owned countries sailing U.S.-flagged ships dominate food aid freight provision, benefiting handsomely from implicit subsidies afforded by cargo preference provisions in the interests of advancing national security objectives. This curious fact is not widely known outside the very small circle of technical experts within government and the shipping industry.

A few ports also depend heavily on food aid shipments and benefit from cargo preference provisions that distort shipments patterns. For example, *the Wall Street Journal* reports that food aid makes up one-third of the tonnage shipped from the Gulf of Mexico port at Lake Charles, Louisiana (Thurow and Kilman 2003). Statistical analysis of USAID data show that 45.1% of all FY2005 food aid volumes shipped through Houston-area ports (including Jacinto City, Texas), many times those ports' share of commercial exports of the same commodities. Indeed, when one compares USAID food aid series with Census

Bureau data on commercial exports of basic grains, there is no statistically significant correlation between U.S. ports' food aid volume shares and commercial export volumes over the FY2005-2006 period.

The best example of distorted port use patterns arises from the 1986 Farm Bill stipulation that Great Lakes ports should retain their 1984 quantity or percentage shares of cargoes. Because no CP-eligible carriers service Great Lakes ports today, these restrictions are now met entirely through intermodal cargoes transported overland from the Great Lakes region, then transferred to another means of conveyance (e.g., truck to rail) for movement to another U.S. seaport for export (on a non-U.S. flag carrier). In FY2005, 39% of shipments ran through intermodal plants or bridges – the vast majority of them Great Lakes locations – thereby adding costly transfer costs to shipments.

F. Monetization

Since the 1990 Farm Bill, the Congress has required that at least 15% of non-emergency food aid be monetized. As described earlier, this minimum has been far exceeded in every year and thus serves as a non-binding constraint on food aid programming currently.

G. Overhead Reimbursement for Operational Agencies

The 2002 Farm Bill also specified that funding for administrative support and internal transport, storage and handling of food aid commodities for NGOs, cooperatives and WFP under PL480 Title II Section 202(e) had to be 5-10% of annual Title II spending. Although USAID chose only the midpoint of that range (7.5%), this nonetheless represented a more than four-fold increase in 202(e) funding and permitted USAID to broaden the types of expenses to which operational agencies could apply these funds. This nonetheless remains minimal support for essential operations and helps stimulate NGO and cooperative monetization of non-emergency food aid as an alternative means of generating necessary cash resources.

The Major Food Aid Issues for the 2007 Farm Bill

The major issues surrounding food aid programs under the 2007 Farm Bill revolve around the bringing longstanding programs into alignment with the changed global environment and practice of food aid. There are seven core areas of focus for prospective reforms, which we now briefly consider in turn.

A. Program Objective

Although the 1990 Farm Bill identified "enhancing food security in the developing world" the core objective of U.S. food aid programs, officially, U.S. food aid programs have six goals, five of them identified in the 1990 Farm Bill and the sixth added in the 2002 Farm Bill. These are:

1. combat world hunger and malnutrition and their causes,
2. promote broad-based, equitable, and sustainable development, including agricultural development,
3. expand international trade,
4. develop and expand export markets for United States agricultural commodities,
5. foster and encourage the development of private enterprise and democratic participation in developing countries,
6. prevent conflict.

As previously discussed, food aid has proved ineffective in promoting goals 3 and 4. And there is nothing specific to food resources that makes food aid especially appropriate for objectives 2, 5 or 6. Historically, food aid has really only proved effective at meeting two objectives: surplus disposal (notably omitted from the current official objectives of U.S. food aid programs) and humanitarian assistance. Since the historical (although not current) surplus disposal objective is unlikely to be permissible under any future WTO

agreement,[7] and because diffuse objectives increase costs and lower the effectiveness of U.S. food aid programs, many observers favor focusing the program's objective on a single goal akin to #1 above: to serve humanitarian and development objectives associated with emergency response and advancing food security in low-income countries.

