

Recasting Food Aid's Role

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Policy Recommendations

Food aid has improved or saved the lives of many hundreds of millions of people worldwide since U.S. Public Law 480 was passed in 1954. On the 50th anniversary of PL480, we should celebrate its many accomplishments.

Yet a few significant policy and operational changes could make food aid a far more effective tool for reducing poverty and hunger while reducing costs. Key reforms include:

1. ***Negotiate a new Global Food Aid Compact to replace the expired Food Aid Convention.***
2. ***Eliminate unnecessary bureaucratic duplication.***
3. ***Focus on emergencies and make the response quicker and more flexible.***
4. ***Within current budgets, adapt the resource to fit the application.***
5. ***Eliminate outdated forms of food aid in exchange for reduced EU export subsidies that harm both US and developing country farmers.***
6. ***Improve the targeting of food aid.***
7. ***Use food aid only where it is appropriate.***

Fifty Years of American Food Aid

Anniversaries are a time for celebration and reflection. July 10 marks the 50th anniversary of President Eisenhower's signing of U.S. Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, commonly known as PL480. Global food aid programs, the largest of which is PL480, have brought together governments, businesses, multilateral institutions such as the World Food Programme (WFP), and American private voluntary organizations (PVOs) in a valuable public-private partnership intended to reduce hunger and suffering around the world. Over the past half century, PL480 programs alone have contributed more than 340 million metric tons of food aid to save and improve the lives of many hundreds of millions of poor and hungry people around the world.

At least 30 different nations – two-thirds of them in sub-Saharan Africa – currently lack food supplies sufficient to meet basic, minimum food consumption standards for their whole population. When food availability from local production and commercial imports is insufficient— as most commonly occurs in acute emergencies – food aid fills a crucial gap, thereby contributing to economic development and the protection of basic human rights. But if used inappropriately or managed poorly, food aid can undermine agricultural production, market development and international trade, thus impeding economic development and human rights.

Because food aid helps immeasurably some places and causes damage in others, it is contentious: the subject of trade disputes between exporting countries; an arena for disagreement over genetically modified foods in the midst of humanitarian crises; and food aid is accused — sometimes rightly, sometimes wrongly — of causing agricultural stagnation in many low-income countries. These disagreements largely result from donor country policies that lead to the misuse of food aid for purposes for which it is demonstrably ineffective: to support farm prices (especially in the U.S.), to promote commercial agricultural exports, to advance geo-strategic aims and to maintain a viable maritime industry.

The use of food aid to pursue donor self-interests not only sparks controversy, it also causes food aid to under-perform its potential to provide food to places where availability is insufficient and markets don't deliver it reliably and quickly enough to protect human lives.

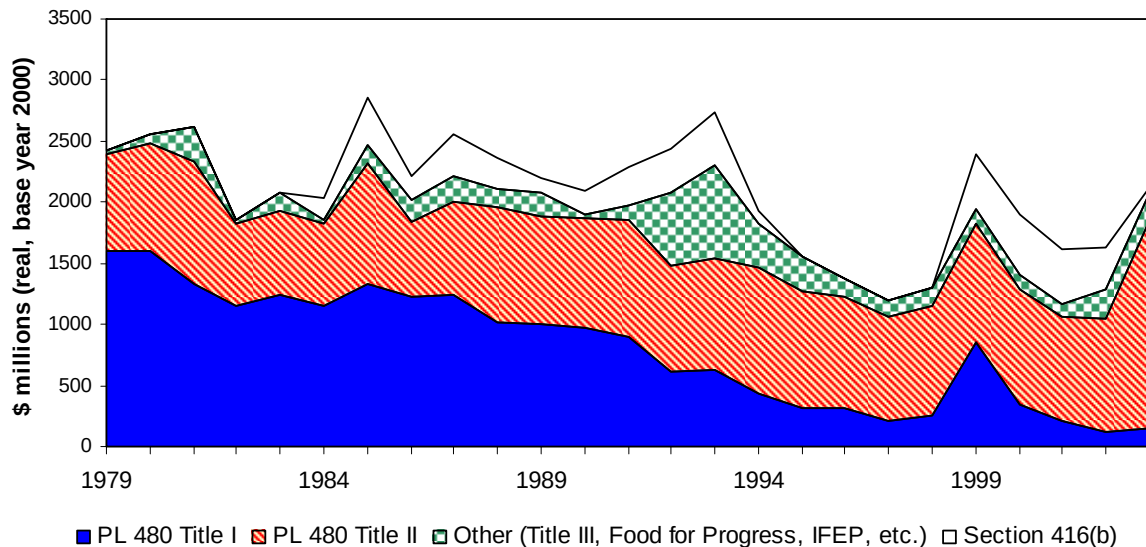
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Although farm price support, export promotion, surplus disposal, geopolitical and humanitarian assistance motives have all provided political support for food aid as a general phenomenon, these objectives almost inevitably conflict over the specifics of food aid policy. And the devil is in the details. A sensible strategy of reform can meet the interests of all parties, and, by reducing the waste in a system serving too many political masters at once, make food aid a more effective tool for advancing development and humanitarian objectives. With strong legislative leadership and cooperation among operational agencies, productive reform is feasible.

