# Saving Money and Lives:
# The Human Side of U.S. Food Aid Reform

## Introduction: *Keeping Hungry People in the Center of the Food Aid Reform Equation*

In recent years, headlines about the need for reforms of U.S. food aid policies have often focused on current programs' inefficiencies, unnecessary taxpayer costs, and subsidies to narrow special interests, such as the shipping industry. These are clearly important issues, especially at a time when federal budgets are constrained and a new omnibus farm bill, which authorizes food aid programs, is being considered. But in the process of focusing on costs, the human impact of wasteful regulations can get lost in the shuffle.

The purpose of this paper is to harness recent government and university studies of the excess costs associated with aspects of current U.S. food aid regulations to provide estimates of the number of additional hungry people who could have been reached with life-saving assistance as a result of specific food aid policy reforms.

In 2010, the U.S. spent more than $2 billion on food aid, reaching roughly 65 million people in the process.[1] From these numbers alone, it's not difficult to see that even a small percentage reduction in unnecessary costs associated with procurement and delivery of food aid can have a significant impact on literally millions of people in need. The debate over food aid, therefore, even when centered on costs, has very large, real-world, human consequences. In the final analysis, reform is about ***both*** spending hardworking American's tax dollars more wisely and helping millions of real people whose lives are at risk.

This study focuses on two aspects of current U.S. food aid programs that have long been criticized for their inefficiency and waste: reliance on 'in-kind' food aid purchases and shipments from U.S. suppliers; and the sale or 'monetization' of U.S. food in developing country markets to finance development projects. Other urgent reforms that would net additional cost and life-saving benefits, including abolishing stringent shipping regulations, are not directly addressed in this paper.

The analysis in this paper utilizes federal data on food aid spending and program reach and two recent reports about unnecessary food aid program costs: 1) a January 2012 report by Cornell University agricultural economists measuring the time and cost differences between food purchased locally and regionally in the region of need (LRP) and the estimated cost of food aid shipments procured from the United States;[2] and 2) a June 2011 U.S. Government Accountability Office (GAO) report on the dollar losses associated with monetization.[3] From the cost-related findings of those reports, this study extrapolates the number of additional people that could have been reached in 2010 if a greater share of U.S. food aid would have been purchased through LRP, rather than from U.S. sources, and if losses associated with monetization had been captured and used to fund food aid projects.[4]

1 USAID and USDA. *U.S. International Food Assistance Report, 2010.* Published in 2011.
2 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.
3 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 Effects," *GAO-11-636*. June 2011.
4 Other costly food aid regulations, such as cargo preference requirements, could have been subjected to a similar analysis if recent cost data had been available.

Top-line findings of this study include the following:

- Targeted reform to U.S. food aid programs could have enabled life-saving aid to reach up to 17.1 million additional hungry people at no additional cost to taxpayers or about the same number of people reached by U.S. emergency food aid for 17 of the 18 countries African countries served for all of 2010.
- Current regulations and red-tape on U.S. Food Aid programs addressed in this paper cost taxpayers up to $491 million per year.
- For monetization alone, if losses associated with this practice had been eliminated, 2.4 million more hungry people could have benefitted from U.S. food aid in 2010.
- Conservative increases in the use of LRP by the U.S. to the global average, or 50% of food aid purchases, would have enabled U.S. food aid to reach 7.3 million more hungry people in 2010. If losses from the practice of monetization had also been eliminated, up to 9.8 million more hungry people could have been reached.

## Two Food Aid Regulations Ripe for Reform

1. FOOD AID SOURCING REQUIREMENTS

Current program requirements governing Farm Bill authorized food aid programs bar the U.S. government from procuring food aid anywhere but the United States, thus denying program administrators the opportunity to purchase commodities closest to the country or region of need and from the most cost-efficient sources. Advocates for reform have argued for a shift to a more flexible approach that recognizes the multiple benefits that can be achieved through LRP including cost savings and better linkages with local and regional food markets. While in-kind aid from U.S. sources is necessary in some circumstances, studies have shown that such a policy shift would reduce transportation costs, shorten the time it takes to get aid to recipients, provide familiar foods preferred by recipients without driving down local prices and help build local self-sufficiency reducing the need for aid in the future.[5]

