

THE TIME IS NOW FOR FOOD AID REFORM



FIVE REASONS WHY **U.S.**
POLICIES ARE RIPE FOR
REFORM IN THE NEXT
FARM BILL

American Jewish World Service

February 2012

COVER AJWS GRANTEE SOUTHERN FARMER ALLIANCE (SFA) EMPOWERED THIS COMMUNITY TO RE-CLAIM ITS RIGHT TO FARM PUBLIC LAND THAT HAD BEEN ILLEGALLY OCCUPIED BY A PALM TREE PLANTATION. **PHOTO** JAMES ROBERT FULLER

Table of Contents

INTRODUCTION	1
The Time is Now for Food Aid Policy Reform	2
Changing Two Food Aid Policies Would Do a World of Good	3
FIVE REASONS WHY FOOD AID POLICIES ARE RIPE FOR REFORM	3
Reason 1: A Polarized, Budget-Driven Congress Creates Incentives for Reform	3
Reason 2: The Farm Bill is Under a Brighter Spotlight	5
Reason 3: The Sands are Shifting for Food Aid Stakeholders	5
Reason 4: There is a Long-Term Expectation of Higher Food Prices	7
Reason 5: Recent Policy Precedents and New Research Open the Door for Bigger Change	8
SUMMARY AND CONCLUSIONS	9

“The highest degree [of *tzedakah*], exceeded by none, is that of the person who assists a poor person... by putting him where he can dispense with other people’s aid. With reference to such aid, it is said, ‘You shall strengthen him, be he a stranger or a settler, he shall live with you’ (Leviticus 25:35), which means strengthen him in such a manner that his falling into want is prevented.”

—Rambam, Mishneh Torah, Laws of Gifts to the Poor 10:7



INTRODUCTION

Recent data indicate that the U.S. remains the world's largest and most important provider of international food assistance. In FY 2010, the U.S. spent \$2.3 billion on food aid programs distributing 2.5 million metric tons of food¹ to 65 million people.² Although food aid alone cannot close the world hunger gap—925 million people worldwide experienced hunger in 2010—it still plays a critical role in the lives of tens of millions of individuals and their families.

The farm bill authorizes the U.S. Department of Agriculture (USDA) and the U.S. Agency for International Development (USAID) to implement seven major food aid programs. Two titles are of primary interest for the purposes of this report: Title II of Public Law 480, which dictates in-kind food aid policy, and the Food for Progress Program, which focuses exclusively on development assistance.³

Title II of PL 480, which was enacted in 1954, authorizes donations or grants of food for emergency and nonemergency purposes that are administered through the United Nations World Food Program (WFP) and nongovernmental organizations, such as CARE, Catholic Relief Services, World Vision and Mercy Corps (roughly half of Title II funds are administered through the WFP). Spending on Title II was more than \$1.9 billion in FY 2010 and accounted for 82 percent of total U.S. food aid spending.⁴

The Food for Progress Program, which was established by the 1985 Food Security Act, authorizes the sale or donation of food, which is monetized to support democracy and private enterprise development. In FY 2010, \$166 million in funding was provided to support this program.

But the current system is an anachronism that promotes a one-size-fits-all approach to an increasingly complex world. It is inefficient, with over 50 percent of taxpayer money for food aid grains wasted on subsidies to U.S. agribusiness and shipping companies.⁵ But worse, it is not doing the greatest good for people in need.

We have long known that reforms are needed. This paper does not seek to revisit the copious research and analysis by government, academic and civil society experts that details the current problems with our food aid system.⁶ Instead, it focuses on the fact that the current political and economic climate is conducive to key policy changes that can make substantial improvements. The time is ripe if Congress and advocates can seize this opportunity.

The Time is Now for Food Aid Policy Reform

In 2012 or 2013, depending on presidential election-year dynamics, Congress will write a new federal farm bill. The current farm bill, which was signed into law in 2008, expires at the end of September of this year. U.S. international food aid policies, which are the focus of this paper, will be reconsidered as part of a trade title of that omnibus legislation.

This paper examines five key factors in the political and economic environment in which the new farm bill will be crafted that create new opportunities for reform of some key U.S. food aid policies:

- **An altered dynamic in the Agriculture Committees and in the overall Congress, driven largely by budgetary pressures, that changes the political landscape in ways that favor reform;**
- **Heightened farm bill visibility and resulting pressure to pass a more credible farm bill package in which food aid reforms may enhance the bill's overall appeal;**
- **Shifting interests and alignments among the “iron triangle”⁷ of food aid stakeholders, particularly the agriculture industry and implementing NGOs, that may lower resistance to reform;**
- **A new era of long-term higher food prices that both increases pressure for greater food aid cost-effectiveness and reduces the U.S. agricultural interest in maintaining the food aid status quo; and**
- **Recent small, but significant, food aid policy precedents enacted in the 2008 Farm Bill and subsequent appropriations acts as well as new research on the benefits of Local and Regional Procurement (LRP) that lay the groundwork for bigger structural reforms in the next farm bill.**

Compared to the farm bill provisions that cover agricultural subsidies, U.S. food aid policies have been second- or third-tier issues in the farm bill for both Congress and the news media. Arcane-sounding issues that have dominated food aid policy debates for years—such as the balance among in-kind aid, local and regional procurement, and monetization—have rarely made headlines or been the



WOMEN WORKING AT KILILI SELF HELP PROJECT, KENYA.