The Current Status of Food Aid

The prevailing model of transoceanic food shipments was born in the 1950s and 1960s, when generous farm price support programs for North American farmers generated large government stockpiles of food. Much of this food was channeled overseas as government-to-government food aid shipments, commonly known as “program” food aid. Recipient governments usually sold the food on the open market and used the proceeds for other activities. Over the past 20 years, as donor governments’ farm policies have evolved, reducing or eliminating most public food stockpiles, program food aid has waned. Project food aid, in support of local interventions run by PVOs or by the WFP and often linked to food-for-work and school feeding initiatives, has been commonplace since the 1970s. Over the past fifteen years, emergency food aid in response to natural disasters and complex political emergencies has become the predominant form of food aid, usually in the form of free distribution to acutely hungry people, including refugees and internally displaced persons. U.S. food aid programs, the world’s largest, demonstrate this pattern. As the figure below shows, program food aid (Title I) has declined more than 90 percent since 1980 in inflation-adjusted terms, while emergency and project food aid under Title II have increased significantly since the end of the Cold War in 1989-1990, when food security was made a formal objective of American food aid.

US Food Aid Programs, 1979-2003



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

Since government food stockpiles are largely a thing of the past, most U.S. food aid is now purchased through government procurement systems, at a slight premium above prevailing market prices to a few fortunate firms in the system. At a total annual value of about \$2 billion today, U.S. food aid programs are too small to have any major effect on the general prices America’s farmers receive in an economy where annual food expenditures top \$900 billion. Careful academic studies also show statistically that food aid fails to promote American commercial agricultural exports, as proponents of PL480 had hoped it might. The observed internal rates of return on this investment are negative. Consequently, outside of a very few niche commodities and processors, food aid generally fails to boost the prices received by American farmers and agribusinesses, and it doesn’t expand overseas markets for their products. European nations, realizing this, have largely decoupled food aid

programs from their bloated domestic farm support programs over the past decade. The U.S. has been slow to follow suit.

Food aid programs have nonetheless evolved over the last fifteen years as the various actors involved in food aid programming have learned that direct distribution of food to individuals is necessary but insufficient to stem suffering and to achieve lasting social and economic development. To eliminate hunger in a world of plenty, the international community must commit itself to combating poverty itself, not simply to making food available. However, it is unrealistic to expect to find additional public funding for this strategically important goal. So we must use existing resources more wisely, to increase the return per tax dollar invested. This requires both policy changes by the donor country governments that provide food aid and operational changes by the agencies that distribute it.