2. MONETIZATION OF IN-KIND FOOD AID FOR USE IN FINANCING DEVELOPMENT PROJECTS

Recent analysis demonstrates that monetization of food purchased in the U.S. and shipped to and sold in developing countries to help finance development projects reduces the effectiveness and efficiency of food aid programs and can undercut developing country farmers.[6] The critical work that is currently funded through this circuitous, inefficient route could easily be served by providing nonprofit groups that administer food aid-supported development projects directly with cash for covering non-food expenses as opposed to monetizing food supplied from the U.S. Doing so would save tens of millions of dollars annually that are currently lost due to differences between the cost of purchasing and shipping food from the United States and proceeds generated through the sale of the food in developing countries.

## Improvements in Food Aid Purchasing Power That Would Result from Reforms

1. SUBSTITUTION OF LRP FOR IN-KIND AID

The 2012 study conducted by Cornell University cited above compared the costs of purchasing and shipping food aid from the United States with local and regional procurements carried out in nine projects that were supported through a pilot program mandated by the 2008 Farm Bill. The study found the following cost differentials when LRP was substituted for the purchase and shipment of U.S. produced commodities: a 54% cost reduction for cereals (e.g., wheat); a 24% cost reduction for pulses (e.g., peas and lentils); and an 8% cost increase for processed foods (e.g., vegetable oil).

5 See, for example, Lentz, et al., 2012.
6 See, for example, U.S.GAO, 2011.

To derive the average cost for all U.S. food aid commodities supplied in 2010, we weighted the cost impacts for each of the three food aid commodity types (e.g., cereals and other bulk items, pulses, and processed products) by the percentage of the total value of U.S. food aid commodity procurement in 2010 for each of those commodity types. The substitution of LRP for tied aid emergency and development food aid resulted in a weighted average cost reduction of 23%.[7] Looking at just the commodities purchased under the McGovern-Dole International Food for Education and Child Nutrition Program (McGovern-Dole), which is more heavily weighted toward processed foods, the weighted average cost saving was 13%.[8]

2. ELIMINATING LOSSES CAUSED BY MONETIZATION OF U.S. SUPPLIED FOOD

The 2011 GAO report estimated the unnecessary losses, in terms of unrecovered funds, that could be attributed to monetization. For the period between 2008 and 2010, the study found that those losses equaled just over 30% of the cost of purchasing and shipping the monetized food from U.S. suppliers. In 2010, according to the report, more than $300 million worth of development food aid commodities was monetized.[9] From these findings, we estimated that the monetization-related losses in food aid program purchasing power in 2010 equaled $91 million.

## Estimating the Number of Additional Hungry People That Could Have Been Reached

1. IMPORTANCE OF THE NUMBER OF PEOPLE REACHED BY FOOD AID

One of the primary goals of this paper is to put a human face on the cost-savings that could be obtained if basic, achievable reforms were made in targeted U.S. food aid policies. If the dollar impacts are not placed in the context of the humanitarian and food security goals of the food aid program, calls for reforms run the risk of falling on deaf ears.

In an ideal world, the public, policy makers and news media would be best-served if cost savings from LRP and monetization reforms could be translated into reliable estimates of the numbers of lives saved and cases of malnutrition prevented or reversed. Unfortunately, sufficient data does not exist on the complex relationship between food aid (and other factors) and these specific outcomes to enable researchers to readily make these conversions.

Data are available, however, from the U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) concerning the number of people that were reached by various U.S. food aid programs.[10] These data can be used to produce rough estimates of the impact on program reach that could be achieved through the reduction or elimination of unnecessary costs within the current food aid program. For this study, the number of recipients reported by USAID and USDA is used as an indicator of the reach of the programs. Before aid programs can have any impact on hunger, malnutrition, and mortality, food must reach targeted populations in need. Unfortunately, the unnecessary costs of procuring and shipping food aid far from the source of need inevitably mean fewer people will be reached and/or fewer dollars (and food) will be available per recipient.