PHOTO NILE SPRAGUE

focus of extensive congressional debate during the farm bill process. Most of the recent national conversation about food aid has centered on food emergencies in places like Haiti, Pakistan and East Africa.⁸

But despite their low profile, food aid policies have always been controversial, characterized by a long-running history of criticism by oversight agencies, academics and advocates. Yet U.S. food aid policies have been remarkably resistant to the structural reforms that decades of research suggest are warranted—including a long series of critical reports by the U.S. Government Accountability Office (GAO).⁹ This is because potent political and economic forces—including a food aid “iron triangle” lobbying coalition¹⁰ comprised of agriculture and agribusiness interests, U.S.-based shipping companies and nonprofit organizations that distribute food aid in developing countries—have resisted change, and the decades-long push for structural food aid reform has never been able to obtain substantial traction in Congress.

Despite the long-running resistance to structural changes in U.S. food aid programs, this paper argues that the time is ripe for reform. The U.S. food aid debate is positioned at a potential turning point. Important conditions governing the fate of U.S. food aid policy have changed, and recent developments have created a timely opening for a politically attractive set of structural policy reforms in the next farm bill. Indeed, several of the same factors that have improved the current prospects for changes in U.S. agricultural subsidy policies—not the least of which is the federal budgetary crunch—set the stage for long-overdue reform of U.S. food aid programs.

Changing Two Food Aid Policies Would Do a World of Good

Changes to the reliance on in-kind aid and the practice of monetization—two policies that have been subject to extensive and long-term scrutiny and criticism—would result in substantial improvements in the effectiveness and efficiency of U.S. food aid. Reform would serve American taxpayers by ensuring that we do the most we can with the funding we have to help hungry and malnourished target populations as well as local farmers and their communities in developing countries. To that end, American Jewish World Service (AJWS) recommends the following:

► **Shift the balance in the U.S. food aid portfolio away from in-kind aid purchases from U.S. suppliers for shipment to developing countries to a more flexible approach that favors local and regional procurement and the use of cash or vouchers.**

While in-kind food aid is essential in certain circumstances, extensive research¹¹ has shown that in-kind aid from U.S. sources can drive down prices in local developing country markets and undermine the prospects of small developing country farmers who depend on sales of the food they produce to support themselves and their families. To address this concern, AJWS recommends policy changes that would tilt the balance of U.S. food aid away from dominance by in-kind U.S. food sources to a mix weighted in favor of LRP, cash transfers and vouchers.

► **Phase out monetization of in-kind food aid for use in financing development projects.**

Monetization of food purchased in the U.S. and sold in developing countries to finance development projects is an approach that reduces the efficiency of food aid programs¹² and has the potential to undercut developing country farmers. The critical work that monetizing organizations currently fund through this circuitous route would be better served by providing them directly with cash as opposed to monetization of food. As a result, AJWS recommends that steps be taken to substantially reduce or eliminate the use of monetization for nonemergency food aid and development assistance programs and instead to support these projects directly with cash.

FIVE REASONS WHY FOOD AID POLICIES ARE RIPE FOR REFORM

In the context of recent funding trends and ongoing budgetary pressures, the degree of efficiency and effectiveness of U.S. food aid programs becomes an increasingly important determinant of the impact of the programs on hunger, malnutrition and economic development. That consideration places monetization and the appropriate mix between in-kind aid, LRP cash transfers and vouchers at the center of the debate about the future of U.S. food aid policy on the eve of the next farm bill.

This section of this paper outlines five reasons why the next farm bill offers a favorable vehicle for reforms to Title II of PL 480 and the Food for Progress Program that would increase the efficiency and effectiveness of U.S. food aid.

Reason 1: A Polarized, Budget-Driven Congress Creates Incentives for Reform

The prospects for reform of U.S. food aid policy will be strongly affected by the current political landscape. In the Congress overall and in the Agriculture Committees in particular, completion of largely status quo farm bills in recent years has been premised on the following conditions: a very high degree of bipartisan cooperation that facilitated, among other things, extensive log-rolling between urban and rural legislators; a united front of agricultural interests across regions and commodities; strong leadership by agriculture committee chairs and a substantial degree of deference on the part of committee members and congressional leadership; and relatively secure funding prospects for multi-billion dollar programs. In 2008, that unity was sufficient to override a veto by President Bush, who was disappointed with the lack of cuts to agricultural subsidies.

But since 2008, a number of developments in the mood of the country and within the Congress indicate that some of the key conditions that ensured a status quo farm bill with no structural changes in U.S. food aid policy are no longer in place.

Federal Budgetary Pressures

A driving force in this new environment is the acceleration of budget-driven pressures to cut and/or reform programs perceived as wasteful, inefficient or unsupportable for ideological reasons. U.S. food aid spending has been strongly affected by those pressures, which actually began

to build in the 2008 Farm Bill process. The relatively austere 2008 Farm Bill (in comparison to the budget baseline for the 2002 law) established a precedent that any additions in funding for the five-year bill were not going to be channeled into food aid spending increases given the priority assigned by the Agriculture Committees to farm subsidies and domestic nutrition programs. Rather, any changes in food aid policy were going to have to be substantive, instead of expansive.¹³

Appropriations after 2008 tell a story of U.S. food aid programs under increasing budgetary pressure. As Table 1 indicates, FY 2009 saw a reversal of the previously upward trajectory of U.S. food aid spending.¹⁴ Spending remained flat that year and dropped by 23 percent in FY 2010. Between FY 2008 and FY 2010, the tonnage of U.S. food aid declined by 14 percent, reverting to 2007 levels.