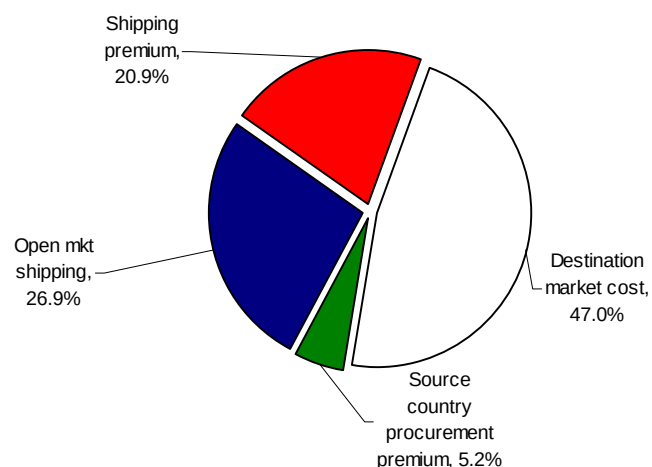
Policy Changes Needed

Simply put, doing good is not enough. We can do better. As the world's largest food aid donor by far, the United States could help more people, in a more timely fashion, at nearly twenty percent savings to American taxpayers if the Congress would make a few key changes to the current system.

- 1. Negotiate a new Global Food Aid Compact to replace the expired Food Aid Convention.** The Food Aid Convention (FAC) was an agreement among donor countries to ensure a minimum volume of food aid that did not disrupt commercial trade. Lacking monitoring or enforcement capacity, it languished. A new Global Food Aid Compact (GFAC) should replace the FAC, now including recipient country governments and the agencies that distribute food aid as well. The GFAC would give them explicit responsibilities under an international code of conduct that would strengthen accountability, effectiveness, fairness and transparency. A GFAC encompassing all parties to food aid shipments would improve the coherence of bilateral and multilateral food aid programs. By committing donor countries not only to traditional tonnage minima, but also to provision of adequate complementary financial resources and to some relaxation of rules mandating donor-country procurement, processing and shipping services, a GFAC could enable humanitarian and development agencies to bring appropriate resources to bear in any given context, and in an economical and timely fashion. And by linking a GFAC to the next WTO agreement – as endorsed by international experts in the September 2003 Berlin Statement – there could finally be effective disciplines to reduce trade-related disputes over food aid.
- 2. Eliminate unnecessary bureaucratic duplication.** By consolidating the federal government's six different food aid programs now run through two different agencies (the U.S. Agency for International Development and the U.S. Department of Agriculture) into a single program, as the Bush Administration has proposed, a more streamlined food aid system could emerge that would be less costly and less wracked by conflicting objectives and institutional incentives that impede effective use of food aid resources.

- 3. Focus on emergencies and make the response quicker and more flexible.** Food aid has its most important impact in saving lives in emergencies where there is an outright shortfall in food availability, and where markets do not function adequately. But, shipping food across oceans is expensive and slow. As the pie chart to the right shows, each dollar appropriated by the U.S. Congress for food aid generates an average of less than fifty cents' food. The biggest additional cost is for shipping, made more costly by lavish subsidies of 75% or more to freight lines under provisions of the Cargo Preference Act, a relatively obscure law enacted alongside PL480 in 1954 to support America's merchant marine fleet. This is 60% more than it costs European donors that commonly

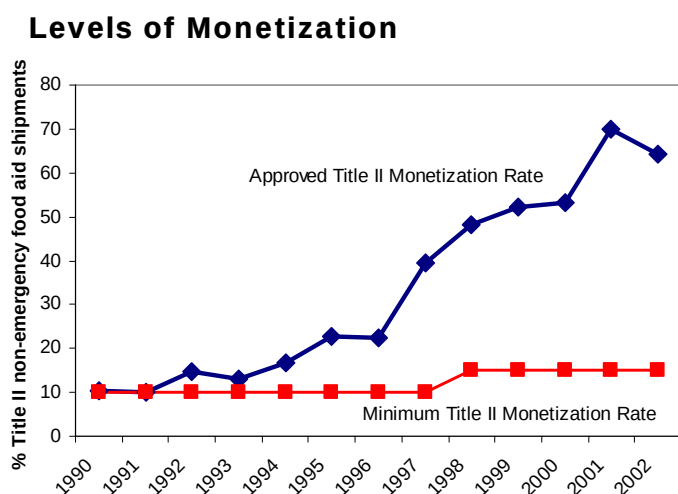
Costs of Delivered Food Aid



procure food closer to ultimate distribution points and significantly more than the Canadians pay to ship food from North America without big, hidden subsidies to the maritime industry.

