



# IPC Policy Focus

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## US Food Aid Policy and the Farm Bill

*by Mary Chambliss. Ms. Chambliss is an independent consultant on international food aid issues.*

As the world's largest donor of international food aid, the US plays an important role in affecting the lives of the most desperate in the world. However, there is growing concern that current food aid policies suffer a number of ills, including undermining agricultural markets overseas, and not being efficient or effective. This IPC Policy Focus discusses the role of the Farm Bill in US food aid programs, and recommendations made to improve food aid so that it better meets the needs of vulnerable populations.

The United States is the world's major donor of international food aid, often providing 50 percent or more annually. US farm bills authorize all of the US international food aid programs. While the US food aid authorities will be a modest part of the entire 2007 Farm Bill, they will provide programs which affect the poorest and often the most desperate people in the world.

In recent years, the United States has provided about \$2 billion to support its international food aid programs; this compares with about \$40-50 billion to support domestic food aid programs. By far the largest US food aid program is Title II of Public Law 480 (PL480), most often referred to as Food for Peace. Title II is the US government's primary food emergency response mechanism. Title II also provides food to support development activities often targeted to those suffering chronic hunger, in many ways the silent face of global hunger that does not attract media attention. While PL 480 includes two other program titles (I and III), these are currently not funded and are expected to remain inactive, if not deleted from farm bill language.

In addition to PL 480, farm bills authorize three other food aid programs and a food aid reserve for PL 480. The oldest of these other programs is referred to as Section 416(b) and was part of the 1949 Agricultural Act. This authority provides for the donation of

surplus commodities owned by the Commodity Credit Corporation (CCC). However, currently the CCC does not own such commodities and is not expected to in the future. The 1985 Farm Bill created the Food for Progress (FFP) Program, the purpose of which is to support the growth of free enterprise elements, especially in the agriculture sector, of developing countries and emerging democracies. In 2002, building on a pilot program, Congress authorized the McGovern-Dole International Food for Education and Child Nutrition Program, referred to as Food for Education (FFE). This program provides food, plus financial and technical assistance, to support preschool and school feeding programs (with a strong emphasis on girls) and to support maternal, infant, and child nutrition programs. Since the early 1980s, farm bills have also authorized (under various names) the CCC to hold commodities and, more recently, cash as a reserve for the PL 480 food aid program, should either commodities not be available due to tight US supplies or Congressional appropriations not be provided in time to meet urgent, humanitarian needs under Title II. In 1998, this reserve was named the Bill Emerson Humanitarian Trust (BEHT); it currently holds almost one million tons of wheat and over \$100 million.

### Types of Food Aid

All of the food aid provided by the United States is provided in-kind, i.e., US commodities. Currently this

is a legal requirement. In recent years almost all other donors of food aid have shifted from providing in-kind food aid to cash food aid; the only other significant donor who still provides in-kind is Canada, who has recently stated it will provide half of its food aid in cash and plans to increase this percentage.

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Most donors of cash do include some constraints on how the cash is used, so while it is not tied to the commodities of the donor, its use is generally directed.

In the last several years, there has been considerable debate about the benefits of cash food aid which include not only more timely delivery and often more acceptable commodities, but also potential economic development benefits to farmers and markets when such purchases are made in developing countries. The European Union (EU) led the shift from in-kind to cash food aid in the mid-1990s and most other donors have followed suit. The United States has thus far been the exception, but it has continued to be the major source of food aid, including for emergency needs, while the level of food aid from the EU has declined. In the United States, there has been a conviction that the political support of the US agriculture sector is based on the use of US commodities in these programs and that this support has been vital to obtaining Congressional appropriations, which have always met and, upon occasion, exceeded an administration's budget request.