The pressure reached acute levels during last year’s FY 2012 appropriations process, when the House of Representatives proposed a 31 percent cut in Title II food aid spending. Ultimately, 97 percent of the FY 2011 level funding was preserved after House and Senate negotiations.¹⁵ However, that level is still down about 44 percent from where it was in FY 2009 and represents a reduction to nearly FY 2006 spending levels.¹⁶

Table 1. Annual Spending for U.S. Food Aid Programs (\$ Billions/Year)¹⁷

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Title II	1.2	1.9	2.4	2.6	1.9
All Programs	2.2	2.1	2.9	3.0	2.3

AJWS supports full funding for the food aid program and has been vocal in decrying proposed cuts. At the same time, this downward budgetary trend increases the pressure to improve efficiency and effectiveness, enhance purchasing power and maximize the ability to fight hunger at a time of limited program funding.

Other Changes in the Congressional Landscape

A number of other aspects of the congressional landscape have changed since the enactment of the 2008 Farm Bill that could increase pressure for structural changes in food aid policies. **These include:**

- Less cooperation across and within party lines.*** The divide between the two parties has grown to the point that the kind of bipartisan cooperation that led to a status quo 2008 Farm Bill, even in the face of a presidential veto, is difficult to imagine. Under these circumstances, the prospects for business-as-usual are reduced substantially, opening the door for a more open legislative process amenable to changes in food aid policy. The divisions within the Republican Party also may play a role in reducing the prospects for a status quo farm bill. While Tea Party supporters will push for massive spending cuts, structural reforms could well provide a compromise solution that maintains current funding levels (as per the wishes of the Democratic-controlled Senate) while improving the taxpayer return on investment (to satisfy Republican House members that budgetary concerns are being taken seriously and addressed).
 - The changed composition and dynamics of the Agriculture Committees.*** A new guard is drafting the next farm bill, with many members of both committees being new to the farm bill—as well as to Congress itself. The House Agriculture Committee is now comprised of 23 freshmen (17 are Republicans) out of its 46 members,^{18,19} and only 16 were in Congress for the 2008 Farm Bill.²⁰ House Democrats have placed four new members from the Northeast on the Agriculture Committee, including seven-term member Congressman Jim McGovern, Co-Chair of the Congressional Hunger Center. Additionally, neither committee chair was in a leadership post during the 2008 Farm Bill process. These changes represent an unusual reduction in the continuity between the crafters of the previous status quo farm bills and the next, hopefully creating an environment conducive to change.
- In addition, there are new dynamics within the House and Senate committees resulting from last year’s effort to circumvent the conventional farm bill debate process by attaching a 2011 Farm Bill proposal to the “Super Committee’s” budget deficit reduction bill. While the failure of the Super Committee to report a bill for votes on the floors of the House and Senate negated this effort, the attempt to push through what was dubbed “the secret farm bill” has increased pressure for a wide-open process that could improve prospects for food aid policy changes.²¹
- The vulnerability of the next farm bill to floor amendments.*** Even before the attempt to attach legislation to the Super Committee bill, pressure had

been building for a more reform-minded farm bill than occurred in 2008.²² The Super Committee failure only magnified that pressure and in doing so, may have left the farm bill more open to floor amendments. Indeed, the attempt to attach an early farm bill to the Super Committee bill may well have been, in part, a response to that existing pressure.

Reason 2: The Farm Bill is Under a Brighter Spotlight

Although the farm bill has been a second-tier issue in Congress, it has historically garnered more than its share of news coverage. Controversies about agricultural subsidies, in particular, generated more than two hundred editorials during the two-year run up to the 2008 Farm Bill.

Recent developments, especially the intensified focus on budgetary waste and the failed attempt to attach an early farm bill to a Super Committee bill, have increased the spotlight on the farm bill and made it a larger target for reform.

The rising tide of pressure to reform food and agriculture policy in general—even before the controversy about including it in the Super Committee package—was illustrated by the push last year to roll back the federal ethanol tax credit. This tax credit formerly provided a lucrative subsidy to the U.S. corn industry. It had become one of the sacred cows of agricultural policy and was, until recently, considered a relatively easy reauthorization. But in June of 2011 in a historic and bipartisan vote (73-27), the Senate voted for an immediate end to the ethanol subsidy. The Congress allowed the credit to die uncontested on December 31st, its expiration date.

The impact of this new reality is reflected in the increased vulnerability of the agriculture subsidy programs, which have been highly resistant to reform in the past.²³ There is now widespread agreement that the multi-billion-dollar-a-year direct payment program of subsidies to growers of “program crops” (e.g., corn, cotton, rice, soybeans and wheat) will be eliminated in the next farm bill.²⁴ This program has been the target of widespread criticism for the over a decade, yet until this year managed to survive two farm bills intact.

While the fate of the direct payments program may have been sealed prior to last year’s Super Committee process, the attempt to create a 2011 Farm Bill brought the controversy about this and other farm bill spending issues to new levels, bringing them into the center of the budget deficit spotlight.

