

# US Food Aid on the Chopping Block? Prioritizing Beneficiary Well-being in an Age of Budget Austerity

Elise Szabo  
American University  
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Sequestration and the tightening of the US federal budget have called into question the survival of many programs funded by the US farm bill, and international food aid has not escaped the chopping block. The Food for Peace program, the main deliverer of US government food aid, is garnering particular attention this budget season as President Obama explores options to reform or replace the program.

The president's Fiscal Year (FY) 2014 budget request seeks to reform the way the US provides food aid assistance, most notably by defunding the current legislative mechanism, eliminating monetization, and encouraging alternative tools such as cash transfers, vouchers, and local and regional procurement. Any changes would come after a renewed wave of criticism and calls for food aid reform from both within and outside of the federal government.

This briefing paper gives an overview of the Food for Peace program, key arguments in the current debate over how to move forward with the program, and some policy recommendations that support a more equitable and effective global food system.

## WHAT IS FOOD FOR PEACE?

According to the Office of Food for Peace website, the program "provides for direct donation of U.S. agricultural commodities to implement emergency and

non-emergency programs worldwide."<sup>1</sup> As currently funded, these programs intend to "reduce vulnerability to crises and improve the nutrition and food security of poor, malnourished populations."<sup>2</sup> Food for Peace includes three different types of food aid programs, authorized Public Law (PL) 480:

- **Title I** authorizes **Trade and Economic Development Assistance**, "which makes available long-term low-interest loans or grants to developing countries and private entities for their purchase of U.S. agricultural commodities to support specific projects."
- **Title II** authorizes **Emergency and Development Assistance**, "which provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs."
- **Title III** authorizes **Food for Development**, "which makes government-to-government grants available to support long term growth in the least development countries."<sup>3</sup>

Currently, however, only Title II programs are funded.<sup>4</sup> Title II Emergency and Development Assistance programs are funded through the US Farm Bill and administered by the US Agency for International Development (USAID). These

<sup>1</sup> "Food for Peace." *USAID*. United States Agency for International Development. 30 June 2009. Web. 30 Mar 2013.

[http://transition.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/history.html](http://transition.usaid.gov/our_work/humanitarian_assistance/ffp/history.html)

<sup>2</sup> "Food for Peace." *US Food Aid and Security*. Food Aid and Security Coalition. Web. 30 Mar 2013.

<http://foodaid.org/food-aid-programs/food-for-peace/>

<sup>3</sup> Ho, Melissa D. and Charles E. Hanrahan.

"International Food Aid Programs: Background and Issues." *Congressional Research Service*. 3 Feb 2010: 2. <http://www.fas.org/sgp/crs/misc/R41072.pdf>

<sup>4</sup> According to the Ho and Hanrahan report, funds for Title I programs have not been appropriated since FY 2006. Funds for Title III programs have not been requested since FY 2002.

programs are then implemented by cooperating sponsors, including private voluntary organizations (PVOs, such as non-profit or non-governmental organizations), cooperatives, and intergovernmental organizations (such as the World Food Program).

The US Department of Agriculture (USDA) purchases US food aid products based on the specified needs of each project. Examples of these commodities include vegetable oil, beans, or flour made of blended corn and soy known as CSB – corn soy blend. After a competitive solicitation process, the USDA awards a contract both for the purchase of the commodity as well as shipment to a US port. The implementer is responsible for arranging shipment from the US to the recipient country.

## THE PRESIDENT’S BUDGET

President Obama’s FY 2014 budget provides \$1.8 billion in total food assistance funding. Instead of funding the PL 480 food aid mechanisms, the budget distributes funds among three different assistance accounts:

- \$1.1 billion to International Disaster Assistance (IDA) for emergency food response;
- \$250 million to Development Assistance (DA) “to address chronic food insecurity in areas of recurrent crises;” and,
- \$75 million to a new Emergency Food Assistance Contingency Fund “to provide emergency food assistance for unexpected and urgent food needs.”

The president’s budget expands the availability of tools such as cash transfers, vouchers and local and regional procurement, ends Title II monetization, and reduces commodity purchases in the United

States to 55 percent of emergency food assistance.<sup>5</sup>

## FRAMING THE DEBATE

Most of the arguments within the food aid debate have some combination of two themes at their core: conflict in the goals of food aid, and the efficient use of US government funds to achieve those goals. When Food for Peace, formerly known as the Agriculture Trade Development Act, was first signed into law by President Dwight D. Eisenhower in 1954, the US was in a period of agricultural surplus. Looking for a way to dispose of this surplus, the US identified food-deficit countries as the logical destination: those countries needed this surplus to feed their populations and spur their economic development. The food aid program was designed as a way to boost US agricultural exports “with lasting benefits to ourselves and peoples of other lands.”<sup>6</sup>

The US food aid system is therefore governed by two often conflicting goals: development or humanitarian assistance, and US export promotion.<sup>7</sup> Development and humanitarian assistance are considered by USAID to have distinct functions. According to the USAID website, humanitarian assistance programs are those that provide disaster relief and respond to complex emergencies. Emergency food aid under FFP is considered humanitarian

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<sup>5</sup> “The Future of Food Assistance: U.S. Food Aid Reform.” *US Agency for International Development*. 16 Apr 2013. Web. 22 Apr 2013.