## The Need for Food Aid

The Food and Agriculture Organization (FAO) currently estimates there are 854 million people in the world who lack sufficient food for an active and healthy life, and while this is a smaller percentage of the world's population, the absolute number has

hardly changed since the early 1990s. Generally US food aid can reach less than 10 percent of these, about 70-80 million people. In recent years, US food aid to meet emergency needs has grown, which has caused a subsequent decline in food aid devoted to development efforts. This shift in the placement of resources reflects the reality that the number of food and humanitarian emergencies has doubled from an average of about fifteen per year in the 1980s to more than thirty per year since 2000. This dramatic increase is due in large part to conflicts, natural disasters, and worsening poverty in many parts of the world, especially in Sub-Saharan Africa. And this reality does not seem likely to improve; in fact, consequences of climate change in future years may increase the number of emergencies.

## Increasing Attention and Debate

In recent years US food aid programs have attracted both international and domestic attention, which has reflected both positive and negative views of the several US food aid programs, and is increasingly focused on the 2007 Farm Bill. Domestically, food aid programs have traditionally benefited from strong bipartisan political backing, due in large part to support from agricultural groups (both commodity and processing), maritime interests (75 percent of food aid is required to be shipped on US flag vessels), and the private voluntary organizations (PVOs) who receive and distribute US food aid in recipient countries. A recent book has referred to this triumvirate as the "Iron Triangle."<sup>1</sup>

While this Iron Triangle has been credited with assuring Congressional support for US food aid programs, the cost of this support is being challenged as out-weighting the benefits. As food aid needs, both emergency and chronic, have grown in recent years, the Iron Triangle has not been able to secure greater funds. Furthermore, while in the past the Iron Triangle members have been by far the most, if not only, active and vocal voices in Farm Bill debates, in the

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current debate many more voices are bringing additional perspectives and recommendations for changes in US food aid programs. For example, the development and humanitarian communities, including some PVOs, are paying greater attention to US food aid and its relation to food security. They are questioning whether or not the influence of the Iron Triangle is truly beneficial to those US food aid recipients.

These new perspectives reflect a trend for the entire Farm Bill that may create an environment for change. The outcome of the food aid discussion in the 2007 farm bill debate will, no doubt, reflect the influence of the Iron Triangle, but this time, these new views

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will also be present in the debate. This may be a time when past voices are not as strong, and new voices will have greater influence. Some of the new participants speaking up in this year's debate are expressing their concern about the possible market impacts from food aid, such as the potential for displacement, disincentives, and dependency. Displacement refers to the fact that food aid may displace commercial markets, whether they are local, regional, or international. Economic theory would suggest this is the case, though there is little empirical evidence to support this. Since food aid first began there has been concern that it would create a disincentive to local agricultural development. While earlier evidence suggested a short-term disincentive effect, any long-term effect has been very unclear. And more recent studies find any such disincentive effects to be quite small and only temporary. The possibility of dependency by governments or poor recipients on food aid has also been raised as an issue; however, the fact that food aid is unpredictable and small has meant that food aid appears not to have created this problem.

The governance of food aid addresses both interna-

tional mechanisms dealing with food aid as well as the legal authorities, decision-making processes, and food aid policies that exist with donors. Many believe that the governance mechanisms and food aid policies have not kept up with actual food aid programming practices on the ground and fail to reflect current thinking on food security and social protection.

In recent years, a number of social safety nets have been developed to provide income and to protect livelihoods of the poor. How well food aid programs are integrated into such efforts remains unclear.

Internationally, US food aid has also become an issue in the global Doha "Development" trade negotiations at the World Trade Organization (WTO). Disciplines on food aid programs are part of the export subsidy pillar and remain unresolved. While it appears that emergency food aid will be generally exempt from any disciplines (once agreement is reached on the definition of "emergency"), the rules for non-emergency or development food aid continue to be hotly debated, with the European Union seeking strong disciplines, if not the end of such food aid. The EU is highly critical of the US's continuation of in-kind food aid, as it thinks the program encourages the over-production and dumping of US commodities, but the United States continues to support its current food aid programs and methodologies. Several other countries, singly or in groups, are also making recommendations on food aid disciplines. The WTO negotiations are expected to take some time and not be concluded until after enactment of the 2007 Farm Bill.