Intercontinental shipments are also slow. It takes more than five months on average for U.S. emergency shipments to reach their destination. Delays and high transport expenses cost lives. Much needless suffering and unnecessary expense could be reduced if during the initial months of an acute humanitarian emergency, the Administrator of the U.S. Agency for International Development were given authority to procure and, when necessary, process food aid in developing countries, closer to ultimate distribution points. While some donors have moved almost completely over to these “local purchases” and “triangular transactions” (when a donor country buys food in one developing country for distribution in a third country), most have not. Only about ten percent of global food aid is procured in developing countries, typically at lower cost and greater timeliness in deliveries. Australia, Canada, France, Japan and the United States could all improve the efficacy of their food aid programs by moving further in this direction. Sensible reforms would also require decoupling government support for shipping from humanitarian programming and instead bundling such subsidies into existing maritime support programs.

4. ***Within current budgets, adapt the resource to fit the application.*** The public-private partnership operates a variety of humanitarian and development efforts off essentially just one resource: food commodities. Yet over the years, it has become clear that while direct distribution of food can address acute hunger in emergencies, it is not sufficient to address the causes of hunger. Almost 60 percent of PL480 resources – and most other US food aid shipments – are not for emergencies. To increase the flexibility of food aid, the US Government has permitted the sale of food in recipient countries to generate cash resources for other programs addressing the causes of hunger, a practice known as monetization. Monetized food has been a valuable, flexible resource that many NGOs have put to good use in combating poverty and hunger over the years. PVOs and recipient country governments convert a rapidly increasing share of non-emergency food aid into cash for use in on-going development programs. As the figure at the left indicates, levels of monetization have increased dramatically in the past decade, reaching over 2/3 of all non-emergency Title II food aid in 2001-2, far above the Congressional minimum rate of 15 percent.



But because it is bulky and expensive to ship, food is a terribly inefficient way to generate cash resources for programs that fight global poverty. Additionally, monetized food aid increases the risks that food aid will displace commercial sales by American agribusinesses or will discourage food production by farmers in the recipient country. And, because it is sold on the open market and thus not at all targeted at food insecure subpopulations, there is no guarantee that such food reaches the most vulnerable people that American taxpayers aim to help. Converting just a fraction of the current PL480 budget into direct cash grants to supplement the work of non-profit development agencies working to prevent humanitarian emergencies and reduce chronic poverty and hunger around the world would address the resource requirement for more sustainable development programming. It would also help eliminate some of the unintended consequences of food aid that hurt food exporting countries, farmers in recipient countries, or both. American policy needs to focus more on food security through poverty reduction and less on food as a resource. USAID’s new draft strategic plan for Food for Peace and the World Food Programme’s new four-year strategic plan articulate this clearly. Achieving this, however, requires greater flexibility in resources for programming, not just a greater volume of food resources. That will require legislative reforms to existing United States food aid policies.

5. ***Eliminate outdated forms of food aid in exchange for reduced EU export subsidies that harm both US and developing country farmers.*** Food aid for surplus disposal or export promotion motives often stands accused of undermining both agricultural

growth in recipient countries — and thus food aid's food security objectives — as well as commercial trade. Food aid has therefore become a point of contention in multilateral trade negotiations with various countries, including the European Union, which retains agricultural export subsidies that are significantly more harmful to the poor farmers in low income countries than is American food aid. To truly promote food security objectives in developing countries, it makes good sense for the US to eliminate the (Title I) export credit program component of PL480 and 416(b) — programs that fail to bolster either American farm prices or commercial farm exports anyway — in exchange for reduced export subsidies from the European Union that harm farmers in both the United States and poor countries.