As a consequence of these developments, the national stakes for the farm bill have been raised, and with them, the pressure on Congress to take some steps to move beyond the status quo. ***Reforming food aid can offer a much-needed opportunity to refocus the spotlight on bipartisan collaboration, budgetary efficiency and better program impact, thereby enhancing the credibility and political acceptability of the next farm bill.***²⁵

Reason 3: The Sands are Shifting for Food Aid Stakeholders

The introductory section of this paper identified the power of the “iron triangle” coalition²⁶ (agriculture and agribusiness interests, U.S.-based shipping companies and nonprofit organizations that distribute food aid in developing countries) as one of the forces responsible for the lack of food aid reform in recent decades. But now, there are key changes to two sides of that triangle (the agriculture lobby and the NGOs that deliver food aid) that should lower this powerful barrier to reform.

The Agriculture Lobby

In previous farm bills, the domestic interest groups that cared most about maintaining the status quo in food aid policy could count on a unified agriculture lobby to support resistance to change and help convince Agriculture Committee leaders and members to forestall reform. But this sector is not a monolith—instead it is composed of several separate constituencies with different levels of interest and investment in the food aid status quo. These include the commodity groups, the corporate processors and handlers, and farmer organizations.

In this farm bill debate, the commodity groups will likely be principally focused elsewhere, as direct payment subsidies are on the chopping block and agriculture interests remain heavily divided along commodity and regional lines about the future form of the farm safety net. Food aid programs have not been, and are not likely to become, a high priority for this lobby in the next farm bill. In this charged environment, they and their major supporters in Congress seem less likely to expend precious political capital fighting for the status quo in food aid policy.²⁷

This is reinforced by the reality that U.S. food aid programs have far less to offer U.S. farmers and commodities groups than they have during past farm bill debates. Food aid shipments of U.S. products now represent a minute



A WOMAN OF THE SOUTHERN FARMER ALLIANCE (SFA) SAI NGAM COMMUNITY CULTIVATES POTATOES.

PHOTO JAMES ROBERT FULLER

percentage of both total U.S. agricultural production and total U.S. agricultural exports.²⁸ Moreover, as is discussed in the next section, high farm commodity prices and the lack of surpluses have led successive federal administrations to phase out the use of the export-development-oriented titles (I and III) of PL 480. ***This means that status quo supporters can no longer claim that the development of foreign markets for U.S. agriculture is an active objective of the program.***

Some sectors of U.S. agribusiness, on the other hand, have a larger stake in the food aid business, since they handle and process food aid commodities purchased in and shipped from the U.S. As a result, they will likely continue to put political muscle behind advocating for a food aid status quo dominated by in-kind aid. But if farm commodity groups become more responsive—or at least less actively resistant—to the need for reform of U.S. food aid policy, this may weaken the influence of one significant side of the “iron triangle.”

The NGOs that Administer Food Aid

During deliberations over previous farm bills, non-governmental organizations that are contracted by the federal government to administer the distribution of U.S. food aid usually offered a united front with the rest of the iron triangle against reform. This potent food aid coalition worked to protect and enhance food aid funding, but resisted structural reforms that would reduce the benefits to their specific sectors.

NGOs that use monetization have found themselves in a difficult situation. The money gained through monetization helps fund the humanitarian and poverty reduction work that is their *raison d'être*. For these groups much of the logic underlying their lobbying strategy was that by working with the powerful agriculture and shipping industry stakeholders that wield influence over the Agriculture and Appropriations Committees, they could maximize the flow of food aid program funding. There was also the concern that if in-kind food aid were replaced with LRP and U.S. food supplies were no longer available for monetization, the Agriculture Committees would have less incentive to support the program. This, it was feared, would lead to losses in overall food aid funding as well in the ability of NGOs to fund development projects reliant on the revenue generated from monetization.

There are important signs that some of these orientations have been shifting and that greater acceptance of local and regional procurement is taking hold among a wide segment of monetizing NGOs. One significant milestone was in mid-2007 when CARE, in a widely publicized reversal, announced that by 2009 it would stop participating in the monetization of food aid to finance development programs.²⁹ Catholic Relief Services also appears to be moving toward support of cash sources of funding for development assistance programs, rather than monetization³⁰ and its out-going president recently came out in favor of reforming the food aid cargo preference program.³¹ While some NGOs that administer food aid and development projects still support monetization,³² many recognize the inefficiencies of the system and would much rather find ways to fund development work directly as opposed to going through the current circuitous route.

Some key NGOs and others engaged in U.S. food aid distribution—Catholic Relief Services, Mercy Corps, Land o' Lakes and World Vision—have formed a coalition known as the “Local and Regional Procurement Learning Alliance.”³³ The members of the coalition participated in a congressionally mandated LRP pilot program authorized in the 2008 Farm Bill, which demonstrated lower cost and much-quicker delivery time. ***The success of the pilot projects and a new interest in LRP by important players in the NGO community represents an important shift in the political playing field toward reforms that will reduce reliance on food supplied by U.S. sources.***

The reality of the new trend in food aid spending cuts, especially targeting Title II (which is largely in-kind aid),

provides these groups with additional incentives to support reforms in the next farm bill. In-kind aid from U.S. sources appears now to be more a part of the funding problem than part of the funding solution. Title II food aid funding is being targeted in part because it is viewed as an inefficient use of taxpayer funding that provides subsidies to special interests. In this climate, funding for food aid and development projects from sources other than the sale of U.S. produced food arguably becomes a more politically attractive option. Otherwise, it is possible that the strategy of maximizing in-kind aid that appeared to help guarantee secure funding in the past could well be a new source of funding insecurity due to the fact that this method is open to attacks related to cost-effectiveness and efficiency.