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All of these concerns, plus the increasing level of emergency needs, has made the targeting and timing of food aid allocations and delivery increasingly important. The need to better target the recipients when food aid arrives has become crucial to successful food aid programs that do not cause harm.

## Positions on US Food Aid Policy

As the US is the largest provider of food aid, particularly in-kind food aid, debates about food aid essentially focus on US policies. Several international organizations and interests groups have recently evaluated current food aid needs and put forward recommendations for the US's food aid programs.

In its 2006 State of Food and Agriculture publication, the Food and Agriculture Organization (FAO) focused on the issue of Food Aid for Food Security.<sup>2</sup> The report identifies three categories of problems that can be addressed by food aid: 1. widespread lack of access to food, 2. shortfalls in the production/supply of food, and 3. severe localized food insecurity. The third category is the major problem addressed by food aid and is most often found in sub-Saharan Africa.

One of the main messages from the FAO report is the need to see food aid as one of many options to help manage household risk; it expresses the concern that readily available food aid from donors may become the default response to food insecurity when additional non-food aid responses are what is necessary to address the problems. A second message is that the economic effects of food aid are complex and multilayered and that, despite the long history of food aid and the considerable financial resources it represents, there is relatively little empirical evidence, or analysis, on these effects. There is considerable discussion of the possible impact of food aid in depressing and destabilizing market prices in recipient regions or countries.

To address these concerns, the report recommends:

- the elimination of food aid provided by government-to-government formal agreements

- the end of monetization of food aid, i.e., selling the donated food aid in the recipient country to generate funds for development activities,
- the delivery of aid, where possible, in the form of cash or food coupons and use in-kind food aid only when there is a shortage of food,
- the use of local and regional purchase of needed food based on careful analysis of the local market and any possible negative impacts, and
- the improvement of information systems, needs analysis, and monitoring and evaluation.

The Government Accountability Office (GAO), at the request (both majority and minority leadership) of the Senate Committee on Agriculture, Nutrition, and Forestry, released a report, *Various Challenges Impede the Efficiency and Effectiveness of US Food Aid in April 2007*.<sup>3</sup> This report emphasizes that rising business and transportation costs have resulted in a 52 percent decline in average tonnage delivered over the last five years. For emergency food aid these logistical expenses are now 65 percent of total costs. Additionally, GAO identifies several inefficiencies in food aid programs, including: 1) the funding and planning processes, specifically Congressional budget timing and an increasing reliance on supplemental appropriations for the Title II Food for Peace program; 2) ocean transportation contracting practices that create high risk for ocean carriers, which result in higher freight rates; 3) legal requirements, primarily the cargo preference that 75 percent of US food aid be shipped on US flag vessels but also other requirements such as that a minimum percentage of commodities be processed and/or bagged (as opposed to bulk commodities) and that a certain level of shipments must be set-aside for the US Great Lakes region, that result in contracts to more expensive service providers; and 4) inadequate coordination between US agencies and food aid stakeholders to track and respond to delivery and food quality problems.

US food aid is also made less effective because of the challenging operational environments in recipient countries, including poor infrastructure and the lack of physical safety and security. Furthermore, difficulty in identifying and targeting vulnerable groups and the causes of their food insecurity results in sub-



optimal food distribution. Resource constraints for conducting reliable food need assessments, providing food and other needed assistance, and monitoring and evaluating programs also frequently exist. Along with these inadequacies, GAO believes that monetization food aid programs are an inherently inefficient use of resources that create market displacement concerns.