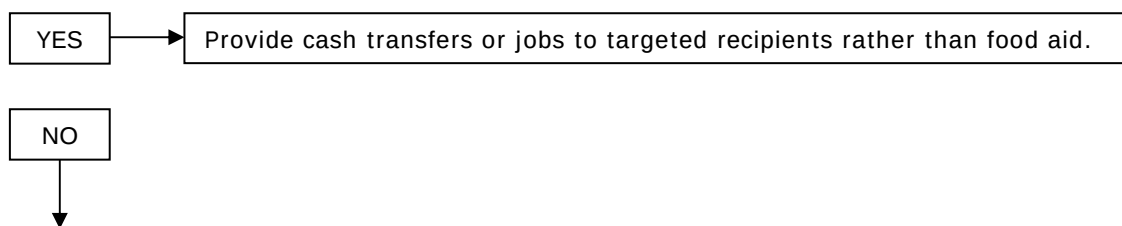
Operational Changes Needed

Along with policy changes by governments, operational procedures must be improved by the various implementing agencies in the field.

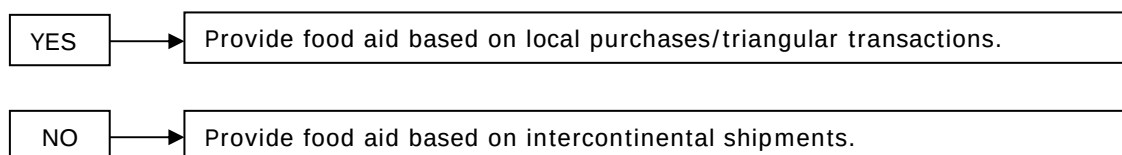
- 6. Improve the targeting of food aid.** The major operational improvement needed is better targeting. Targeting errors are the root of most operational problems associated with food aid. Targeting includes not only the question of who should receive food aid, but where such groups are located, what kind of assistance they need, and how and when to get it to them. Good targeting means ensuring that food aid reaches those who are genuinely food insecure and do not have adequate money to purchase food, and ensuring that, to the extent feasible, it does not go to other groups. Failing to reach truly food insecure groups would mean that food aid fails to have the intended positive impacts. Accidentally providing food to relatively food secure groups displaces trade, hurts production incentives, or both. PVOs and the WFP have improved targeting methods over the years. Further progress is needed. This will require improving the information systems used to identify where and when food insecurity is developing, and who is affected.
- 7. Use food aid only where it is appropriate.** Food aid has been used as a resource to address not only acute hunger, but also to improve agricultural production, develop infrastructure, improve health and education, and a variety of other desirable goals. Yet experience shows time and again that there is one major role for which food aid is ideally suited: addressing acute food insecurity in humanitarian emergencies that are underpinned by both an outright shortage of food and the failure of markets to respond to demand stimuli (e.g., through cash from unconditional transfers or public employment schemes). While food aid's use in other applications is understandable — it is often the only available resource — this inevitably increases the risk of the harmful side effects of which food aid often stands accused. The diagram below illustrates an appropriate decision tree for establishing whether or not to use food aid in a given context.

Decision Tree for Usage and Procurement

Are local food markets functioning well?



Is there sufficient food available nearby to fill the gap?



Food aid also has a limited role as one part of social safety nets, under the same set of circumstances as described in the diagram above. Food aid monetization will continue to have

some limited application, but solely in those circumstances when monetization is the best tool for reaching the food security objective. Examples include controlling food price spikes in an emergency, especially when the food insecure largely reside in urban areas, or as a tool for helping develop food marketing and processing capacity, as was done successfully in India under Operation Flood. Even in emergencies where food assistance is clearly needed, it is rarely the only input required. Indeed, food aid often has the desired nutritional and health effects only when it is part of a complete package of assistance.

Celebrate the Successes of Food Aid, But Proceed With Overdue Reforms

On the 50th anniversary of PL480, we should celebrate the many accomplishments achieved through global food aid and a longstanding and productive private-public partnership over the past half century. Nonetheless, with a few significant and overdue policy and operational changes, food aid can become a far more effective tool for reducing poverty and hunger while reducing costs. Just because we are doing good doesn't mean we can't do better.

For More Information

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