Reason 4: There is a Long-Term Expectation of Higher Food Prices

The push to address federal budget deficits is not the only new source of elevated economic pressure to improve the performance of the nation’s food aid programs. Arguably, in the past few years, the world has moved into a unique era of high farm commodity prices that has, and will continue to, reduce the amount of food that can be purchased for food assistance purposes. If so, the “bang for the food aid buck” will continue to fall because of higher food prices at the same time that budgetary pressures are placing limits on total food aid funding.

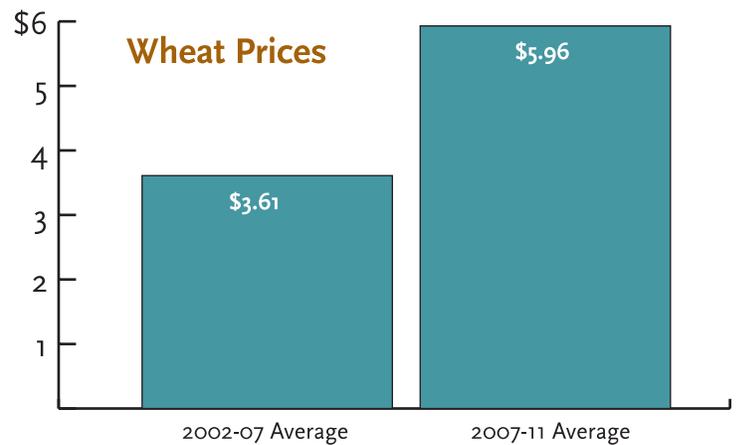
According to highly respected food price forecasters at USDA, the Food and Agriculture Policy Research Institute (FAPRI), the United Nations Food and Agriculture Organization (FAO) and the Organization for Economic Co-operation and Development (OECD),³⁴ the record high prices of 2007-2008 and 2010-2011 are the harbinger of a new and higher price plateau for the grain and oilseed commodities that form the basis of most food aid. Unlike previous short-term surges in farm commodity prices, such as the one that occurred in 1996, these new price levels are expected to last due to long-term shifts in the supply and demand fundamentals for those commodities.

The recent history of corn prices is a prime example of the shift in the global pricing for food aid-related farm commodities. Even after corn prices retreated sharply from the 2007/08 marketing year’s record levels of \$5.53, they declined only to an average of \$4.14 in 2008/09 and \$4.39 in 2009/10, or about the same level as the previous record high price of \$4.30 established in the 1995/96 marketing year. Corn prices surged again to a new record-high level in the 2010/11 marketing year of \$7.04.³⁵ This new corn price plateau is expected to continue for the foreseeable future. FAPRI, for example, expects average annual U.S. corn

prices to exceed \$5.00 a bushel every year between 2012 and 2020. (The average annual price during the record 2010/2011 marketing year was \$5.22 a bushel.)³⁶



Wheat prices have exhibited a similar pattern. The average annual U.S. farm wheat price for the five-year period prior to the 2007/08 marketing year was only \$3.61 with annual prices ranging between \$3.40 and \$4.26. For the next four-year period, between the 2007/08 and 2010/11 marketing years, the average farm price leaped 65 percent above the previous five-years’ average (from \$3.61 to \$5.96).³⁷ These trends indicate that wheat prices, during the past four years, have reached a new and much-higher plateau. Forecasters predict that the new plateau will remain intact for the foreseeable future.³⁸



The implications for U.S. food aid policy are striking. In this new era of record-high food prices, the current suite of U.S. food aid policies, which were forged during times of relatively low food prices and surplus commodity markets, are becoming increasingly anachronistic.

First, the rationale that U.S. agriculture needs to be supported through food aid purchases will be undermined as the commodity markets remain robust. Second, the economic inefficiencies created by sourcing food aid through purchases of U.S. products will become far less tolerable and will create serious additional credibility problems for a Congress that is expected to be increasingly focused on protecting taxpayers' investments and rooting out waste. Third, further credibility problems will be created by the reductions in humanitarian impact as the programs' purchasing power is increasingly reduced by food price inflation.

In the current and anticipated future budget climates, the only way to reverse the losses of credibility and purchasing power is to remove the widely recognized financial inefficiencies embedded in current U.S. food aid policies, such as the dominant reliance on the use of in-kind aid purchased in the U.S. and monetization.

Reason 5: Recent Policy Precedents and New Research Open the Door for Bigger Change

Thus far this paper has discussed the significant shifts that have occurred in external economic factors, in the political landscape and among food aid stakeholders. Just as important is the combination of new research that strongly supports the case for reform and legislative markers that provide policy precedents for change since the 2008 Farm Bill.

The 2008 Farm Bill Local and Regional Procurement Pilot Program

The George W. Bush Administration, recognizing the negative impacts of in-kind food aid on developing country farmers, proposed using 25 percent of PL 480 funding to purchase food produced in or close to recipient countries in its FY 2008 and 2009 budget proposals. Although this unprecedented request for LRP funding was rejected by Congress, the 2008 Farm Bill did authorize a \$60 million, four-year LRP pilot program to be administered by USDA and implemented through grants to NGOs and other private sector partners. In-country pilot projects were conducted from 2009 to 2011 by grantees, who reported detailed results of their projects to USDA last year.

While the final evaluation of the program will not be released until June of this year,³⁹ a preliminary study of nine of the 23 pilot projects from diverse regions by leading food aid researchers and experts at Cornell University has been completed and can be used to inform the current debate.