<http://www.usaid.gov/foodaidreform>

<sup>6</sup> “The History of Food Aid.” *US Food Aid and Security*. Food Aid and Security Coalition. Web. 30 Mar 2013. <http://foodaid.org/resources/the-history-of-food-aid/>

<sup>7</sup> Barrett, Christopher. “Food Aid: Is It Development Assistance, Trade Promotion, Both, or Neither?” *American Journal of Agricultural Economics*, 80.3 (Aug. 1998): 566-571.

assistance.<sup>8</sup> Development food aid programs target the underlying causes of hunger and malnutrition.<sup>9</sup> Both humanitarian and development assistance generally strive for human well-being, specifically for beneficiaries.<sup>10</sup> Trade promotion, on the other hand, seeks first and foremost the expansion of overseas markets for US agricultural products, and is one of the primary goals of the USDA Foreign Agricultural Service (which also houses the USDA food aid program). Since this paper highlights the well-being of beneficiaries and economic gain for the United States as the major conflicting goals of food aid, development and humanitarian assistance are treated synonymously.

While human well-being and economic gain are not mutually exclusive, they certainly contribute to a conflict of interest between stakeholders in the US food aid system who are motivated primarily by humanitarian goals and those whose “motives are not wholly altruistic.”<sup>11</sup> The important distinction is who is intended to benefit from the program. On the development/humanitarian side, the beneficiaries are food aid recipients. On the economic gain side, the intended

beneficiaries are first US farmers, with some trickle down benefits to recipient countries. The architects and implementers of US food aid have been and continue to function under the influence of these competing pressures. Political, economic and humanitarian considerations previously had distinct outlets under the three Food for Peace title programs.<sup>12</sup> However, now that Titles I and III are no longer funded, Title II is the only remaining avenue for constituents of the US food aid system to achieve their goals.

Depending on their primary goal, stakeholders have different positions on the most effective and efficient design and implementation of US food aid programming. Recent debate is centered on three important arguments: monetization or direct distribution; US or local and regional procurement; and in-kind donation or cash transfer. In the following sections, I analyze these arguments with an eye towards a more equitable and effective global food system.

### ***Monetization or Direct Distribution?***

Monetization is the sale of food commodities. Under Food for Peace, these commodities are purchased in the United States and then shipped to recipient countries for sale. Implementers then use the local currency proceeds from these sales to fund development programs in those countries. Food for Peace allows both monetization and the direct distribution of food to beneficiaries (individuals or families).

Proponents cite a several potential benefits to support their argument for monetization: it increases the availability of

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<sup>8</sup> “Humanitarian Assistance.” *US Agency for International Development*. Web. 22 Apr 2013. [http://transition.usaid.gov/our\\_work/humanitarian\\_assistance/](http://transition.usaid.gov/our_work/humanitarian_assistance/)

<sup>9</sup> “Agriculture and Food Security – Food Assistance – Programs.” *US Agency for International Development*. 5 Feb 2013. Web. 22 Apr 2013. <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/programs>

<sup>10</sup> Beneficiary well-being is by no means the only or even always ultimate goal of US foreign assistance. Development and humanitarian efforts have been influenced by many conflicting political interests over the years. The USAID history website provides a relatively balanced and concise overview of the history of US foreign assistance and its objectives: <http://www.usaid.gov/who-we-are/usaaid-history>

<sup>11</sup> Schultz, Theodore. “Value of U.S. Farm Surpluses to Underdeveloped Countries.” *Journal of Farm Economics*, 42.5 (Dec. 1960):1019.

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<sup>12</sup> Ball, Richard and Christopher Johnson. “Political, Economic, and Humanitarian Motivations for PL 480 Food Aid: Evidence from Africa.” *Economic Development and Cultural Change*. 44.3 (April 1996): 515-537.

food and nutritional welfare of consumers in the recipient country; it can stabilize local prices, if the sales are well-timed, and help develop local markets; it generates funds for activities that promote development and food security, all while providing commercial opportunities for US producers, processors and shippers.<sup>13</sup> Monetization commodities are purchased using local currency, unlike on the open market where US commodities must be purchased using US dollars. This facilitates access to food in developing countries where foreign currency reserves are often low.

