Policy Development Study Series

U.S. MONETIZATION POLICY: RECOMMENDATIONS FOR IMPROVEMENT

Study prepared under the auspices of the Global Agricultural Development Initiative

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EXECUTIVE SUMMARY

With more than one billion hungry people in the world, U.S. food aid programs are a critical tool for feeding those in need and working to improve food security on a global scale. For more than fifty years, the United States food aid programs have helped save or improve the lives of hundreds of millions of people. Yet today, as the global need continues to grow and the resources to address it become ever scarcer, the United States must take a hard look at how its food aid programs are delivered.

The practice of monetization, or the selling of donated food into overseas markets by private voluntary organizations (PVOs), has become widespread, absorbing approximately 60 percent of nonemergency food aid each year. While monetization provides needed funds for these organizations to operate their programs, it wastes millions in U.S. taxpayer dollars—with typical returns of only 50 to 70 cents on the dollar—that might otherwise help save many more lives. In addition to being highly inefficient, monetization has also been proven harmful to regional markets and poor farmers in recipient countries and sometimes to U.S. producers. The practice has been eliminated by most other donor countries and the World Food Program, and even some PVOs have turned down funds generated through monetization.

While most experts agree that monetization is generally ineffective, the trend toward monetizing ever-greater amounts of U.S. food aid has been difficult to stop. Key stakeholders—including some U.S. producers and processors, who count on the procurement of food for food aid programs; some PVOs, who count on the revenues generated through monetization; and many in the U.S. shipping industry, who count on sustained volumes of food aid for shipping—all stand in strong opposition to a change in the status quo.

Nevertheless, as the U.S. government crafts a food security strategy to end the global scourge of hunger and extreme poverty, it must adapt U.S. food aid policies to current realities and use its scarce resources wisely. Following are two recommendations, meant to be implemented in combination, for scaling back the practice of monetization while addressing the needs of stakeholders. Neither of the recommendations requires changes to existing legislation on food assistance delivery.

Recommendation #1

Reduce the practice of monetization, thereby increasing the efficiency and impact of food aid through the direct distribution of food to the more than one billion hungry people worldwide. This should be done in the following three ways:

- Limit monetization to the congressionally mandated minimum of 15 percent for Public Law 480 Title II nonemergency food aid.
- Within that 15 percent, limit monetization to circumstances in which the *process* of food aid sales, not merely the *proceeds*, advance food security goals.
- End monetization for Food for Progress and McGovern-Dole International Food for Education and Child Nutrition programs.

Recommendation #2

In addition to Recommendation #1, replace lost revenues from monetization incurred by private voluntary organizations (approximately $280 million per year) by providing direct support their for critical work in food aid distribution and development programming. This can be done in one of two ways:

Option A

- Reduce the budget used to purchase U.S. food aid that is monetized by $280 million.
- Transfer or re-appropriate this $280 million to the International Affairs 150 account for development assistance.
- Distribute this money to PVOs to support food security programs and complementary development activities.

Option B

- Keep the budget used to purchase U.S. food aid at its current levels for a net increase in direct distribution to help meet the rising demand for assistance to those who are hungry or in emergency situations.
- Provide $280 million in new monies to the International Affairs 150 account for development assistance.
- Distribute this money to PVOs to support food security programs and complementary development activities.

Option A is cost neutral, yet may encounter resistance from some U.S. producers and U.S. shippers who stand to lose revenue from the reduction in food aid volumes. Option B requires $280 million in extra monies, but is more politically feasible, as it does not decrease the current volume of food aid. It also helps demonstrate the administration's commitment to global food security and fulfill its July 2009 L'Aquila pledge to increase food security funding.

INTRODUCTION

The United States is the world's largest donor of food to help the hungry. Since U.S. food aid programs began more the fifty years ago, hundreds of millions of lives have been either saved or dramatically improved. While U.S. food aid policy has done enormous good, certain practices in the way food aid is procured and delivered have led to waste, inefficiencies, and in some cases even an undermining of the very goals food aid policies seek to achieve, namely getting aid quickly to those who need it most in emergencies and enhancing overall food security among the world's billions of poor and hungry people.

