Food fight: How international aid fails the poor

by David Beckmann in the April 22, 2008 issue

In 2006, the United States provided 6 million tons of food aid to agencies such as CARE, Catholic Relief Services, World Vision and Save the Children, which distributed the bags of wheat, rice or corn and containers of vegetable oil. Some of the aid went to places wracked by war or natural disaster, where it directly alleviated human suffering. In other places, children suffering from acute malnutrition were brought back to full health with the help of specially fortified food. Sometimes entire families were able to survive a lean season.

Given these and other positive results, why would any agency reject U.S. food aid?

Yet that’s exactly what CARE did last July, when officials announced that beginning in 2009, CARE will forgo $45 million a year in U.S. food aid. The organization based its decision on disagreement with a practice known as monetization, the process of selling some of the U.S. food abroad in order to raise needed cash for development projects and administrative costs. Although monetization is a common and necessary practice, CARE maintains that the sale of this food in the fragile markets of recipient countries competes with the sale of food produced by local farmers, causing prices to drop and lowering farmers’ income. After careful study, CARE has determined that the benefits of monetization are simply not worth the costs: it will no longer accept those donations of U.S. food aid that are intended for monetization (though it will continue to receive emergency U.S. food aid).

The long journey of food aid begins when the U.S. government purchases basic staples such as corn, rice and wheat (grown in Iowa, Texas and Nebraska), processes and packages the food in plants throughout the country and ships it from ports in the Great Lakes and the Gulf of Mexico and on the West Coast. Originally food aid programs were seen as a way of disposing of large surplus food stocks owned by the federal government—surpluses caused by price control measures that helped sustain U.S. farmers. The plan was to remove surplus food from domestic markets and sell or donate it in foreign countries, thus helping both farmers at home and hungry people overseas.

But those government surplus stocks no longer exist. Today the U.S. government purchases food through regular U.S. commercial channels. The law requires this; it favors agribusiness interests and U.S. shipping companies even though the end result is higher-priced commodities and transportation. If the aid groups were allowed to consider cheaper sources of food and transportation, they would save both money and time.

The law also requires that the vast majority of food aid donations be made into ready-to-eat products or otherwise processed before being shipped. At least 75 percent of food aid must be shipped on U.S. flagships, despite the fact that our domestic shipping fleet is small and normally more costly than its international competitors. The bottom line? More than half of the U.S. food aid budget is consumed by administrative and transportation expenses.

Despite these inefficiencies, various U.S. interests that benefit from the program—agricultural interests, transportation companies and aid agencies—continue to provide strong political support for it. As a result, the United States is the largest donor of food aid worldwide, and since it sends more than half of all its food aid to the World Food Program (WFP), it is the organization's single most generous supporter. The remaining food aid donations are delivered through nongovernmental organizations (NGOs) such as CARE and Catholic Relief Services.

Though complex, food aid programs do a lot of good. During Niger's 2006 crop failure and ensuing famine, for example, feeding centers were set up for individuals, particularly children, suffering from acute malnutrition. Thousands of lives were saved. School feeding programs that were made possible through the McGovern-Dole Food for Education program provide hot meals or take-home rations to students. A Bangladesh school feeding program attracted poor children and generated 20-30 percent increases in school enrollment. Food for Work programs—large public works projects in which workers are paid in food instead of cash—have helped to provide jobs and improve local infrastructure. In Sierra Leone, ex-soldiers are finding hope and opportunity through Food for Work, while new roads and irrigation systems help the nation recover from its war-torn past.

But aid in the form of food is seldom enough. Without shelter and sanitation, well-fed disaster-affected communities will continue to suffer; without textbooks and school supplies, kids coming to school will not learn; without tools and technical expertise, the best-designed Food for Work plan will not succeed. And—no matter how generous the food aid—food shortages will continue unless there are investments in farming and agriculture.

Unfortunately, the food aid and development assistance budgets and programs are developed separately, and as a result the U.S. foreign assistance system is not set up to encourage a comprehensive development approach. U.S. food aid programs are managed by the Department of Agriculture and the U.S. Agency for International Development (USAID); each has its own mandate, agenda and rules. Coordination between agencies is the exception rather than the rule. For example, USAID manages Child Survival and Health (CSH) programs intended to reduce illness and death among mothers, infants and young children. But efforts to incorporate food aid into these programs have been hampered by discordant funding and management processes. A CSH program in India that included a food aid component could not function effectively when the food aid budget was cut. In this case, the Indian government promised to step in to fill the gap—but developing-country governments often cannot afford to do this.

When NGOs face obstacles in creating effective nutrition and food security programs with in-kind food aid, they turn to monetization of the food aid as a way of generating funds for transportation and other logistical costs, and for development projects in agriculture, primary education and other key areas.

