

# ISSUE BRIEF

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## U.S. Food Aid Should Focus on Combating Hunger and Malnutrition in Poor Nations

By *Bryan Riley and Brett D. Schaefer*

President Barack Obama's fiscal year (FY) 2014 budget proposes fundamental reforms to America's food assistance programs. Most notably, the proposal would shift funds from the Food for Peace Act (P.L. 480) to programs in the U.S. Agency for International Development (USAID). In general, these reforms are positive and echo proposals suggested by aid practitioners in previous years that were attempted by the George W. Bush Administration.

Regrettably, in an effort to appease opposing constituencies, the Obama Administration proposal needlessly circumscribes the scope of the changes and maintains or establishes anti-market subsidies. Congress should support and expand the reforms directed at improving the efficiency of America's food aid programs, while rejecting the proposed retention of purchase requirements for U.S. food and subsidies for U.S. shipping.

**America's Food Aid Programs.** The United States has been providing food assistance around the world for nearly six decades to address starvation and emergency food shortages and to fund and support agricultural development and related projects in developing nations. There are five program

authorities through which foreign food aid is distributed, but the largest by far is the Food for Peace Act.

According to the Congressional Research Service, "Average annual spending on all international food aid programs over the past decade has been approximately \$2.2 billion, with Food for Peace Title II activities comprising the largest portion of the total budget (about 50% to 90% of the total food aid budget annually over the past decade)."<sup>1</sup>

U.S. law requires most P.L. 480 food assistance be purchased from U.S. producers and shipped on U.S.-flagged vessels. This policy of purchasing food in the U.S. and shipping it thousands of miles to a crisis location is inefficient, costly, and shortsighted. Citing studies by Cornell University, *Lancet* medical journal, and the Government Accountability Office, USAID Administrator Rajiv Shah noted that "buying food locally—instead of in the United States—costs much less—as much as 50 percent for cereals and as much as 31 percent for pulses. That's because the average prices of buying and delivering American food across an ocean has increased from \$390 per metric ton in 2001 to \$1,180 today."<sup>2</sup>

**Reform Needed.** Reform of U.S. food assistance programs would improve efficiency and allow the U.S. to do more with less. Requiring USAID to purchase and ship U.S. food is shortsighted because it undermines agricultural markets in destination or neighboring countries, discouraging agricultural investment and development. According to the Food and Agriculture Organization, "The empirical evidence shows that food prices almost invariably fall in local markets immediately after a food aid distribution."<sup>3</sup>

Aid practitioners, including Bread for the World, CARE, and Save the Children, support reform.<sup>4</sup> So

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do Nobel Laureate Norman Borlaug and former Bush Administration USAID Administrator Andrew Natsios, who jointly wrote, “Purchasing food locally simplifies the process, cuts down the time delay in delivery, reduces the logistical risks, and saves transport costs. These savings can be used to buy more food.”<sup>5</sup> Indeed, President Bush proposed similar reforms in 2008, such as allowing \$300 million food aid dollars to be given in the form of cash.<sup>6</sup>

The Obama Administration is proposing a significant shift in U.S. food assistance programs to address these costly inefficiencies. Specifically, the Administration is proposing shifting \$1.47 billion in P.L. 480 funds to two USAID programs: International Disaster Assistance (\$1.1 billion) and the Community Development and Resilience Fund (\$250 million). It also proposes a new Emergency Food Assistance Contingency Fund to receive \$75 million in transferred funds.<sup>7</sup>

President Obama would also end a wasteful process known as “monetization.” Monetization occurs when the government donates U.S. food to charities instead of giving them dollars. These charitable organizations then sell the food in other countries and use the proceeds to fund development-related

activities. The Government Accountability Office found that monetization programs wasted \$219 million over a three-year period that otherwise could have been used to fight hunger or returned to taxpayers.<sup>8</sup>

The reforms would help address inefficiency problems by circumventing legal requirements on the purchase of U.S. agricultural goods and shipping. USAID estimates that “local and regional procurement of food and other cash-based programs can get food to people in critical need 11 to 14 weeks faster and at savings of 25–50 percent.”<sup>9</sup> The result is that between 2 million and 4 million people could benefit from the same funding.