In a time of scarce resources at home and growing need abroad, America cannot afford to tolerate ineffective policies and practices in its food aid program. One of the most controversial of these practices is monetization, or the sale of U.S. food aid—purchased by U.S. taxpayers—in recipient countries to cover the costs of food aid distribution and fund aid work. This practice has been shown to be inherently inefficient, risky for private voluntary organizations (PVOs) that distribute the aid, and potentially harmful to regional markets and poor farmers as well as U.S. producers. The practice has been eliminated by most other donor countries, the World Food Program, and even by some of the PVOs that have been involved in distributing U.S. food aid.

In strictly financial terms, the United States Government Accountability Office and other experts have found that monetized U.S. food aid typically generates only fifty to seventy cents of revenue on each taxpayer dollar spent. Of the more than two billion dollars in food aid spent or appropriated in 2006, roughly $400 million of the $698 million allocated for nonemergency food aid was monetized, generating funds likely worth only between $200 and $280 million. This is an unnecessary loss to taxpayers of $120 to $200 million. With life- and livelihood-saving emergency assistance often costing only five to ten dollars per person, the human cost of this waste is millions of lives lost or irreversibly damaged.

America must use its scarce resources as efficiently and effectively as possible. In most cases, the value of food aid is highest—in both financial and humanitarian terms—when it is distributed directly to those who need it rather than when it is sold at a discount in the recipient country's local markets. Yet simply eliminating the practice of monetization is not an immediately practical solution. The interests and concerns of various stakeholders must be addressed in order for changes to be politically viable. And, indeed, carefully targeted monetization of food aid can, in some cases, be effective in furthering food security goals.

This brief provides the background needed to understand the practice of monetization, the costs and benefits associated with it, and the interests of the stakeholders involved in it. It also provides two recommendations for sharply reducing its use while addressing the concerns of stakeholders. Neither of the recommendations requires any changes to existing legislation on food aid delivery.

WHAT IS MONETIZATION?

Monetization is the process whereby donated food is sold into overseas markets. The practice, which generates revenues in local currencies, was originally introduced in the Food Security Act of 1985 as a way to help PVOs cover administrative, transportation, distribution, and storage costs associated with food aid distribution. Over time, the acceptable uses of monetization proceeds were expanded legislatively beyond administrative costs to include the funding of broad development initiatives.

Today U.S. food aid legislation mandates that a minimum of 15 percent of Title II of Food for Peace Act, formally the Agriculture Trade Development and Assistance Act of 1954, nonemergency food aid be monetized to support PVOs. In practice, however, the use of monetization has increased dramatically and now absorbs approximately 60 percent of nonemergency food aid. The practice is well entrenched, with some U.S. producers and processors counting on government procurement of the large volumes of commodities required to fulfill in-kind food aid mandates, some U.S. shipping companies counting on government payments for the transport of these large volumes of food aid, and many PVOs counting on the revenues generated through monetization of the food aid to support food aid distribution and development activities.

The 2008 Farm Bill is likely to encourage even more monetization through a "hard earmark" provision mandating that in fiscal year 2009 at least $375 million of food aid be used for nonemergency programming. This will progressively increase to $450 million in fiscal year 2012. The earmark was intended to ensure that food aid would be reliably available to support PVO development programming.[1]

THE IMPACT OF MONETIZATION

Monetization is generally conducted in two ways: (1) the selling of large volumes of food on open markets in the recipient country—usually in urban areas—for the sole purpose of generating revenue or (2) the well-timed sale of smaller lots to particular market participants (such as small traders or processors) in order to support local market development, reduce market price volatility, or improve access to food aid in areas of need. This latter approach is called "targeted monetization." In targeted monetization, the *process* of selling food aid is intrinsically important because of its role in furthering food security goals.

Open Market Monetization

The vast majority of monetization by PVOs is the first type—open market sales of large lots of food aid. This type of monetization is the most problematic. It has negative consequences both for the recipient country and for the United States as a donor. These are summarized below.