2. BASIC METHODOLOGY FOR ESTIMATING THE NUMBER OF PEOPLE REACHED PER DOLLAR

The empirical analysis in this study is based largely on the concept that the additional number of people that would have been reached if reforms had been in place in 2010 can be obtained by multiplying:

7 A recent GAO study found that the costs of U.S. in-kind aid exceeded the costs of LRP by an average of 25% worldwide. See: U.S.GAO. "Local and Regional Procurement Provides Opportunities to Enhance U.S. Food Aid, But Challenges May Constrain Its Implementation," *GAO-09-570*. May, 2009.

8 FY 2010 food aid program spending by commodity type was computed from data on the web site of the Foreign Agriculture Service (FAS) of the U.S. Department of Agriculture (USDA). http://www.fas.usda.gov/excredits/foodaid/reports/reports.html

9 GAO, June 2011.

10 USAID and USDA, 2011.

A, the *number of people* that could have been reached *per dollar of food aid* if reforms had been in place, by B, the *additional number of dollars* that could have been available if more cost efficient practices were utilized.

To estimate A, the number of people that could have been reached per dollar of food aid if reforms had been in place , for each food aid program, we:

1. determined the amount of non-wasteful, non-administrative *actual spending* for each program by deducting administrative costs from total spending in and reducing the remaining spending by the percentage cost reduction that would have occurred had reform been in place (e.g., by 23% if in-kind emergency food aid were replaced by LRP);

2. This *actual spending* level was then divided by the *number of people reached* by each program as reported by USAID and USDA;[11]

To estimate B, the additional number of food aid dollars that could have been available if reforms were in place for each food aid program, we multiplied non-administrative spending by the percentage savings derived from the Cornell University study.

For LRP, these calculations were performed for three specific U.S. food aid programs that would have yielded cost savings if in-kind aid had been replaced by LRP: Title II emergency food aid; the non-monetized portion of development assistance program spending; and the McGovern Dole International School Feeding and Child Nutrition Program.

To determine the number of additional people that would have been reached in 2010 from the elimination of inefficient monetization processes and replacement of those resources with cash, we followed the same procedure this time using losses attributed to monetization in 2010, or $91 million, as the multiplier.[12]

## Alternative LRP Policy Scenarios

As shown in Table 1, if 100% of in-kind aid had been replaced by LRP and losses associated with monetization were reduced to zero in 2010, an additional 17.1 million people could have been served by U.S. food aid programs. This is a hypothetical upper limit to the humanitarian benefits of such reforms. The remainder of this section explores the limits of replacing in-kind aid with LRP, examines current food aid donor practices, and estimates the human impacts of reasonably aspirational reform scenarios that could substantially increase the reach of U.S. food aid.

LRP is practiced by most major food aid donor nations. In 2008, during a period of record high food prices, approximately 40 percent of all food aid donated globally was procured either locally or in the region where it was used.[13] In 2009, this figure rose to 50% percent.[14] Virtually all of the food aid from Western European nations and Canada is locally and regionally procured. For the U.S., on the other hand, in 2010, only about one-sixth of the sum of its emergency food aid, non-monetized development project aid and McGovern-Dole program spending was obtained through LRP practices.

There may be technical limits to the percentage of in-kind aid that could be converted quickly to LRP aid.[15] For food aid destined for nearby Latin America for example, the cost advantages of LRP are reduced dramatically as a result of relatively low shipping costs. Additionally, shipments heavy in processed products may actually have cost advantages over LRP. In some developing countries, adequate, reliable and/or high quality supplies of food may not be available to meet local food aid needs. Similarly, in low-supply situations, the stress placed on local markets by LRP food aid demand

11 USAID and USDA, 2011.
12 According to Figure 1 in the 2011 GAO study, about 40% of the value of food aid spending for those programs was monetized during the 2008-to-2010 period.
13 WFP Food Aid Information System (INTERFAIS). Retrieved from www.wfp.org/fais.
14 Barrett, Christopher et al. "Misconceptions about Food Assistance," *Cornell University Policy Brief*. June, 2011.
15 See, for example: U.S.GAO, June 2009. For an alternative perspective, see Barrett et al., June 2011.

could drive food price inflation, pushing the costs of food beyond the reach of consumers. Eliminating losses associated with monetization, on the other hand, could be implemented quickly and easily since it does not face significant technical constraints.