The findings from the Cornell study indicate that the LRP pilots substantially increased the efficiency and effectiveness of food aid without creating the negative impacts on recipient countries' food markets that occur when food aid is sourced from the U.S. For example, the average costs of providing cereals (e.g., corn and wheat products) and pulses (e.g., dried peas and beans) to food aid recipients from local sources were 54 percent and 24 percent lower, respectively, than buying those commodities in the U.S. and shipping them across oceans to targeted countries.⁴⁰ Moreover, the delivery time was reduced, on average, by 62 percent—about 14 weeks—which can be the difference between life and death for victims of floods, droughts and earthquakes.

This evidence should provide Congress with an added incentive to build on its 2008 Farm Bill mandate of the pilot program by expanding LRP from pilot to major-policy status.⁴¹ Arguably, the pilots have also helped set the stage for Congress to bring farm bill food aid policy in line with other major food aid donors. Canada and European countries have successfully ended nearly all of their in-kind food aid in favor of approaches that rely on local developing country sources of food.

Other 2008 Farm Bill Changes That Could Pave the Way for Larger Reforms

The LRP pilot program was just one of the small, but significant, adjustments made in the 2008 Farm Bill. For example, in recognition of problems created by monetization of U.S.-produced food in developing countries, Congress took action to reduce the pressure to monetize food in local markets by increasing the proportion of Title II funds that could be requested by NGOs to cover their food aid expenses. Another provision of the 2008 Farm Bill increased funding for prepositioning of emergency food supplies in recognition of the harmful delays resulting from procurement of food from the U.S. These small steps reflect an awareness of big problems that need to be addressed, thereby potentially laying down markers for reform in the next farm bill that can address the problems at their source and fix them in a more-comprehensive manner.

Post-2008 Farm Bill LRP Policy Precedents in the Appropriation Process

Support for the LRP reform concept in Congress and the Obama Administration has been growing in the past five years. After the 2008 Farm Bill was passed, members of Congress, through the foreign assistance appropriations process, took the bold step of authorizing spending for LRP operations outside of the farm bill and agriculture appropriations process.

Congress allocated \$200 million for LRP activities through FY 2008 supplemental appropriations and FY 2009 appropriations. In the FY 2010 spending bill, Congress authorized the Administration to use a significant portion of funds from the International Disaster Assistance account for food aid. USAID used that authority to set aside an additional \$300 million for LRP projects through its new Emergency Food Security Program (EFSP) within the Office of Food for Peace. The EFSP uses cash resources to buy locally produced food for distribution to recipients or distributes food vouchers or cash to recipients for food purchases in local markets.⁴² In Pakistan, for example, in response to the catastrophic floods, the EFSP provided the World Food Program with a \$45 million grant to meet immediate food needs with the purchase of food in local markets, including about 70,000 metric tons of wheat.⁴³

These appropriations and executive branch actions, in combination with the LRP pilot program, provide the experience, evidence and precedents needed to justify and pave the way for the codification of LRP in the next farm bill as a major option in the mix of food aid tools available to the nation.

SUMMARY AND CONCLUSIONS

U.S. food aid policies that greatly impact the efficiency and effectiveness of U.S. food aid programs are in a uniquely favorable position for reform in the next farm bill.

None of the five reasons laid out in this report, in and of itself, is a sufficient cause for declaring a new day for food aid policy reform. However, the conjuncture of all five at the time of the writing of the farm bill suggests that a real opportunity for meaningful structural changes in U.S. food aid programs could emerge.⁴⁴

As always, changes in long-standing policies don't happen automatically, even when a combination of favorable forces lays the groundwork for reform. The guardians of the status quo can still be expected to use their influence to try to limit or prevent reform. A new crop of congressional champions with the political wisdom, courage and clout to lead the push for change in the current climate will still have to be mobilized. And reform advocates outside of Congress will still have to make the case for reform as part of smart, sophisticated campaigns that provide support for those champions and leverage these favorable conditions.

But the time for a push for food aid reform is more fortuitous now than it has been for decades. Now is the time to stand up for this critical cause and seize the opportunity to create bold changes that will have lasting positive impact on both American taxpayers and the millions of hungry people around the world who depend on our aid.



FARMERS OF THE SOUTHERN FARMER ALLIANCE (SFA) HARVEST RICE IN SURAT THANI, THAILAND.

PHOTO JAMES ROBERT FULLER

ENDNOTES

¹ USAID. "U.S. International Food Assistance Report, 2010."

² "World Hunger and Poverty Facts and Statistics." <http://www.worldhunger.org/articles/Learn/world%20hunger%20facts%202002.htm>

³ Other farm bill food aid programs include: 1) Title I of PL 480, which has not been funded since 2006, authorizes concessional sales from the U.S. government to developing country governments in the form of loans and grants. The original purpose of Title I was to promote market development for U.S. agricultural products. 2) Title III, which has not been funded since 2001, authorizes grants from the U.S. government to developing country governments to finance economic development projects. Funds are generated through monetizing (i.e., selling) U.S. sourced food in developing country markets. 3) Section 416b of the Agricultural Act of 1949 authorized donations of U.S. owned surplus farm commodities that are sold abroad to foster economic development and develop markets for U.S. agriculture. 4) The McGovern-Dole International Food for Education and Child Nutrition Program authorizes food and donations designed to improve nutrition and enhance school meals programs. \$174 million was spent in FY 2010. USAID. "U.S. International Food Assistance Report, 2010." 5) The Bill Emerson Humanitarian Trust, which establishes a reserve of cash and commodities that can be tapped for use in the Food for Peace Program.