Problems for recipient country:

- Distorts local markets, discouraging food production by local farmers, thus undermining agricultural development and food security goals
- Contributes to price volatility in local markets since large quantities are often "dumped" all at once
- Diverts food away from the poor because of open market sales that do not reach food insecure populations
- Can be subject to profiteering and black market schemes

Problems for donor country:

- Is inherently inefficient, generating only a 50 to 70 cents of revenue on each dollar donated
- Entails legal and financial risks for the PVOs distributing aid

- Can impede U.S. commercial exports, displacing commercial sales by American agribusiness
- Is controversial internationally, causing conflicts with key partners and possible violation of international trade agreements

The impact of monetization has been well documented. Despite the market assessments required by the U.S. government, known as Bellmon determinations, designed to minimize local market disruption from food aid in recipient countries, evidence of food aid monetization disrupting markets, destabilizing prices, and decreasing or displacing supply is strong.[2] Large volume sales of food on commercial markets have been identified as the form of food aid most likely to cause adverse market consequences.[3] A 2006 Food and Agriculture Organization (FAO) review of the available evidence concluded that monetization will depress and destabilize prices in places where markets are not well integrated in the larger regional economy. In Mozambique, experts found that the combination of emergency food aid deliveries and monetization oversaturated the country's markets, causing maize prices to plunge.[4] Experts also found that food aid reduced prices in Ethiopia.[5] Other research finds that monetized food aid negatively affects production and imports in recipient countries, while directly distributed food aid does not.[6]

The inefficiencies of monetization have also been well documented. The Government Accountability Office and others consider monetization to be inherently inefficient. The opportunity cost of monetizing food aid compared to running identical programs with direct appropriations of cash is quite high. It will almost always be less costly to taxpayers to fund development programs directly than to first procure food aid in the United States, ship it abroad, and then sell it—often at a deep discount—to generate programming funds.[7] PVOs routinely retain approximately 50 to 70 cents on the dollar.[8,9]

Beyond these financial losses, experts have found that annual appropriations processes in the United States cause nonemergency aid deliveries to be "bunched" into the final quarters of a fiscal year, leading to uneven aid deliveries.[10] As a result, PVOs may not be able to break up food sales into small lots or sell food during appropriate periods such as seasonal shortfalls.

In addition, successfully monetizing in commercial markets is difficult and risky. In its 2001 report to Congress on food aid monetization, the U.S. Department of Agriculture (USDA) stated that the increasing involvement of PVOs in implementing food aid programs has required these organizations to seek expertise in all facets of commodity sales and cope with price, exchange rate, and other uncertainties. Maintaining the skills and resources required to monetize food aid diverts some PVOs from their core missions. CARE, a PVO, decided to discontinue open market food sales in 2009 partly because "monetization requires intensive management and is fraught with risks. Procurement, shipping, commodity management, and commercial transactions are management intensive and costly. Experience has shown that these transactions are also fraught with legal and financial risks."[11]

Indeed, in 2002 the Office of Management and Budget (OMB) recommended decreases in monetization. OMB pointed out that monetization can impede U.S. commercial exports, lower market prices, induce black market activity, and thwart market development for U.S farm products. OMB also raised questions about the economic efficiency of the practice, articulating that the best use of food aid is direct distribution to food insecure individuals.[12]

Monetization is also controversial internationally. In particular, the growth in food aid monetization has come under international scrutiny during the Doha Development Round of the World Trade Organization (WTO) talks. The declaration issued at the conclusion of the WTO Ministerial Meeting held in Hong Kong in December 2005 defined in-kind food aid for nonemergency purposes and, specifically, food aid monetization, as an export subsidy from the supplying country.[13] Explicit use of food aid as an export subsidy was forbidden in the 1986 Food Aid Convention. While the declaration reconfirmed the international community's commitment to the use of food aid for emergency situations, the declaration also states, "we will ensure elimination of commercial displacement. To this end, we will agree effective disciplines on in-kind food aid, monetization, and re-exports so that there can be no loophole for continuing export subsidization."[14]

However, the July 2008 collapse of the Doha talks may have contributed to the recent surge in monetization, as that collapse removed immediate threats of international disciplines being imposed on the practice.[15] The United States has engaged in vigorous debate on these proposals, with trade officials reaffirming the U.S. commitment to providing in-kind food aid and emphasizing the positive development impacts that have been achieved through programs financed by food aid monetization.[16]

Targeted Monetization

While open market monetization is fraught with problems, targeted monetization can yield positive results. Though its use is relatively rare, a few cases of carefully targeted monetization have been shown to be effective at agribusiness development. The PVO group Alliance for Global Food Security finds that well-timed small lot sales can curtail the price volatility associated with monetization and can provide smaller traders an opportunity to participate in purchasing food aid.[17] Similarly, experts have found that food aid sold to small processors and traders who then resell the aid can improve competition.[18] In urban areas with well-integrated markets, careful monetizing during food insecurity crises can improve food security and, theoretically, stabilize prices. For example, the objective of the USAID Market Assistance Program (MAP) is to increase access to food for food insecure households via monetization. In MAP, the *process* of monetization (rather than the cash generated) is a key feature of the program.[19] In 2003 in Zimbabwe, the program funded targeted sales of food aid to households living in low-income urban neighborhoods.