B. Food Aid Spending Levels

U.S. food aid budgets have stagnated or declined in recent years while global demand for food aid has increased. The 2002 Farm Bill's development and emergency assistance title has spent $1.6-2.0 billion annually over the past five years. But that has often included supplemental appropriations and drawdowns from the Emerson Trust necessitated by emergencies. Those processes require Congressional approval and take months to pass, during which time the human and financial cost of delay in emergency response increases.[8] Most in the food aid community thus strongly favor an increase, to at least $2 billion annually, and greater year-on-year stability, in food aid budgets. Indeed, to restore U.S. food aid budgets to the real levels of 1980 would require a 2008 annual budget of $2.9 billion, nearly double the 2007 budget. That figure far exceeds anyone's expectations for food aid programs in the coming years.

Much of the issue revolves around non-emergency budgets, which have declined especially sharply over time, as documented above. When faced with a budget crunch, saving lives indisputably takes priority. The problem is that not much is left over for addressing the causes underlying recurring emergencies. With emergency food demands growing sharply, non-emergency food aid programming has been getting squeezed shrinking from 51.2% of all approved Title II resources in 2001 ($462 million), to just 16.5% in 2005 ($330 million). USAID simply cannot meet the 1.875 MMT minimum for

[7] The July 2004 framework signed by WTO member states agreed to eliminate food aid that displaces commercial sales. While crucial details remain to be worked out, this is highly likely to limit certain U.S. food aid programs.

[8] For example, the cost per beneficiary in responding to the November 2004 international appeal for Niger increased from $7 in February 2005 to $23 by August 2005 because delayed response necessitates increased use of more expensive supplemental and therapeutic foods, instead of cheaper bulk commodities, and of airlift and other more expensive forms of transport.

nonemergency programs dictated by the 2002 Farm Bill given present funding levels and emergency demands. Moreover, emergency reprogramming has forced temporary disruption or premature termination of effective non-emergency programs run by a number of NGOs and cooperatives. These disruptions make it difficult to plan and implement effective interventions to reduce future need for emergency food aid. As a result, NGOs and others have been pushing for sharp increases $2 billion outright in annual food aid appropriations, hopefully thereby preempting the need for supplemental emergency funding.

Increasingly scarce federal resources makes it that much more important to maximize value per tax dollar. And in non-emergency interventions, food is commonly not the most important resource; cash-based programs are typically less restrictive (one can, after all, purchase food with the cash) and thus yield higher (economic or humanitarian) returns per dollar. NGOs worry, however, that cash for long-term investment in reducing chronic hunger will not be made available if more inefficient uses of food aid are cut off. But the performance of non-emergency food aid is also hampered by the various Congressional restrictions enumerated above, which add to the financial costs of the programs and reduce their effectiveness in responding to and preempting humanitarian emergencies around the world. A major issue in upcoming reauthorization of food aid programs will therefore concern the restrictions that presently add to program costs and impede performance, especially timeliness in deliveries.

C. Procurement and Shipping Restrictions

As described earlier, many of the Congressional mandates on food aid programs routinely go unmet, in some cases because they are mutually inconsistent, in other cases because they are simply infeasible given current budget levels. For this reason, as well as because they drive up costs and reduce the timeliness and cultural and nutritional appropriateness of food aid programs, many observers advocate narrowing the set of restrictions on U.S. food aid programs. Key candidate mandates for elimination or relaxation include (i) the 75% minimum share of non-emergency food aid fortified, processed or bagged, (ii) the

cap on Section 202(e) cash made available to operational agencies to cover administrative and internal transport, storage and handling costs, and (iii) cargo preference requirements. Because bagging, monetization and overall food aid volume minima rarely if ever constrain U.S. food aid programs, those restrictions are generally thought less germane to policy reform discussions.