⁴ USAID. "U.S. International Food Assistance Report, 2010."

⁵ Lentz, E.C., Passarelli, S., and Barrett, C.B. (2012). "The Timeliness and Cost Effectiveness of the Local and Regional Procurement of Food Aid." Cornell University Working Paper, January, 2012. A 2005 OECD study of major food aid donor countries found that buying and shipping food aid from the donor country wasted 32 cents for every dollar spent relative to the cost of purchasing food aid in the recipient country. (Organization for Economic Cooperation and Development. "The Development Effectiveness of Food Aid: Does Tying Matter," 2005.)

⁶ For a data-rich, comprehensive review of problems and controversies associated with the current U.S. food aid program, see, for example: Barrett, Christopher and Daniel Maxwell. *Food Aid after Fifty Years: Recasting Its Role*. New York: Routledge, 2005.

⁷ "Iron Triangle" is a political science term used to describe the relationship (and subsequent policy impact) between special interests, congressional committees and the bureaucracy (typically federal agencies). In the food aid debate, the term refers to three key special interests that have traditionally supported the status quo system. These are the agriculture industry, private voluntary organizations (PVOs) that monetize food aid and the shipping industry.

⁸ The U.S. food aid program did recently make headlines outside of the farm bill arena as the House of Representatives moved to slash annual funding.

⁹ For an early critique, see, for example: Schultz, T.W. "Value of US Farm Surpluses to Underdeveloped Countries," *Journal of Farm Economics*. 42:5(1960). Schultz warned of the potential negative impacts on developing country farmers. Also, GAO has produced dozens of studies since the 1980s about the impacts of U.S. food aid programs, including two studies since the 2008 Farm Bill on the advantages of local and regional procurement (LRP), and the negative impacts of monetization. (See the next section of this paper for a brief discussion of those two policies.)

¹⁰ Barrett, Chris and Lentz, E. "U.S. Monetization Policy: Recommendations for Improvement," Chicago Council on Global Affairs Policy Development Study Series. December 2009.

¹¹ See, for example: Schultz, 1960 for an early statement of concerns. For a summary of the findings of the literature, see: Food and Agriculture Organization of the United Nations. *Food Aid for Food Security?: 2006 State of Food and Agriculture*. Rome, 2006.

¹² Last year, a GAO study found that U.S. aid projects using monetization during a recent three-year period wasted 30 percent of the money allocated for development assistance. (U.S. GAO. "Funding Development Projects through the Purchase, Shipment and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Effects," GAO-11-636 June 2011.)

¹³ Mercier, Stephanie. "Thinking Ahead: What's Up with Food Aid Policy in Advance of the 2012 Farm Bill?" A report for the Partnership to Cut Hunger and Poverty in Africa. June 2011.

¹⁴ By comparison, total food aid spending during the previous farm bill year of 2002 was \$2.2 billion, about the same as in 2006. (Hanrahan, Charles. CRS "Agricultural Export and Food Aid Programs." April, 2008.)

¹⁵ FY 2011 Title I spending of \$1.500 billion was authorized while the FY 2012 appropriations act provided \$1.466 billion.

¹⁶ AJWS believes that food aid spending reductions are ill-advised and that it is critical to maintain, if not increase, food aid funding levels in addition to improving the cost-effectiveness of U.S. food aid programs, especially since the need for such aid has been growing, rather than shrinking, and higher food prices have reduced the purchasing power of the programs.

¹⁷ Sources of data in this table: USAID. "International Food Assistance Report." 2006 through 2010 editions. At the time of this writing, FY2011 data was not available.

¹⁸ "So literally 23 of the 46 members of the committee—no committee experience, no Farm Bill experience. It's a slightly different dynamic as we go through the course of this year and next year," [House Agriculture Committee Chair, Frank] Lucas said. <http://blogs.reuters.com/summits/2011/03/16/ag-committee-chair-says-new-faces-mean-new-dynamic-on-capitol-hill/>

¹⁹ Steinhauer, Jennifer. "The House Agriculture Committee, while still dominated by farm state members, is now peppered with freshmen who view cuts to these programs as an essential part of the broader attack on the federal deficit, the centerpiece of their campaigns," *New York Times*. May 6, 2011.

²⁰ <http://www.pork.org/filelibrary/2011%20Swine%20Education%20In-Service%20Swine%20Education%20Update%20%20-%20Bryan%20Humphreys.pdf>

²¹ See, for example: Bittman, Mark. "The Secret Farm Bill," *New York Times*. November 8, 2011; Brasher, Phil. "Farm Bill Drafting Going Public Next Time," *Des Moines Register*. December 6, 2011 ("The secret farm bill lawmakers drafted this fall is now history."); and Lutey, Tom. "Ripe for the Cutting," *Billings [MT] Gazette*. December 4, 2011 ("Farm groups were as thrilled about the supercommittee proposal - dubbed the secret farm bill because its details were never fully revealed - as any interest group facing a \$23 billion cut could be.")