MONETIZATION STAKEHOLDERS

The legislative development of monetization has been driven by the interests of key stakeholders, including some U.S. producers and processors, PVOs, and those involved in the U.S. shipping industry. Each group has had strong incentives to support the sale of food aid. Collectively, these three groups have been referred to as the "iron triangle" of U.S. food aid.[20]

Producers and Processors

Almost all U.S. food aid today is purchased directly from U.S. producers through a procurement process carried out by USDA on behalf of USAID. A relatively small number of large U.S.-based agribusiness firms compete to sell food commodities for this purpose.[21] Agribusinesses benefit from food aid procurement because a provision in the 1985 Farm Bill requires that at least 75 percent of the nonemergency minimum tonnage of U.S. government food aid be fortified, bagged, or processed.

Due to the high cost of these value-added activities, few farmers are able to become eligible to win USDA Farm Service Agency contracts. The vast majority of U.S. farmers, including growers of major food aid commodities such as maize, wheat, soy, and rice do not significantly benefit from food aid purchases.

Private Voluntary Organizations

With some exceptions, PVOs have a strong financial incentive to perpetuate existing food aid programs, whether they believe that monetization is appropriate or not.[22] PVOs became the primary recipients of food aid for distribution and sale by the latter part of the 1990s when emergency and "project" food aid, or food in support of local interventions run by PVOs or the World Food Program, became the predominant form of food aid over "program" food aid, or government-to-government food transfers. As mentioned, because of U.S. mandates that food aid be in-kind donations, PVOs have used monetization to generate cash for food security programming.

In the absence of other sources of direct funding, by the late 1990s monetization proceeds began to fund more and more development activities (e.g., health, marketing, farmer education, agriculture development), leading to a dramatic increase in both the number of PVOs monetizing food aid and the volume of monetization. According to the OECD, the number of PVOs participating in Title II programs went from five in 1988 to nineteen in 1999, remaining stable at nineteen through 2005.[23] Today the number stands at fifteen. Proceeds from monetization now comprise a substantial share of these PVOs' revenue.

While the majority of PVOs vigorously support monetization, views have begun to diverge. Technoserve, which previously monetized virtually all of the food aid it received under the government's primary food aid program, Food for Peace (P.L. 480 Title II), announced in the spring of 2003 that it would enter into no new Food for Peace contracts because they were unreliable sources for multiyear funding.[24] CARE, Catholic Relief Services, and Save the Children—who are among some of the largest players in monetization—were among American, Canadian, and European aid groups that signed a declaration in 2006 stating that monetization is inefficient and usually diverts food aid away from the poor. CARE has now ended open-market monetization (as of September 30, 2009). Catholic Relief Services and Save the Children, however, feel they have no alternative but to continue the practice, arguing that they are too resource constrained and the cost to their beneficiaries too high to forgo selling food aid until alternate funding sources become available.

Nevertheless, the Alliance for Global Food Security (formerly the Alliance for Food Aid), a coalition of fifteen PVOs that strongly supports monetization, asserts "monetization and barter contribute to food security."[25] Without the resources that monetization provides, these PVOs argue, it will be impossible to carry out the kinds of important development activities that are now funded with monetization proceeds.

U.S. Shipping Industry

The constituency with perhaps the most to lose from changes in American food aid policy are those involved in the U.S. shipping industry.[26] Cargo preference regulation stipulating that 75 percent of food aid must be shipped on U.S.-flagged vessels has generated enormous profit margins for the small number of shipping lines and freight forwarders that participate in U.S. food aid shipments. Indeed, experts found that during 2000-02, nearly 40 percent of total food aid expenditures were paid to shipping companies.[27] In addition to vessel owners, cargo preferences benefit many of those working in the U.S maritime industry. .[28]

POLICY RECOMMENDATIONS

Food aid is an increasingly scarce and life- and livelihood-saving resource. As the U.S. government crafts a food security strategy to resolve the global scourge of hunger and extreme poverty, adapting U.S. food aid policies to twenty-first century conditions is essential. Following are two recommendations, intended to be considered together, for scaling back the practice of monetization in order to improve the efficiency and effectiveness of food aid programs designed to alleviate current hunger while simultaneously improving longer-term food security. Neither of these recommendations requires changes to existing legislation on food assistance delivery.