The argument for eliminating the value added minimum is simple: this mandates is rarely if ever met, there is little or no prospect of it being met in the foreseeable future, and it has no basis in advancing food security objectives. The 202(e) cash spending cap will need to be lifted if a WTO agreement, Executive Branch policy or (least likely) Congressional mandate caps non-emergency food aid monetization rates. But because 202(e) is tied to commodity receipts, unless complementary cash resources for development assistance become available through the foreign relations appropriations process, operational agencies will otherwise find it increasingly difficult to implement effective food aid programs as rising transport costs pose an increasing burden.

The big battles, as always, will surround cargo preference restrictions. Now that the Maritime Security Program (MSP), recently re-authorized for another decade, provides a cleaner mechanism for subsidizing the U.S. merchant marine, cargo preference appears ripe for a rollback. In the face of increased freight costs, and given the double dipping in which carriers can legally engage when carrying most food aid shipments, the government could save scarce funds by eliminating cargo preference in favor of a bolstered MSP.

At a minimum, the Congress needs to direct agencies to make two basic reforms. This first would streamline commodity procurement and freight contracting by insisting on use of prevailing best practices in commercial supply logistics so as to improve timeliness of delivery and to reduce expenditures to commercial terms or at least the near-commercial terms enjoyed by other government agencies, such as the Department of Defense. Second, harmonize the listing of vessels eligible for cargo preference and of "militarily useful" vessels for which MARAD provides (partial) reimbursement to USAID and

USDA. The present inconsistency between these listings provides windfall gains to a small number of line operators while driving up unreimbursed program costs and failing to support the national security objectives of the cargo preference provisions. Ending the expensive Great Lakes port provisions could likewise eliminate considerable unnecessary freight costs that have no basis in improving the efficiency or effectiveness of food aid programs.

Savings in freight costs can also be achieved through administrative improvements. USDA presently uses a cumbersome double bid system, but will soon experiment with a potentially cheaper and quicker, electronic single bid system. Shippers indicate that quicker settlement of charges could likewise save costs, since freight lines must currently wait for payment 30 days after delivery to terminal port, rather than at time of cargo transfer at the load port, as is common in commercial and Department of Defense contracts. Because shippers factor these delays into their freight bids, it drives up costs for food aid programs.

D. Local and Regional Purchases

The issue of relaxing procurement and shipping restrictions leads directly to the most recent big debate about U.S. food aid programs: the prospective use of cash to make local and regional purchases to respond to food emergencies in developing countries. By law, the food provided through U.S. food aid programs must be grown in the United States, processed and shipped from here. This "tying" of food aid to domestic procurement of commodities and shipping services sets the U.S. apart from other donors, who have partly or wholly abandoned the practice. As noted earlier, in 2005 a majority of non-U.S. food aid globally was procured using local and regional purchases.

The economics supporting local and regional purchases are impeccable: quicker, lower-cost delivery that is less likely to disrupt recipient country markets (Tschirley 2007). But the politics are extremely difficult because American agribusinesses and shippers stand to lose business from this shift. As a result, the White House's FY2006 budget request

proposal to shift $300 million from the PL480 Title II account to USAID's International Disaster and Famine Assistance program, in order to make cash available to purchase food for emergency relief in markets closer to the final destination, was rejected without even a vote in committee. Indeed, the final conference report accompanying House Resolution 2744 (Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2006) included the striking declaration that "the conferees further admonish the Executive Branch to refrain from proposals which place at risk a carefully balanced coalition of interests which have served the interests of international food assistance programs well for more than fifty years."

Nonetheless, in its FY2007 and FY2008 budget requests, the Administration made a similar proposal, this time retaining the funds within the PL480 Title II account, but requesting authorization for the USAID Administrator to spend up to 25% of Title II for emergency local and regional procurement of food from low-income countries[9] when those sources could provide food on a more timely and less-expensive basis with adequate quality control and no expected adverse effects on local markets.