To account for these potential technical constraints, this study offers an analysis of the increase in food aid program purchasing power that would have occurred and the number of additional people who could have been reached if less than 100% of in-kind aid was replaced by LRP. The impacts of four LRP reform scenarios, in which LRP accounts for 100%, 50%, 40% and 33.3% of U.S. food aid purchases, are reported in Table 1. The 33.3% LRP scenario reflects an approximate doubling of the actual U.S. LRP commitment in 2010; the 40% option reflects global LRP levels in 2008; and 50% LRP use would roughly triple the 2010 U.S. commitment and bring it in line with the global average LRP use in 2009.[16] Eliminating losses associated with monetization, which faces mainly political as opposed to technical constraints, is also reported in that table.

Table 2 reports the impacts on the number of people that would have been reached by the U.S. food aid program in 2010 as a result of combining each of the LRP scenarios with the savings associated with reform of monetization.

**Table 1.** Impact of Food Aid Reforms on Program Purchasing Power and No. of People Reached, 2010

| Policy Reform Alternatives | Increase in Food Aid Program Purchasing Power Due to Reforms ($ millions) | Additional Number of Hungry People Reached Due to Reforms (millions) |
|---|---|---|
| 100% of Food Purchases by LRP | 400 | 14.6 |
| 50% of Food Purchases by LRP | 200 | 7.3 |
| 40% of Food Purchases by LRP | 160 | 5.8 |
| 33.3% of Food Purchases by LRP | 132 | 4.8 |
| Elimination Losses Associatead with Monetization | 91 | 2.5 |

## Findings and Conclusions

This study translated the dollar savings from reform of two inefficient U.S. food aid program practices – commodity procurement restrictions and monetization – into estimates of the numbers of additional hungry people who could have been reached if reforms of those regulations had been in place in 2010. The main conclusion of the study is that substituting LRP for in-kind aid and eliminating losses associated with inefficient monetization practices would pay enormous anti-hunger dividends for the intended beneficiaries of U.S. food aid programs, people suffering from hunger in developing countries. Moreover, such changes could promote better alignment between the U.S. food aid program and other U.S. government efforts to build the resilience and productivity of smallholder food producers.

16 Barrett et al., June 2011.

Specific findings of this study, embodied in Tables 1 and 2, include the following:

- Current regulations and red-tape on U.S. Food Aid programs addressed in this paper cost taxpayers (and reduce the purchasing power of food aid programs by) up to $491 million per year.
- Eliminating losses stemming from monetization faces mainly political obstacles. If inefficient monetization activities were replaced by cash payments, 2.5 million more hungry people could have been reached by U.S. food aid programs in 2010.
- The U.S lags far behind other food aid donor nations in the extent to which its food aid is sourced locally and in the region of need. The degree of U.S. reliance on LRP practices amounted to only about one-third the global average in 2009.
- If 100% of the excess costs associated with sourcing from U.S. suppliers had been eliminated by the increased use of LRP, 14.6 million more hungry people could have been reached by U.S. food aid than were actually reached in 2010. If losses due to monetization were also captured and redirected into food aid programs, the number increases to 17.1million people, or slightly more than the combined population of Iowa, Oklahoma and Michigan.
- Although technical constraints likely limit the extent to which U.S. in-kind aid can be converted to LRP, there is a great deal of room for improvement that would enable U.S. government agencies administering food aid to have the flexibility needed to maximize efficiency.
- Reasonable increases in the use of LRP to between 33.3% and 50% of U.S. food aid purchases would have enabled U.S. food aid to reach between 4.8 million and 7.3 million more hungry people in 2010.
- If reforms to monetization eliminated inefficiencies with that process, and those savings were combined with moderate increases in LRP usage, between 7.3 million and 9.8 million more hungry people could have been reached.

**Table 2.** Impact of *Combined* Food Aid Reforms on Purchasing Power and No. of People Reached, 2010

| Policy Reform Alternatives | Increase in Food Aid Program Purchasing Power Due to Reforms ($ millions) | Additional Number of Hungry People Reached Due to Reforms (millions) |
|---|---|---|
| 100% LRP + losses associated with Monetization | 491 | 17.1 |
| 50% LRP + losses associated with Monetization | 291 | 9.8 |
| 40% LRP + losses associated with Monetization | 251 | 8.3 |
| 33.3% LRP + losses associated with Monetization | 223 | 7.3 |