Recommendation #1

Reduce the practice of monetization, thereby increasing the efficiency and impact of food aid through the direct distribution of food to the more than one billion hungry people worldwide. This should be done in the following three ways:

- **Limit monetization to the congressionally mandated minimum of 15 percent for Food for Peace Title II nonemergency food aid.**
- **Within that 15 percent, limit monetization to circumstances in which the *process* of food aid sales, not merely the *proceeds*, advance food security goals.**
- **End monetization for Food for Progress and McGovern-Dole International Food for Education and Child Nutrition programs.**

The United States is the world's most generous donor and yet still helps only a small fraction of those who need food assistance. Diverting food aid away from these vulnerable groups to be sold for cash misuses a limited and lifesaving resource. To make the best use of increasingly scarce food aid resources, donated commodities should be reserved for direct, targeted distributions to food insecure populations. The costs associated with increasing direct distribution can be met through Section 202(e) and the Internal Transportation, Storage and Handling provisions of the Food for Peace Act.[29] Monetization should be retained as an option, but restricted to the few special cases in which well-timed, small lot sales of food aid can be targeted to support local agribusiness development. In rare instances, larger sales could even be used to minimize price spikes in poorly integrated markets ineffectively reached by commercial international trade. However, monetization should be limited to when the process of selling food is a goal, with the intent of meeting, but not exceeding the Title II minimum.

To ensure that both the remaining monetized food aid and directly distributed food assistance do not negatively impact markets or food prices, the U.S. should encourage governments, PVOs, and multilateral organizations to better coordinate their direct distribution and monetization activities within local communities, countries, and regions.

The U.S. could encourage stronger oversight of this process through country and regional-level planning.

Net Cost to the USG = $0

Recommendation #2

In addition to implementing Recommendation #1, replace lost revenues from monetization incurred by private voluntary organizations (approximately $280 million per year*) by providing direct support for their critical work in food aid distribution and development programming. This can be done in one of two ways:

Option A

- **Reduce the budget used to purchase U.S. food aid that is monetized by $280 million.**
- **Transfer or reappropriate this $280 million to the International Affairs 150 account for development assistance.**
- **Distribute this money to PVOs to support food security programs and complementary development activities.**

Option A is cost neutral, and, indeed, saves money since the United States does not have to pay to ship the $280 million in commodities that have been removed from its food aid budget. This option, however, is likely to encounter resistance from (1) U.S. producers who stand to lose revenue from the reduction in food aid procurement and (2) U.S. shippers who stand to lose revenue from reduced volumes of food aid being shipped.

Net Cost of Option A to the USG = $0

Option B

Keep the budget used to purchase food aid at its current levels for a net increase in direct distribution to help meet the rising demand for assistance to those who are hungry or in emergency situations.

- **Provide $280 million in new monies to the International Affairs 150 account for development assistance.**
- **Distribute this money to PVOs to support food security programs and complementary development activities.**

Option B involves an increase in costs but is more politically feasible, as it does not alter the amount of food aid purchased from U.S. producers or shipped by the U.S. maritime industry. In

* In recent years, monetization has provided approximately $200 - $280 million annually in cash proceeds. Section 412 of the 2008 US Farm Bill guarantees a minimum dollar level of nonemergency Title II food aid. In fiscal year 2010, this minimum is $400 million. Roughly half of Title II food aid is generally monetized. In addition to this, virtually all Food for Progress food aid is monetized. Combined, it is estimated these that total nonemergency food assistance will provide $400 million worth of food aid to be sold. PVOs recoup 50 to 70 percent of the value of food aid during sales. $280 million would cover what PVOs would recoup through monetization practice.

addition, current food aid volumes are badly needed in school feeding, maternal and child health and emergency feeding operations. By keeping food aid volumes at current levels and selling food only when the process of the sale generates intrinsic benefits, more food becomes available for direct distribution to food insecure households requiring in-kind assistance. This, combined with the appropriation of new cash for essential programs would demonstrate the administration's commitment to global food security and help fulfill the United States' July 2009 L'Aquila pledge to increase food security funding.