Local and regional purchases are not simple nor are they available and effective everywhere. Some markets are too thin to absorb a significant increase in commercial food demand without driving up prices and thereby hurting poor local consumers. In other places, quality control, transport capacity and trader market power concerns limit donor's procurement options. Moreover, even taking freight and administrative costs into account, it is sometimes cheaper to import food aid from the US. For example, Lentz and Barrett (2006) find that 36% of US food aid shipments to Ethiopia, Kenya and Tanzania, 1998-2002, cost less than comparable local market purchases.

But most often, and on average, local and regional purchases are cheaper and quicker than shipments of American food on U.S. ships halfway around the world. A detailed study of global food aid transactions found that local food aid procurement in developing

[9] More precisely, from countries identified as aid recipients by the OECD Development Assistance Committee. This provision is intended to prevent procurement from middle-income and high-income competitors in global agricultural markets.

countries relative to direct transfers from donor countries was 66% less expensive across all commodities, and 61% and 52%, respectively, for maize (corn) and corn-soy blend, the two primary commodities shipped to Africa by U.S. food aid programs (OECD 2005). Recent research corroborates those findings over a longer period but a smaller set of (African) recipient countries, arriving at quite similar estimates of average cost savings (Tschirley 2007, Haggblade and Tschirley 2007). The latter study concludes that by learning from WFP's recent experience with local and regional purchases, USAID could design a highly effective local food aid procurement program.

Cost savings notwithstanding, the Golden Hour principle discussed previously is perhaps the most compelling argument for local and regional purchases. Rapid response saves lives, limits ill health, helps keep children in school, and prevents precipitous, and sometimes irreversible, asset loss by desperately poor people forced into distress sale of their land, livestock or even persons (i.e., debt peonage). Moreover, timely response also reduces costs because the more advanced the emergency, the more carefully tailored – and expensive – rations need to be in order to stem malnutrition-related disease and excess mortality. The cost difference between bulk commodities useful at the outset of an emergency (e.g., in the days immediately following an earthquake or floods) and the therapeutic and supplementary foods needed once the disaster has fully matured (e.g., many months into a severe drought or in areas plagued for years by conflict) is huge, commonly 20-to-50-fold more expensive per ton. In the 2005 crisis in Niger, an unnecessary six month delay in response to a United Nations appeal for assistance drove intervention costs per child from $1 to $80 (Murphy 2005). Timeliness is therefore crucial not just because it increases the probability of protecting assets and saving lives. It is also crucial to preserve scarce budgetary resources needed for dealing with the many demands food aid faces.

Furthermore, when food aid arrives late, it fails to deliver promised humanitarian benefits in full and often can prove disruptive to local commercial farming and marketing systems, as when shipments arrive as the next harvest comes in, so that food aid exacerbates rather than stabilizes volatility in local food supplies. The historical

statistical evidence suggests this has been a distressingly common phenomenon with respect to U.S. food aid shipments, with scant improvement in recent years, important and oft-discussed counter-examples not withstanding.

USAID has made notable efforts to improve timely response, through creative rerouting of cargo already at sea[10] and, most notably, through establishing pre-positioning warehouses in Dubai, nearer some regions (e.g., Horn of Africa) where emergencies frequently arise, in Lake Charles, Louisiana, and most recently in Djibouti. While this can, in principle, cut response time to two to four weeks, from the four-plus months averaged by US emergency food aid, the volume and variety of commodities available are sharply limited. Further, maintaining this capacity adds to overall program costs, in part because neither of the original two facilities has the capacity for direct loading of the container ships that increasing carry food aid shipments; so intermodal expenses are significant. Thus, the ability to improve timeliness and efficiency of emergency response are sharply limited within the present confines of complete "buy America" provisions. Hence the growing chorus of support for at least pilot programs to permit local and regional purchases of food aid based on cash appropriations to USAID.