**Reform Half Measures.** While these reforms are welcome, the Obama Administration’s proposal blocks their full realization. Perhaps fearing resistance from Members of Congress and interest groups that benefit from the current restrictions, the Administration’s proposal “guarantees that in 2014 no less than 55 percent of the requested \$1.4 billion in total funding for emergency food assistance in [International Disaster Assistance] will be used for the purchase, transport, and related costs of U.S. commodities.”<sup>10</sup> Worse, the Administration would

1. Melissa D. Ho and Charles E. Hanrahan, “U.S. Global Food Security Funding, FY2010-FY2012,” Congressional Research Service, R41812, April 28, 2011, <http://www.fas.org/sgp/crs/row/R41812.pdf> (accessed April 15, 2013).
2. Remarks by Administrator Rajiv Shah at the Center for Strategic and International Studies (CSIS), “The Future of Food Assistance,” April 10, 2013, <http://www.usaid.gov/news-information/speeches/remarks-administrator-rajiv-shah-center-strategic-and-international> (accessed April 15, 2013).
3. Food aid drives down local food prices by increasing supply or reducing demand in several ways: When food aid is sold in local markets, it increases supply. Households that receive food aid reduce their purchases of locally produced food or sell their own crops. Recipients may sell food aid to meet other needs. U.N. Food and Agriculture Organization, “The State of Food and Agriculture,” 2006, pp. 31–46, <ftp://ftp.fao.org/docrep/fao/009/a0800e/a0800e03.pdf> (accessed April 15, 2013).
4. News Release, “Groups Welcome the Release of Administration Proposal for International Food Aid Reform,” American Jewish World Service, February 26, 2013, [http://action.ajws.org/site/DocServer/Food\\_Aid\\_Reform\\_WG\\_Statement\\_-\\_Support\\_for\\_Food\\_Aid\\_Refo.pdf?docID=1201](http://action.ajws.org/site/DocServer/Food_Aid_Reform_WG_Statement_-_Support_for_Food_Aid_Refo.pdf?docID=1201) (accessed April 15, 2013).
5. Norman Borlaug and Andrew Natsios, “Africa Does Not Have to Starve,” *The Wall Street Journal*, May 2, 2008, p. A13, <http://online.wsj.com/article/SB120968518398861073.html> (accessed April 15, 2013).
6. Kimberly Ann Elliott, “More Reasons That Congress Should Reform US Food Aid,” Center for Global Development, October 3, 2007, <http://www.cgdev.org/blog/more-reasons-congress-should-reform-us-food-aid> (accessed April 15, 2013).
7. USAID, “The Future of Food Assistance: U.S. Food Aid Reform,” [http://www.usaid.gov/sites/default/files/documents/1869/USAIDFoodAidReform\\_FactSheet.pdf](http://www.usaid.gov/sites/default/files/documents/1869/USAIDFoodAidReform_FactSheet.pdf) (accessed April 15, 2013).
8. U.S. Government Accountability Office, *Funding Development Projects through the Purchase, Shipment, and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Impacts*, GAO-11-636, June 2011, pp. 17–18, <http://www.gao.gov/assets/330/320013.pdf> (accessed April 15, 2013).
9. Ibid.
10. U.S. Senate, letter to President Barack Obama, February 20, 2013, [http://www.hagstromreport.com/assets/2013/2013\\_0220\\_SenateLtr.pdf](http://www.hagstromreport.com/assets/2013/2013_0220_SenateLtr.pdf) (accessed April 15, 2013), and U.S. Wheat Associates, letter to President Barack Obama, February 21, 2013, [http://www.uswheat.org/whatWeDo/tradePolicy/foodAid/doc/73CD8AC163E176E385257B1E00722056/\\$File/Support%20for%20US%20Food%20Aid%20Letter%20to%20the%20President%20\\_2\\_.pdf?OpenElement#](http://www.uswheat.org/whatWeDo/tradePolicy/foodAid/doc/73CD8AC163E176E385257B1E00722056/$File/Support%20for%20US%20Food%20Aid%20Letter%20to%20the%20President%20_2_.pdf?OpenElement#) (accessed April 15, 2013).

establish a new, direct subsidy to U.S. shippers by transferring \$25 million in money to the Department of Transportation's Maritime Administration.

These measures directly undermine the impact of the reforms sought by the Administration and perpetuate market distortions in the U.S. that serve neither the American taxpayer nor those starving abroad. Congress should act to correct the President's lack of conviction by:

- **Eliminating legal requirements on the use of U.S. food and shipping.** Food aid programs should be run for the benefit of people who are starving. U.S. farmers and shippers should be eligible to participate in food aid programs, but the government should not waste aid dollars buying U.S.-grown food to be shipped on U.S.-flagged vessels if there are more affordable options available.
- **Eliminate wasteful "monetization" programs.** This would eliminate the needless waste of funds, freeing more dollars to feed hungry people, and lessen the distorting effects on local markets.
- **Reject the proposed subsidy of U.S. shippers.** The Administration's proposed \$25 million subsidy to U.S. shippers is rank political appeasement.
- **Correct the funding for food assistance.** As overall efficiency improves through reforms, Congress should trim the food aid budget. If unusual events demand increased funding, the Administration should seek supplemental appropriations.

**A Step in the Right Direction.** President Obama's proposal takes a step in the right direction, but undercuts the value of the effort with maritime subsidies and "buy American" quotas. Resistance to such political payoffs is necessary if the American public and the hungry in other nations are to realize the full benefits of reform.

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