However, these potential benefits are outweighed by a number of costs and risks, and in fact many proponents' claims have been shown to be unfounded. Monetization often displaces commercial imports, disrupts local markets, and discourages local production.<sup>14,15</sup> The goal of increased food availability in recipient countries is much better served by increased local production and trade.<sup>16</sup> Poor management of monetization sales can further damage local economies.<sup>17</sup> Local consumers become dependent on food aid and suffer when mismanagement causes a break in commodity supply.<sup>18</sup> Finally, sales revenues are often insufficient to recoup the cost of purchasing, shipping, and selling the food.<sup>19</sup> The US government actually loses money in

this process.<sup>20</sup> Furthermore, the supposed benefits to US commercial interests are only minimally served, since US food aid often stimulates commercial imports of non-US food products in the long term.<sup>21</sup> Monetization of US commodities is clearly an inefficient and ineffective tool for achieving humanitarian or development goals of food assistance and supports only in the most short-sighted manner domestic economic interests.

### ***US or Local and Regional Procurement?***

This argument strikes at the heart of the original purpose of the food aid program: disposal of US surplus farm products. The procurement of food aid commodities from any country other than the US eliminates food aid as a release valve for that surplus. Local and regional procurement (LRP) calls for food aid commodities to be purchased in or close to the recipient country.

LRP is often touted as a way to reduce costs and improve delivery time to recipient countries. Recent studies have shown that LRP can be less expensive than food aid purchased and shipped from the United States, and that the time it takes for LRP commodities to arrive in recipient countries is often significantly shorter.<sup>22,23</sup> This can help minimize response time in emergency situations. While additional research is still

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<sup>13</sup> Simmons, Emmy. "Monetization of Food Aid: Reconsidering U.S. Policy and Practice." Partnership to Cut Hunger and Poverty in Africa. June 2009: v. Web. 30 Mar 2013.

<sup>14</sup> Ibid.

<sup>15</sup> Gelan, Ayele Ulfata. "Does Food Aid have Disincentive Effects on Local Production? A General Equilibrium Perspective on Food Aid in Ethiopia." *Food Policy*, 32 (2007): 436-458.

<sup>16</sup> Barrett, Christopher. "Does Food Aid Stabilize Food Availability?" *Economic Development and Cultural Change*, 49.2 (Jan. 2001): 347.

<sup>17</sup> Simmons.

<sup>18</sup> Barrett (Aug. 1998).

<sup>19</sup> Simmons.

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<sup>20</sup> United States Government Accountability Office. *International Food Assistance: Funding Development Projects through the Purchase, Shipment, and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Impacts*. GAO-11-636. 2001.

<sup>21</sup> Barrett (Aug. 1998).

<sup>22</sup> "USDA Local and Regional Food Aid Procurement Pilot Project Independent Evaluation Report." Management Systems International. Dec. 2012.

<sup>23</sup> United States Government Accountability Office. *International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation*. GAO-09-570. 2009.

needed, LRP also appears to contribute to local and regional price stability, markets, and trade.<sup>24</sup> These impacts contribute directly to development goals, supporting local livelihoods and as well as the more efficient and effective use of US government dollars.

LRP also involves a number of unique challenges. For example, the logistics capacity of local and regional markets may cause delivery delays, and legal structures may not be adequate to enforce contractual obligations.<sup>25</sup> However, these risks are far outweighed by the cost-savings and potential development-related benefits of procuring food aid on local or regional markets.

### ***In-kind Donation or Cash Transfer?***

The evidence for in-kind donation of food or cash transfers to beneficiaries is less clear. Like LRP, cash transfers eliminate supposed benefits to US farmers through the purchase and disposal of surplus American food products. However, cash transfers are seen as economically more efficient.<sup>26</sup> By giving beneficiaries cash instead of food, the donor avoids the costs of procurement, shipping, storage, and management of those processes, minimizing administrative expenses and maximizing dollars available for the purchase of food. Cash transfers also

allow beneficiaries choice in their consumption.<sup>27</sup> Depending on the level of conditionality associated with the transfer, beneficiaries may choose to spend the cash on food, health, education, or other expenses.