E. Bill Emerson Humanitarian Trust

The Bill Emerson Humanitarian Trust was created after President Carter imposed an embargo on the Soviet Union in 1980 to protest the Soviet invasion of Afghanistan.[11] The embargo voided several large commercial shipments of American wheat to the Soviet Union. CCC offered to purchase the 4 MMT of wheat U.S. suppliers had committed for sale to the Soviet Union. Lacking spare public storage capacity, the federal government not only bought the grain, it then paid the agribusinesses to hold the

[10] For example, USAID's rerouting of shipments already at sea provided WFP with adequate resources to avert a planned halving of food aid rations in Darfur in April 2005.
[11] See Hanrahan (2003) and Barrett and Maxwell (2005) for more detail on the history of the Bill Emerson Humanitarian Trust.

stocks. Over the ensuing months, the government gradually liquidated much of these stocks, in many cases selling the grains back to the original exporter at a sharp discount. But the precedent was established. Rather than creating a fund for global food security, as had been advocated in the Congress prior to the 1980 grain embargo on the Soviet Union – and proposed by several subsequent Administrations, including the current one – agribusinesses succeeded in establishing a government grain reserve.

The agribusinesses paid to hold Trust reserves and wheat interests concerned that releases from the Trust could depress prices have historically been successful in minimizing releases from this facility. The only commodity ever held in the BEHT has been wheat, even though other commodities (corn, rice, sorghum) have been authorized since the 1986 Farm Bill. The 1996 Farm Bill also allowed, for the first time, domestic sales of grain held by the Emerson Trust to raise funds to procure processed and fortified products (e.g., vegetable oil, nonfat dry milk powder).

The changing global environment has placed new pressures on the Trust, however. Commodities were released from BEHT only six times in the reserve's first 21 years of operation, 1980-2001. Since then, it has been drawn on six times in the past four years. This reflects both the increased number and impact of global emergencies and reduced real appropriations for food aid programs, creating both demand and supply side pressures that have necessitated Trust releases. Release triggers nonetheless remain an issue. Formally, release authority resides with the Secretary of Agriculture for "urgent

humanitarian relief" but management is by USAID's Office of Food for Peace. This interagency mixed responsibility is commonly blamed for slow response to emergencies.

With only one, partial replenishment of the Trust – as part of the FY2003 Emergency Wartime Supplemental Appropriations Act, to fund the 600,000 metric tons released for Iraq that year – reserves in the Trust have fallen to roughly 900,000 metric tons of wheat and $107 million for commodity purchases, far below the 4 million tons authorized.[12] In FY2005, the BEHT released 700,000 metric tons for Title II programs in Eritrea, Ethiopia and Sudan. Thus the reserve volumes are roughly the volume required to meet one major unanticipated emergency.

Current law does not require replenishment of commodities released from the Trust although it provides options on how to do so (Hanrahan 2003): (i) via transfer of up to $20 million annually from PL480, (ii) Congress can appropriate funds for USDA to purchase replacement commodities, or (iii) USDA can designate CCC-owned commodities to the Trust. Option (i) is grossly inadequate, given current shortfalls in the Trust, and would be counterproductive since Emerson Trust releases have been necessitated by PL480 budgets that have proved inadequate to meet emergency needs. Option (iii) is infeasible since CCC currently holds negligible quantities of grains the Emerson Trust is authorized to hold (i.e., it cannot hold reserves of nonfat dry milk under present law). Option (ii) is thus the most likely means for replenishing the Trust.

Another option is to modestly amend the law so as to enable appropriations to replenish the Trust's cash (rather than commodity) holdings and to gradually convert the Trust into a financial reserve for emergency operations or, better yet, into a permanent authority for expenditures on famine emergency response. Continued drawdown of Emerson Trust

[12] Transport costs for BEHT shipments are funded separately by CCC.

commodity reserves would provide near-term augmentation of PL 480 appropriations while reducing government storage payments. In the medium-term, this would offer a fast-disbursing Famine Fund that could be used to finance local and regional purchases, to pay the premia associated with index insurance contracts that pay out in the event of a major climate shock (e.g., drought or flood),[13] or for other cash-based pilot ventures in addressing emergency food needs in developing countries.