²² See the discussion about the successful ethanol subsidy floor amendment in the next section of this paper. Also, the changing composition of Congress, especially with the rise of the Tea Party in the 2010 elections, will reduce the likelihood of a rubber-stamping of the work of the agriculture committees in the next farm bill. Although some of the new breed of House budget cutters are on the Agriculture Committee, the kinds of reforms sought by Tea Party members are less likely to be addressed through Committee action than floor amendments. (See, for example, Mercier, Stephanie. "External factors That Will Drive the Next Farm Bill debate," *Choices Magazine*. 2nd Quarter, 2011. <http://www.choicesmagazine.org/choices-magazine/policy-issues/external-factors-that-will-drive-the-next-farm-bill-debate>)

²³ Steinhauer, May 6, 2011. ("The Scrutiny of Farm Programs Is Now Stronger Than Ever, said Chuck Conner, President of the National Association of Farmer Cooperative.")

²⁴ See, for example: "Status of Wisconsin Agriculture - 2012." University of Wisconsin Department of Agricultural and Applied Economics. January 2012 ("But it is quite likely that direct payments—which total about \$5 billion per year—will fall under the budget ax."); and "Farmers Prepared to Kiss Goodbye Billions in Federal Funding," *Medill Reports* Chicago. January 19, 2012 ("Farming advocates in Illinois see the billion-dollar writing on the wall: direct-payment federal farm subsidies will soon be dead...")

²⁵ A draft of the proposal revealed that food aid policies were not addressed. As a result, out of that process, comes a clean slate for a debate about the nation's food aid policies.

²⁶ Barrett, C. and E. Lentz, December 2009.

²⁷ See, for example: Sarah Wyant. "Farm Groups Push for New Farm Bill in 2012," *Agri Pulse*. February 2, 2012 ("After a two-day meeting to try and find consensus on new farm programs, major farm and commodity groups issued a joint statement this morning, confirming their desire to work together and for Congress to write a new farm bill in 2012, but making no mention of any specific agreement on a path forward.") <http://www.agri-pulse.com/Farm-groups-farm-bill-meeting-020212.asp>

²⁸ According to USDA's Economic Research Service, the value of U.S. agricultural exports was \$138 billion dollars in FY 2011, compared to about \$2 billion for the entire U.S. food aid budget, of which only a portion represents in-kind food sent from U.S. sources. <http://www.ers.usda.gov/Data/FATUS/#fiscal>

²⁹ Harrell, Eben. "CARE Turns Down U.S. Food Aid," *Time Magazine*. August 15, 2007.

³⁰ From Catholic Relief Services' website: "CRS recognizes that selling commodities, also referred to as monetization, is an inefficient method of obtaining funding. CRS sells commodities only when it has determined that there are no alternative methods of funding and that the sale of the commodities will have no negative impacts on local markets and local production. CRS will seek to replace monetization with cash funding to cover program costs." <http://crs.org/public-policy/pl-480-title-ii.cfm>

³¹ Hackett, Ken. Remarks to the 2011 International Food Aid Conference. June 28, 2011.

³² Barrett and Lentz. December 2009.

³³ Land O Lakes, a dairy cooperative that is active in U.S. food aid projects, also received LRP grants to manage projects in Bangladesh and Zambia. For more information on the LRP Learning Alliance, please see <https://sites.google.com/site/lrplearningalliance/home>

³⁴ OECD and FAO. "Organization for Economic Co-operation and Development (OECD)-FAO Agricultural Outlook 2011-2020." <http://www.agri-outlook.org>

³⁵ Economic Research Service, USDA. "Feed Grain Yearbook, Table 12." <http://www.ers.usda.gov/Data/FeedGrains/Table.asp?t=12>

³⁶ Food and Agriculture Policy Research Institute (FAPRI) - Iowa State University. "2011 World Agricultural Outlook." <http://www.fapri.org/outlook/2011/>. All corn prices discussed here are at Gulf of Mexico ports.

³⁷ Economic Research Service, USDA. "Wheat Yearbook, Table 1." <http://www.ers.usda.gov/data/wheat/YBtable01.asp>

³⁸ FAPRI, 2011.

³⁹ For information about LRP reporting and evaluation requirements, see: <http://www.fas.usda.gov/excredits/FoodAid/LRP/LRPbudget.asp>

⁴⁰ Lentz, E.C., Passarelli, S., and Barrett, C.B. (2012). "The Timeliness and Cost Effectiveness of the Local and Regional Procurement of Food Aid." Cornell University Working Paper, January, 2012.

⁴¹ See also USDA's LRP web site for descriptions of LRP pilot project success stories: http://www.fas.usda.gov/excredits/FoodAid/LRP/LRP_success.asp

⁴² Mercier, June 2011.

⁴³ USAID. "Pakistan - Floods," Fact Sheet #6, FY 2011. November 12, 2010. http://reliefweb.int/sites/reliefweb.int/files/resources/1758D23A6A968DF3492577DA00006A69-Full_Report.pdf

⁴⁴ These conclusions are premised largely on the opportunities for reform in a 2012 Farm Bill. The enactment of the next farm bill could well occur in a lame-duck session after the November 2012 elections or in 2013. Even if realistic potential shifts in the control of Congress and the White House occurred, most, if not all of the five conditions favorable to fundamental food aid reforms listed above would likely still be in effect.



American Jewish World Service

45 West 36th Street
New York, NY 10018

t: 212.792.2900
800.889.7146
f: 212.792.2930

ajws.org • ajws@ajws.org
facebook.com/americanjewishworldservice
twitter.com/ajws



Inspired by Judaism's commitment to justice, **American Jewish World Service (AJWS)** works to realize human rights and end poverty in the developing world.