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**House Committee on Foreign Affairs**

**Hearing on June 12, 2013 at 10:00 am**

**“Modernizing U.S. International Food Aid Programs:**

**Reaching More for Less”**

Mr. Chairman and members of this committee, I appreciate the opportunity to speak today regarding U.S. food aid program reforms now under consideration by the Congress. My comments today are my own; I am not representing my school or university which has not taken a position on the reforms before the committee. The Royce-Bass bill you, Mr. Chairman with Congresswoman Bass, have proposed is badly needed, but it is not the first time these reforms have been before the Congress. President Bush proposed similar reforms in several of his budgets which allowed USAID to procure up to 25% of total U.S. food aid locally, in the country or the region the aid is to be distributed. President Bush pressed Congress to approve this legislation in his final State of the Union address and in a speech before the UN General Assembly. Thus, this is not a partisan issue, given that two American Presidents of opposing parties have proposed similar reforms. It is difficult to imagine any legislator who objectively examines the evidence on the merits in either party could oppose such a measure: it is a reform that encourages free market principles, improves government efficiency, saving lives, and lower costs while still providing expanding services to those in need. Opposition to the reforms comes from special interests. I would like today to speak to the merits of the reforms themselves.

I have been involved in food aid policy and programs for more than two decades, as a senior manager at USAID for nine years and as Vice President of World Vision which is a recipient of food aid grants from USAID. Now as a professor at the George H.W. Bush School of Government at Texas A and M University I teach courses and write about famines, war, and humanitarian assistance, including food aid policy and programs. During these years of aid work I personally witnessed the great strengths and weaknesses of our food aid program. In fast onset famines such as Somalia in 1991-1992 and wars involving mass population displacement such as in Darfur in 2003 and 2004 I watched people die waiting for food aid to arrive. The system needs reform.

The Food for Peace program has saved millions of lives around the world for more than a half century and has been perhaps the most powerful and visible symbol of American generosity to those in need. The question before the Committee and the Congress is not whether the

program has been successful in saving lives, but whether it can be improved to make it more effective, more efficient, faster, so that more lives can be saved?

The current law has changed relatively little since it was first passed in 1954. At the time, the U.S. government held enormous agricultural surpluses, and the PL 480 seemed an excellent way of managing that surplus and sharing it with the world. With the Food for Peace Act of 1966, the current system was created, where Food for Peace began to acquire surplus food for the express purpose of humanitarian aid (Barrett 2005, 38). Since 2003, the Food for Peace program has spent 49%<sup>1</sup> of its budget on transportation and handling costs and only 40% on actual commodities (USAID 2013). In other words, in the last ten years, the US government, through the Food for Peace program, has spent more on transporting, storing, and distributing the food to other regions of the world than on the food itself. This has not been a result of decisions made by USAID, but by an act of Congress through the Farm Bill with a periodic reauthorization of PL 480. The restrictions on USAID and the special interest protections enshrined in the law have hampered food aid programming since its inception. The world has changed since the initial legislation was passed, but the mechanics of the law have not kept up with the changes. While the bulk of the food went to Asia and the Sub-Continent fifty years ago and was used in stable countries in long term development programs, today 82% of it goes to sub-Saharan Africa in recent years and 78% is used to fight hunger in disaster relief operations and in famines during civil wars often in failed states. While the original program was provided government to government, nearly all of it now is programmed through the non-governmental organizations, the Red Cross movement, and the UN's World Food Program. The original program disposed of surplus U.S. grain owned by the federal government, today U.S. food aid is bought on private U.S. agricultural markets.