GAO has recommended that USDA, USAID, and the Department of Transportation make several changes to reduce these failings. These include working with stakeholders to modernize ocean transportation and contracting practices and updating the implementation and reimbursement methods for new supply practices to minimize the cost impact of cargo preference (the legal requirement that 75 percent of all food aid shipments go on US flag vessels). USDA and USAID also need to enhance the reliability and use of needs assessments for new and existing food aid programs, making assessments a priority in funding decisions. Moreover, better monitoring and evaluating procedures are needed to track and resolve food quality complaints and to follow monetization transactions. Finally, the agencies need to determine ways to provide adequate non-food resources in situations where such assistance will enhance the effectiveness of the food aid.

Not surprisingly, interest groups have varied opinions and recommendations for US food aid programs. In its capacity as a non-governmental organization working to mobilize public and private support to increase the level of US government assistance to Africa, the Partnership to Cut Hunger and Poverty in Africa (the Partnership) has contributed to the on-going debate about the future of US food aid in its recent report, "Reconsidering Food Aid: The Dialogue Continues."<sup>4</sup> This endeavor emphasizes that greater stability and predictability in food aid resources are needed and that food aid resources must address the underlying causes of hunger as well as emergency needs. However, it also highlights the fact that US food aid policies need to be adjusted and updated. For example, while there are currently six goals identified for the major food aid author-

ity, PL 480, some appear outdated and probably not achievable with food aid programs. In addition, Title II has five operational objectives, some of which are contradictory within current funding levels. While the use of in-kind food aid, that is, the export of US commodities, has secured political support, additional flexibility is needed to allow for local and regional purchase of commodities to be supplied for some programs. As with the FAO and GAO report, the Partnership points out the need for effective targeting and questions the use of monetization. In terms of public policy, it suggests that a more coherent US government policy on international food aid, including improved collaboration and communication by the responsible agencies, is needed.

The Chicago Council on Global Affairs' report, "Modernizing America's Food and Farm Policy: Vision for a New Direction,"<sup>5</sup> provides three principle recommendations on food aid that address concerns raised by FAO and GAO. The first is to eliminate the Title I authority (long-term concessional loan, which authorizes government-to-government program food aid) in PL 480 and replace it with the McGovern-Dole (FFE) program. The second principle is to shift the burden of the cargo preference requirement to the Department of Defense, since the common justification for this requirement is the enhancement of national security by maintaining a US flag merchant marine of sufficient size. Finally, the report recommends eliminating language in current law that refers to food aid use for market development and surplus disposal purposes. In its opinions, these changes would improve the efficiency of food aid programs and make them more WTO compliant.

Private voluntary organizations and cooperatives (PVOs) distribute food aid in recipient countries. They also run non-food aid programs off the proceeds of selling, or monetizing, food aid. The PVO community has been traditionally a strong supporter of food aid programs and very active in the development of past farm bills. However, as monetization provides many PVOs with a good portion of their operating budgets, the community is split in its reaction to proposals to change monetiza-

tion practices. The Alliance for Food Aid consists of fifteen PVOs that conduct food aid as well as other humanitarian and development programs overseas. While its suggestions for the 2007 Farm Bill include a pilot program for local and regional food purchases for emergencies, the Alliance wants to retain the ability to monetize food aid.<sup>6</sup> On the other hand, a small number of PVOs, such as CARE, are endorsing procurement flexibility so that food can be routinely purchased locally or regionally in developing countries and are advocating the phase out of monetization.<sup>7</sup>

In its farm bill proposal,<sup>8</sup> the Bush Administration has recommended only one change for food aid, but it appears to confront the Iron Triangle: the authorization of up to 25 percent of Title II funds to be available for local and regional purchase to meet emergency needs. The Administration has explained that such authority would be used only for emergency needs when time requirements justified such use.

Over the next months as Congressional action on the 2007 Farm Bill increases, it is likely other food aid players will present their positions on the various issues either formally or informally to the agriculture committees.