F. Monetization

Taxpayer dollars spent to buy food in the United States, ship it abroad, where an NGO or cooperative accepts the shipment and then sells the food, is tremendously inefficient. NGOs and cooperatives know this and defend monetization typically on the grounds that cash resources for important development programming overseas simply are not available from the government; inefficient resources are better than no resources, they argue. To a certain degree, therefore, debates about monetization reflect a misplaced debate over appropriate funding levels for development assistance. In the event of a WTO agreement, however, disciplines imposed under new trade rules may force explicit limits on monetization rates. The EU and several other WTO members have been pressing hard on monetization as a de facto export subsidy and it remains to be seen how this particular issue settles out as – and if – negotiations proceed.

G. Program Consolidation

A tighter focus on the international food security objective would carry several implications. First, it implies ending Title I food aid programs based on concessional loans to foreign governments and Section 416(b) donations. Both programs focus on trade promotion and surplus disposal objectives. Moreover, they have grown obsolete, as

[13] In 2006, WFP, with USAID and World Bank support, launched a novel pilot scheme to purchase insurance to provide emergency relief funding for Ethiopia in the event of a well defined drought event (Syroka and Wilcox 2006). Proponents argue that index insurance can be more cost effective than traditional disaster financing through appropriations processes, that it will bypass lengthy international appeals processes to overstretched donors, and that it will ensure timely availability of the necessary resources to minimize the impact of shock. The prospects merit further investigation.

reflected in diminished demand by foreign governments for Title I lending and the White House zeroing out both programs in its FY2007 budget request.

Once food aid programs become focused solely on humanitarian and development objectives, it may make sense to reorganize the remaining programs – Title II, Food for Progress, the McGovern-Dole International Food for Education and Child Nutrition Program, and the Bill Emerson Humanitarian Trust – into two programs, one for emergency response, the other for non-emergency, development programming. This would help achieve focus and save on unnecessary bureaucratic expenses caused by substantial overlap of staffing across two agencies (USDA and USAID). OMB has previously called for program consolidation so as to reduce costs and reduce the conflicting objectives and institutional incentives that impede effective use of food aid resources.

This could be relatively easily done within the current legislative framework. Title II would focus solely on emergency food aid, nesting what currently comprises most of Title II as well as the Emerson Trust. The objective of the emergency title would be to save lives and livelihoods. Because timely response is so essential to meeting that objective, a revised PL480 Title II would include cash for local and regional purchases as well as exemptions from any remaining bagging, value-added or Great Lakes shipping requirements that delay and add costs to emergency response. Title III of PL480 could be revived and revised as the non-emergency food aid title with a focused objective of improving lives and livelihoods to prevent food crises. Operations presently under the Food for Progress and McGovern-Dole programs could be nested within the non-emergency title III. Multi-year non-emergency food aid programs that have been run under Title II would likewise be moved under Title III and restricted to uses where food has significant intrinsic value in promoting long term food security and preventing emergencies. Examples include feeding in conjunction with maternal and child health and school feeding programs, agribusiness development – including targeted monetization of food aid for development of value-added processing activities by farmer cooperatives – and food-for-work schemes aimed at improving agricultural productivity

and marketing systems (e.g., through road building or soil and water conservation projects).

The advantages of this approach based on two consolidated titles are several. First, it would clearly demarcate emergency from non-emergency resources, clearing up the many problems created by the blending the two under PL480 Title II. Ideally, the emergency food aid title would be coupled with permanent off-budget borrowing authority under a Famine Fund. At a minimum, it would strengthen future Administrations' hand in requesting supplemental appropriations for emergency response, since there would not be non-emergency resources available within the same budget line that could, in principle, be tapped for emergency operations, as has been the pattern in recent years. Second, a consolidated non-emergency title would provide greater stability for programming aimed at heading off future food emergencies, in part through improved focus on most efficient and effective uses of scarce resources. Third, this would streamline administration of food aid programs, reduce transactions costs for NGOs and WFP in carrying out programs supported by US food aid, and facilitate sensible reforms in commodity procurement and freight contracting by reducing the number of programs involved. Fourth, by providing each title with a blend of commodities and cash not tied to food aid volumes, as is presently the case for 202(e) funds or monetization proceeds, program managers would be able to blend food and cash optimally for improved returns on taxpayer investment in humanitarian response and in averting future food emergencies around the world.