When it’s done right, monetization can improve food security. In a nonemergency situation in Rwanda, the aid organization ACDI/ VOCA is using monetization to equip farmers and traders with the skills needed to supply products to their local markets. The food aid (vitamin-fortified vegetable oil) is sold to local traders. The traders learn to acquire and market a commodity that is scarce locally, while the proceeds from selling the vegetable oil enable ACDI/ VOCA to support other initiatives, including improving the environmental sustainability of farmlands and helping farmers build and maintain commercial cooperatives.

But monetization is as much an art as a science, and development NGOs cannot always be sure that food aid sales do no harm. Will food aid directly compete with locally produced food or disrupt existing commercial trade arrangements? Will the sale of food aid discourage farmers from producing a particular crop like corn or wheat? The reality is that monetization does sometimes disrupt local markets.

U.S. law requires NGOs to ensure that nonemergency food aid deliveries do not discourage local production or disrupt established commercial channels, but the studies are not always objective or thorough. In one case, an NGO received donations of soy oil for a school feeding program in Bangladesh. The soy oil was sold in the local market and the proceeds used to buy fortified biscuits and milk for schoolchildren. But the oil was sold for less than the prevailing market price, and the sale undercut a local business that imported U.S. soy oil on a commercial basis. Both the local business and a thriving commercial market were damaged.

Whenever large quantities of food are sold or donated in fragile markets, local farmers suffer the consequences. A U.S. government study of response to a 2002 southern Africa drought and food crisis found that food aid contributed to a marked drop in the price of corn. The United States had donated corn to feed people in a number of southern African countries, including Malawi, but local traders were already importing corn from other countries and local farmers were harvesting their own corn. When the U.S. food aid arrived, it created a surplus that led to a substantial price decline: from $250 per ton of corn to $100.

CARE believes not only that food aid monetization may harm local producers, but also that it is an extremely inefficient means of raising money. Though groups selling food aid try to recover the full cost of the aid (the food plus packaging, shipping and distribution costs), this is rarely possible. Instead, a dollar’s worth of U.S. food aid, once monetized, usually generates considerably less than a dollar in resources.

In a 2006 Bread for the World Institute review of food aid, it was clear that NGOs administering food aid are doing the best they can with a second-best resource; it was also clear that cash grants rather than food aid would be preferable in almost every case. NGOs should not have to resort to a second-best option when they need cash.

CARE’s decision has generated controversy. Its announcement came at a politically opportune moment, since food aid programs are part of the U.S. farm bill, which is up in Congress for reauthorization. Clayton Yeutter, former secretary of agriculture and critic of the current farm bill, has challenged Congress to imagine what our farm programs might look like if they were designed from scratch. If helping hungry people is the goal, our food aid programs would be markedly different.

President Bush has proposed that Congress allow up to a quarter of U.S. food aid to be procured in local and regional markets. At a recent Bread for the World event, President Bill Clinton praised this proposal—but there is little support for it in the agriculture committees of Congress.

Some NGOs have come out in favor of the shift, but they are worried that reduced support from the U.S. shippers and other interests that benefit from the current system will lead to reduced funding for life-saving food aid. CARE is risking funding in hopes of such reforms.

One positive change is the increase in support of international aid programs from the U.S. public and political leaders of both parties. U.S. funding for poverty-focused development assistance has tripled since 1999. The increase could translate into an increase in political support for food aid, even with the insistence on needed reforms.

Food aid is part of the farm bill, a piece of legislation that historically caters to special interests at the expense of real needs. Bread for the World has been campaigning to reform many aspects of the bill, including its section on food aid. One change would be to reduce commodity payments that go mainly to affluent landowners. The current system, by protecting and subsidizing U.S. farmers, depresses prices and sales opportunities for farmers in Africa and other poor parts of the world. Reducing this obstacle to development for the world's poorest people would redirect funding for commodity payments to support U.S. farm and rural families of modest means.

Bread for the World, a collective Christian voice against hunger, is working with a coalition of Christian church bodies and other organizations to mobilize people of faith to push for farm bill reform. The cause has attracted a surprising array of allies, ranging from Environmental Defense and Oxfam to the Cato Institute and Taxpayers for Common Sense.

So far, the campaign has been an uphill battle. Both Democrats and Republicans have responded to intense pressure from lobbyists to maintain the status quo. When the House of Representatives passed its version of the farm bill in July, members added funding for rural development, conservation, food stamps and international food aid. But the House did nothing to curtail payments to the various special interests that benefit from the bill.

The Senate voted to protect trade-distorting commodity payments in its version of the farm bill, which passed in December. The president’s proposal to procure some food aid in local markets was stripped out of both the House and Senate versions of the bill.

In the coming weeks the House and Senate have an opportunity to reclaim the moral high ground when they reconcile their respective versions of the farm bill. CARE’s bold stand, and the pressure provided by Bread for the World and other organizations, may yet influence key decision makers and the Bush administration to make the needs of hungry and poor people the driving purpose of food aid—and a higher priority in the farm bill as a whole.