However, several potential challenges should be carefully considered in evaluating the appropriateness of cash transfers. First, beneficiaries need to have access to markets, and the cash provided needs to be sufficient to purchase appropriate food in sufficient quantities at market prices. Second, donors should consider the preferences of beneficiaries in the type of assistance they receive. Research shows that the poorest beneficiaries prefer food transfers because, with cash, they are not guaranteed to be able to purchase the quantities of food they need at market prices. Existing power dynamics within the household often determine who decides what to purchase with the cash transfers, potentially leaving some beneficiaries without the assistance they need. Cash transfers are often seen as a “man’s” resource while food transfers are seen as a “woman’s” resource.<sup>28</sup> Households that receive food rather than cash transfers are more likely to consume more food.<sup>29</sup> Despite the cost-savings and right to choose that are encouraged by cash-transfers, they can pose real obstacles to humanitarian and development goals.

## **RECOMMENDATIONS**

The door to food aid reform is currently open for discussion, and policy makers have an opportunity to make real changes to a system that has grossly underperformed by accepted measures of success. The supposed “win-win” scenario in which development and income growth in poor agricultural

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<sup>24</sup> Coulter, John. “Local and Regional Procurement of Food Aid in Africa: Impact and Policy Issues.” *Journal of Humanitarian Assistance* (Oct. 2007). Web. <http://jha.ac/2007/10/28/local-and-regional-procurement-of-foodaid-in-africa-impact-and-policy-issues/>

<sup>25</sup> United States Government Accountability Office. *International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation*. GAO-09-570. 2009.

<sup>26</sup> Margolies, Amy and John Hoddinott. *Mapping the Impacts of Food Aid: Current Knowledge and Future Directions*. Washington, DC: International Food Policy Research Institute (Mar. 2012) 17.

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<sup>27</sup> Margolies and Hoddinot, 17.

<sup>28</sup> Ibid, 18.

<sup>29</sup> Ibid, 17-18.

countries creates markets for future exports by U.S. farmers is scant at best. Any potential benefits to American farmers from procuring US commodities are temporary and inadequate solutions to the long-term problem of a misguided domestic farm policy that results in overproduction. Opportunities to better meet humanitarian and development needs around the world are sacrificed as a result. The reality is economic stagnation and food aid dependence in recipient nations, often to the detriment of local production—and thus long-term food security.

Some of the arguments explored in this report lend themselves to evident solutions, while others require further consideration and investigation. The following policy recommendations intend to provide maximum flexibility to implementers while better meeting recipient needs and maximizing returns on the US tax payer dollar:

### ***1. Eliminate monetization of US commodities***

Monetization of US commodities is clearly an inefficient use of US government funds. It fails to provide sustainable economic opportunities for US farmers, and squanders scarce government resources on unnecessary shipping costs. Monetization of local and regionally procured commodities may still allow implementers to make more food available on recipient country markets without the high costs of long-distance shipping.

*Policy makers should eliminate monetization of US commodities as a tool to fund development programs and instead monetize locally and regionally purchase food to boost food availability on local markets, or allocate funds directly to development programming or the provision*

*of food aid through the mechanisms recommended below.*

### ***2. Require local and regional procurement***

Local and regional procurement directly supports developing economies and thus broad development goals. However, local and regional procurement in and of itself does not guarantee that benefits will be equitably shared within local and regional societies. Purchasing commodities produced by small-scale farmers, and helping to build their capacity to produce adequate food and market it successfully when necessary, supports equitable development. At the same time, the reduction of food supplies in communities or countries selling to food aid donors may result in food deficits, and possibly crises, in those areas.

*Policy makers should require food aid be purchased locally or regionally, with appropriate market analysis in terms of availability in countries of purchase, and with a significant quota of purchases made from local and small-scale producers.*

### ***3. Consider further promoting cash transfers as an option***

Cash transfers can be an appropriate mechanism for delivering food aid. They help preserve beneficiaries' freedom of choice and can be more cost effective to donors, which is of particular concern this budget season. However, cash transfers are ineffective when beneficiaries lack access to markets to purchase affordable food, such as can occur in the event of food crisis or emergency. This outcome is unacceptable for a food aid program. Cash transfers also reduce the donor's control over whether and which beneficiaries receive food aid. Since men tend to have more control over cash resources within traditional households,

increasing the use of cash transfers may have unintended consequences on gender dynamics. While cash transfers are already used in Food for Peace programs, in-kind donations are far more common.

*Policy makers should consider further promoting cash transfers as an option for delivering food aid but require their use only when appropriate to the program context, needs and objectives.*

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*Elise Szabo is a graduate student in the International Development (ID) program at the School of International Service, American University. This article was produced as part of a team-based capstone research project, in collaboration with the National Family Farm Coalition and the Rural Coalition, on equity and justice in the 2012 United States Farm Bill. The article is part of a larger toolkit of research and resources on the Farm Bill. To access the toolkit, visit [www.farmbillfairness.org](http://www.farmbillfairness.org).*