Net Cost of Option B to the USG = $280 million

Providing $280 million support food assistance direct distribution and development activities would fully replace food aid monetization proceeds, effectively eliminating PVOs' need to rely on risky food aid sales while lessening the inherent inefficiency and risk of adverse market effects.

CONCLUSION

Selling food aid misuses American taxpayer dollars in times of domestic and global economic hardship, causes unnecessary discord with allies within the WTO and other global bodies, and weakens America's efforts to address global food insecurity. The unveiling of the administration's Global Hunger and Food Security Initiative, following on the L'Aquila Accords, presents a unique opportunity to revitalize and reform efforts to address the underlying causes of food insecurity and to more effectively meet humanitarian assistance needs. Sharply limiting monetization, protecting food aid for distribution, providing PVOs with needed cash for complementary food security programming, and improving interagency cooperation would better support this strategy and demonstrate the U.S. government's commitment to ending global hunger and to effectively using scarce resources.

APPENDIX A—U.S. FOOD ASSISTANCE PROGRAMS

The U.S. operates seven food assistance program[30].

Title I Food for Peace Act —Established by the Agricultural Trade Development Assistance Act of 1954, or P.L. 480, and renamed as the "Food for Peace Act" in the 2008 Farm Bill, Title I of the Food for Peace Act is administered by USDA's Foreign Agricultural Service and offers concessional credit sales of agricultural commodities by the U.S. government to developing countries. Title I sales have traditionally been to governments, although the 1996 Farm Bill allowed sales to be made to private entities in recipient countries. Since FY2006, new funding for this program has not been requested because demand for food assistance using credit financing has fallen or grant programs have been a more appropriate tool.

Title II Food for Peace Act— Established by the Agricultural Trade Development Assistance Act of 1954, or P.L. 480, and renamed as the "Food for Peace Act" in the 2008 Farm Bill, Title II of the Food for Peace Act is administered by USAID and provides donations of food to meet humanitarian and development needs abroad. Title II aid is channeled through recipient governments, NGOs, or international organizations such as the World Food Program. P.L. 480 Title II is now the United States' largest food aid program.

Title III Food for Peace Act— Established by the Agricultural Trade Development Assistance Act of 1954, or P.L. 480, and renamed as the "Food for Peace Act" in the 2008 Farm Bill, Title III of the Food for Peace Act is administered by USAID and donates commodities to developing country governments that then generally sell the food to generate funds, ostensibly to support long-term economic development programs. This program has not been funded since FY1999.

Food for Progress—Established by the Food for Progress Act of 1985, this food program is administered by USDA and donates agricultural commodities to developing countries and emerging democracies in exchange for commitments from recipient countries to promote free enterprise and competition in the agricultural economies. It focuses on private sector development of agricultural infrastructure.

Section 416(b)—Established by the Agriculture Act of 1949, this food program authorizes the donation of surplus U.S. food commodities for international food assistance. It was originally enacted to prevent surplus U.S. food supplies from going to waste. In recent years, this food program has been curtailed.

McGovern-Dole International Food for Education and Child Nutrition—Established by the 2002 Farm Bill, this food program is administered by USDA's Foreign Agricultural Service and donates food commodities for school feeding and maternal and child nutrition projects. The legislation also includes authorization of cash for these activities.

Bill Emerson Humanitarian Trust—Established by the Agricultural Trade Act of 1980, this authority is administered by USDA and is a reserve used to respond to emergency food aid needs in developing countries when appropriated resources are not available. The trust is authorized to hold up to four million metric tons of U.S. agricultural commodities or the cash equivalant. USDA is authorized to release 500,000 metric tons annually and up to an additional 500,000 metric tons that were not released in years prior to meet emergency food assistance needs.

APPENDIX B: LEGISLATIVE TIMELINE OF THE USE OF MONETIZATION IN U.S. FOOD AID POLICY

1985

The authority to monetize Title II project food aid was first introduced in the Food Security Act of 1985. This act permitted implementing sponsors to sell U.S.-donated in-kind food aid in the recipient country as a way to help cover administrative costs associated with food aid distribution. It also mandated that a minimum 5 percent of nonemergency Title II and Section 416(b) commodity value be monetized for this purpose. It also required that 75 percent of the minimum tonnage of nonemergency food aid be processed, fortified, or bagged.

The Cargo Preference Act of 1954 was amended to require that the percentage of certain agricultural cargoes to be carried on U.S.-flag vessels be increased from 50 to 75 percent.