### Possible Changes and Their Impact

Since the breadth of interests seeking to affect the 2007 Farm Bill are greater than in the past, including a major reform proposal from the Administration, it is even more difficult than usual to identify possible changes to the farm bill, and this is also true for the food aid authorization language. However, in reviewing these major reports and public positions to date, there are some areas of agreement. Most of these voices agree that some authorization for local and regional purchases is needed, at least for emergency food aid and possibly for all food aid programs, and that a pilot for this initiative is the way to begin. Most of the commodity groups are opposed to this innovation, but some appear willing to accept a pilot. Should this new tool become part of the US food aid program, it should allow for more timely response at less cost.

As tight budgets for these programs are likely to continue, lower costs would be a major benefit. There would also be economic gains to local farmers and markets supporting longer-term increased agricultural production, as farmers will respond to demand and will improve production practices. To the degree that local and regional purchases are made, this will increase demand and production can therefore be expected to increase. In addition to the positive impact on farmers, this would strengthen local and regional markets, which will then work better not only for food aid commodities, for but all local production.

A second area of general agreement relates to the BEHT. There is a consensus among those addressing the BEHT that the authorization language needs to provide for its use earlier to help assure that funds for non-emergency food aid programs are not diverted. Support also exists for establishing a reliable means to replenish the Trust, most likely held as cash to reduce the cost of storing commodities. Such changes in the BEHT would support improved response to emergency needs and allow greater support for longer-term development of food aid activities.

Third, additional cash for complementary efforts would allow for more effective programs to address the goal of food security, both in emergency and non-emergency programs. Often this support is directed at changes in the Title II 202(e) lan-

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guage, which currently authorizes up to 10 percent of Title II resources for establishing new programs and from some limited management and distribution costs; additional cash would both increase its level and allow greater use of these funds. The possibility of a separate authorization for such cash to assure greater effectiveness of the resources being provided for the commodity and transportation has also been raised. Any means to achieve this goal will benefit the

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on the role of monetization, with some strongly supporting it, while others believe this tool is no longer an appropriate food aid policy. This disagreement extends beyond just US circles. Crawford Falconer, Chair of the Doha Round Agricultural Negotiations, has indicated that in his view, agreement cannot be reached on a flat elimination of monetization and proposes therefore that monetization be limited to funding activities that are related to the delivery of

recipients of food aid who are almost always among the poorest and most vulnerable in our world.

A final area of general agreement is the need for improved information systems to support these programs and decision-making about them. This change would support better needs assessments, including early warning systems, and improved targeting, a tool strongly supported by all to achieve better results. Better data and information would also support needs analysis to identify what works and what does not. To the extent these systems are improved, the positive impact on people and their livelihoods would increase.

Despite these areas of agreement, there is no consensus

food aid or the procurement of agricultural inputs.<sup>9</sup> Although the 2007 Farm Bill will determine the authorization language for US food aid programs for the next five years, it will not determine the budget levels for these programs. Since such levels are likely to remain constrained, the need for more flexible and improved authorization language becomes greater.

## Conclusion

While both chairmen of the House and Senate Agriculture Committees have said the 2007 Farm Bill will be done by the time the 2002 bill expires, it is unclear if this will be possible, especially in view of the broad and complex issues (discussed in earlier briefs in the IPC Farm Bill Series) that need to be addressed and resolved. In addition, there is discussion of possible alternative farm bill language being proposed on the floor of either the House or Senate. While some interests continue to suggest that a simple extension of the 2002 Farm Bill would be best, that does not seem possible in view of the wide-ranging debate and the growing involvement of diverse voices on this Farm Bill. US food aid programs will be re-authorized, and as attention has grown on possible improvements to the authorization language, the likelihood of changed and improved language has grown. Whether such changes can be achieved in the 2007 Farm Bill is still unclear, but the likelihood seems high. The room for improvement that has been identified and recommended by many will provide even greater benefits for these programs, which are already credited with saving millions of lives and improving the livelihoods of the poorest among us.

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