Consolidated food aid programs would most logically fall under the exclusive control of USAID, which presently administers Titles II and III and which has a mission most consistent with the focused objectives of two consolidated food aid titles. Furthermore, USAID programs have consistently received more favorable external evaluations than have USDA food aid programs, which have been routinely excoriated in GAO studies for inefficiency, lack of accountability, and limited effectiveness in advancing food security objectives.

A tighter or exclusive focus on promoting food security, especially if coupled with cessation of funding for certain programs and possible merger of others, also raises a question about the appropriateness of continuing to authorize and appropriate food aid programs within the trade title of an omnibus Farm Bill and to implement food aid programs through USDA. This issue is already subtly flagged by the inclusion of food aid programs within function 150, the international affairs category, of the federal budget. Most programs authorized by the Farm Bill fall within function 350, the agriculture category of the federal budget. From time to time, proposals arise to realign food aid authorization and appropriations with the Foreign/International Relations Committees that oversee most function 150 appropriations, rather than the Agriculture Committees.[14]

Conclusions

The July 2004 50th anniversary celebration of PL480 elicited many tributes to American food aid programs. The event celebrated the humanitarian and development goals and accomplishments of U.S. programs. Yet the pressures for reform were also evident, perhaps most clearly articulated by CARE USA President Peter Bell, who emphasized in his keynote address that "we must push ourselves to identify policy and operational changes to make food aid a more effective tool for reducing poverty and hunger. We must not shy away from those changes."

Food aid remains an important policy instrument today, but much has changed in the world of food aid and these changes drive growing pressures for substantive reforms of U.S. food aid programs that have remained largely unchanged for 15 or more years. Government-held surpluses are gone, there now exist better ways to assist the merchant

[14] The House International Relations Committee presently has joint responsibility with the Agriculture Committee for PL480 Title II.

marine than through cargo preference, the rest of the world has moved sharply towards local and regional purchases as a superior means of delivering adequate and appropriate food on a timely and cost-effective basis, and demand for and skill in emergency response have both increased sharply over the years. Part of the obstacle in contemporary debates about food aid – whether in WTO ministerials or in the halls of Congress – is that many people have failed to notice these striking and crucial changes. As recognition of the changed landscape for food aid spreads, any of a range of credible reform proposals are likely to enjoy growing support.

The most sensible design would be a simplified, two title arrangement – one for emergency response, one for non-emergency interventions – managed by a single agency with a clear, focused exclusively on addressing global food security. Each title would combine commodities with cash resources, with scaled back or eliminated mandates restricting the composition and sourcing of commodities and freight services, in order to ensure the necessary flexibility to tailor programs to the situation to which the US government is responding. Further, more rigorous Congressional oversight will be necessary to reduce mismanagement that inflates costs and reduces the timeliness and quality of shipments. Given the small share of farm and shipper revenues that come from food aid programs, the cost of these reforms would be negligible while the benefits to the United States from improved response to humanitarian disasters and chronic food insecurity would be considerable. Indeed, if restrictions that impede efficiency and timeliness can be lifted, improved performance of U.S. food aid programs may justify increased real appropriations. By contrast, smaller food aid programs are likely and

appropriate without substantive reforms to eliminate, or at least sharply reduce and simplify, the complex web of procurement restrictions and bureaucratic duplication that currently make rapid response to humanitarian crises unnecessarily difficult and U.S. programs far more expensive per beneficiary than other donors' food aid programs. The time is ripe for food aid reform in Washington.

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