1988

In 1988 the acceptable uses of Title II monetization proceeds were expanded to include development objectives. The minimum monetization level for nonemergency Title II was increased to 10 percent.

1996

The 1996 Farm Bill increased the minimum monetization level for nonemergency Title II food aid to 15 percent.

The Maritime Security Act of 1996, Section 17, permits Great Lakes ports to participate in the handling of P.L. 480 Title II humanitarian food aid packaged commodities awarded on a lowest landed cost basis without reference to vessel flag.

2008

The 2008 Farm Bill strengthened the U.S. commitment to using food aid and monetization for nonemergency (developmental) purposes by setting minimum dollar levels for nonemergency programming of Title II food aid under Section 412. The minimum levels are: FY2009, $375 million; FY2010, $400 million; FY2011, $425 million; and FY2012, $450 million. This hard earmark for the first time has dedicated a funding stream to support cooperating sponsors' monetization efforts.

Section 202(e) provides cooperating sponsors the authority to use not less than 7 percent and no more than 13 percent of Title II funds as cash to support new programs or fund specific administrative management, personnel, and internal transportation and distribution costs. Such funds may not be used for such expenses as technical assistance, training, or project-related materials.

ABOUT THE COCHAIRS

Catherine Ann Bertini is a professor of public administration at the Maxwell School of Citizenship and Public Affairs at Syracuse University. She previously served as UN under secretary-general for management (2003-05) and as executive director of the UN World Food Program, the world's largest international humanitarian aid agency (1992-2002). She was credited with assisting hundreds of millions of victims of wars and natural disasters throughout Africa, Asia, Latin America, the Middle East, and parts of Eastern Europe and the former Soviet Union. Before serving in the UN, Ms. Bertini was USDA assistant secretary for food and consumer services where she ran the nation's $33 billion domestic food assistance programs.

Dan Glickman is the chairman and CEO of the Motion Picture Association of America, Inc. (MPAA). Prior to joining the MPAA in September 2004, he was the director of the Institute of Politics located at Harvard University's John F. Kennedy School of Government (August 2002-August 2004). Mr. Glickman served as the U.S. secretary of agriculture from March 1995 until January 2001. Before his appointment as secretary of agriculture, Mr. Glickman served for 18 years in the U.S. House of Representatives, representing Kansas' 4th Congressional District. During that time, he served as a member of the House Agriculture Committee.

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Erin Lentz is a research support specialist at Cornell University and pursuing a PhD from Cornell's Department of Sociology. She holds a BA in Economics and an MS in Applied Economics and Management, both from Cornell. Her Masters thesis on food aid targeting was awarded "Outstanding Masters Thesis" by Northeastern Agricultural and Resource Economics Association. Erin received a Fulbright fellowship to Bangladesh to research the secondary effects of food aid in communities facing recurring disasters.

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ENDNOTES

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1 For an overview of the U.S. food aid program, including agencies involved and legislative mandates, see Appendix A.
2 Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture: Food Aid for Food Security?* (Rome: Food and Agriculture Organization of the United Nations, 2006).
3 Christopher Barrett and Daniel Maxwell, *Food Aid after Fifty Years: Recasting Its Role* (London: Routledge, 2005); FAO 2006.
4 David Tschirley, Cynthia Donovan, and Michael T. Weber, "Food aid and food markets: lessons from Mozambique," *Food Policy* 2 (1996): 189-209.
5 Getaw Tadesse and Gerald Shively, "Food Aid, Food Prices, and Producer Disincentives in Ethiopia," *American Journal of Agricultural Economics* 4 (2009): 942-955.
6 Sarah Lowder, "A Post Schultzian View of Food Aid, Trade and Developing Country Cereal Production: Results of a Vector Autoregression on Panel Data using Fixed Effects" (paper prepared presented at the American Agricultural Economics Association Annual Meeting, Denver, Colorado, July 1-4, 2004).
7 U.S. Government Accountability Office, "Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid," Report GAO-07-560 (2007); Barrett and Maxwell 2005.
8 Barrett and Maxwell 2005; Emmy Simmons, "Monetization of Food Aid: Reconsidering U.S. Policy and Practice" (Washington D.C.: Partnership to Cut Hunger and Poverty in Africa, 2009).
9 Disagreements about how to measure efficiency of monetization cloud the debate (Simmons 2009). Some argue that monetization is at least partially "additional" to other resources, meaning that were food aid monetization programs to end, each dollar of monetized food aid funding would be replaced with less than a dollar of cash, or no cash at all (David Tschirley and Julie Howard, "Title II Food Aid and Agricultural Development in Sub-Saharan Africa: Towards a Principled Argument for When, and When Not, to Monetize," MSU International Development Working Paper No. 81, 2003). This view compares outcomes of programs funded with monetized proceeds to the outcomes of doing nothing or doing less. Using this point of comparison, some instances of monetization are arguably efficient. Another difficulty in measuring performance is that many evaluations focus either on the straight financial returns of monetization or on the outcomes of programs funded through monetization proceeds. Simmons finds that no studies rigorously calculate both when measuring performance (Simmons 2009). Further, when assessing the impact on developing country food markets, some evaluations examine short-term price effects only while others consider longer-term outcomes or regional and local trade effects.
10 Simmons 2009.
11 CARE USA, "White Paper on Food Aid Policy" (2006), http://www.care.org/newsroom/publications/whitepapers/food_aid_whitepaper.pdf
12 Office of Management and Budget, "The President's Management Agenda," Fiscal Year 2002.
13 The Uruguay Round Agreement on Agriculture (URAA) strengthened language on this prohibition. Philip Abbott, "Overview of the 2007 USDA Farm Bill: Food Aid & The Farm Bill," Purdue Extension, EC-750-W (2008). http://www.ces.purdue.edu/extmedia/EC/EC_750_W_Food_Aid.pdf.
14 World Trade Organization. "Doha Work Programme, Ministerial Declaration," Adopted Dec 18 2005, Ministerial Conference, Sixth Session, Hong Kong, December 13-18, 2005.
15 Simmons 2009.
16 (For example, see U.S. Mission to the United Nations in Geneva, "Update on WTO Agriculture Negotiations," Background Briefing, World Trade Organization, Geneva, Switzerland, April 21, 2006, www.usmission.ch/Press2006/0421AgNegs.html). Furthermore, the U.S. has strongly rejected the

proposition that food aid be replaced by cash donations, reflecting strong political support for existing programs by a coalition of interests, including farm groups, PVOs, agribusiness, and maritime shippers. Former U.S. Trade Representative Robert Zoellick and USDA officials asserted that if WTO disciplines required elimination of U.S. food aid programs, an equivalent amount of foreign assistance as cash would likely not be forthcoming (Abbott 2008).

[17] Alliance for Global Food Security, "Monetization and Barter Contribute to Food Security" (2007). http://www.globalfoodsecurity.info/

[18] A. Abdulai, C.B. Barrett, and P. Hazell, "Food Aid for Market Development in Sub-Saharan Africa," International Food Policy Research Institute working paper (2004).

[19] Riskin 2008.

[20] Barrett and Maxwell 2005.

[21] Roger Thurow and Scott Kilman, "As U.S. Food-Aid Policy Enriches Farmers, Poor Nations Cry Foul," *The Wall Street Journal*, September 11, 2003.

[22] Barrett and Maxwell 2005.

[23] OECD, "The Development Effectiveness of Food Aid and the Effects of Its Tying Status" (Paris: OECD, 2005).

[24] Barrett and Maxwell 2005.

[25] Alliance for Global Food Security 2007.

[26] Sophia Murphy and Kathy McAfee, "U.S. Food Aid: Time to Get It Right" (Minneapolis: Institute for Agriculture and Trade Policy, 2005).

[27] Murphy and McAfee 2005.

[28] Maritime Food Aid Coalition, "Letter to Senator Joseph R. Biden, Jr. Chairman Senate Committee on Foreign Relations," May 13, 2008.

[29] To support direct distribution of food aid, PVOs can draw on funding provided through Section 202(e) and Internal Transportation, Storage and Handling (ITSH) of the Food for Peace Title II. Because these funding streams are not meant to support measures to enhance program effectiveness, PVOs may need to draw on funds provided by the U.S. government (see Recommendation #2) to augment cash needed for direct distribution. For more information on eligible uses for Section 202(e) and ITSH funding, please see the Food for Peace Information Bulletin 08-03: www.usaid.gov/our_work/humanitarian_assistance/ffp/ffpib.08.03.doc.

[30] Barrett and Maxwell 2005.

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