The process to procure US food aid and to ship it abroad is a long, complex, and expensive one. It begins with the USDA's Farm Service Agency (FSA), who extends invitations for bids to prospective sellers, usually only a handful of the largest agribusinesses in the US. This limited number of qualified bidders usually results in the FSA paying more than market price for the commodities; an issue pointed out by the General Accounting Office nearly 25 years ago, and largely ignored (Barrett 90, 2005). These goods are then shipped thousands of miles to their destination. Because of the Cargo Preference Act of 1954, 55% of food aid must be shipped on US flag-carriers, of which there are only currently 13 (US Department of Transportation, 2013) qualified firms. This greatly increases the costs of shipping these commodities by limiting the number of companies able to bid on the shipping contracts. Professor Chris Barrett has estimated that shipments on US flagged carriers cost 80% more than identical shipments on foreign-flag carriers (Barrett 97, 2005). In addition, prices are driven up even further by a requirement that much of the nonemergency tonnage be fortified, bagged, or processed, increasing the handling of the commodities and, therefore, the amount that can be charged by the shipping companies. No other industry benefits more from current US food aid

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<sup>1</sup> Ocean Freight: 17.65%, Inland Freight: 7.46%, Internal Transport Storage and Handling: 24.38%

policy than the U.S.-flagged shipping industry, which is probably why they are the strongest opponents to reform (Barrett 93, 2005).

Once the food has been received, usually by the World Food Program (WFP) or NGOs, one of two things occur. Either the food is distributed to feed the hungry or in the case of NGOs, it is sold in the local markets for local currency that is used by the NGOs for other development projects (Murphy 2005). This monetization of food aid—selling food on local markets—has been one of the core disputes within the current food aid system and has been criticized over the years by NGOs, development professionals, and the international community. The current food aid system has not only allowed, but has even encouraged, the practice of monetization, which has created a funding system that is heavily dependent on it. Monetization is often seen as a source of revenue for the NGOs to fund their projects, but this indirect form of payment is a very inefficient and brings along an array of logistical and agriculture problems. For one, NGOs often sell the food aid at less than market prices, which rarely, if ever, make up for the original costs of procurement and shipping. (It would be much more efficient to simply provide cash grants to the NGOs to run their programs which President Obama's legislation would do). In addition, this influx of food aid at low prices into local markets often undermines local farmers making it difficult for them to compete (Timmer 289, 1983).

While monetization to raise money to run development programs does not make sense as a policy or program matter, there is one instance where it can be an important tool in fighting famines. One of the major factors leading to widespread deaths in famines is the sharp rise in food prices in local markets over short periods of time usually after a major crop failure. These dramatic price increases mean only the wealthy can afford to buy food to survive the crisis. In Somalia in 1991, for example, the price of grain increased between 700-1200% in less than a one year period, this was the immediate cause of the Somali famine which killed 250,000 people. USAID has intervened in markets by auctioning food aid locally to reduce prices to a more normal level, so that more people can afford to buy food in the markets. Any food aid reforms should not preclude market interventions to stabilize food prices during famines. Where a drought covers a large geographic area in which most crops have failed local purchase might not be wise, as it would drive up food prices in this case food should be imported far from the crisis. The decision on when to purchase locally versus sourcing food in the US should be made in USAID by Food for Peace officers, not by law or by interest group pressure in the US.

That the reforms before the Congress would be an improvement on the efficiency and costs of the current food aid program, there can be no doubt. The General Accounting Office has issued two separate reports in the last several years that have looked at US food aid, and both reports have come to similar conclusions. In 2009, the GAO presented a study that looked at local and regional procurement, or LRP, the practice where food is bought locally rather than purchased in the US and then shipped. In that study, they suggested that LRP would be more cost effective and greatly shorten delivery times (GAO 16, 2009). In the same study, they pointed out that the World Food Program pays less for their food aid 95% of the time in sub-

Saharan Africa and 96% of the time in Asia than the US does for in-kind food aid (GAO 3, 2009). In their 2011 study, they confirmed many of the conclusions they drew in the 2009 study. They discovered the monetization of food aid rarely, if ever, recovered the money spent to procure the aid through this process. This resulted in \$219 million over a three year period that could have been used on other development projects that was simply wasted (GAO 20, 2011). They point out that ocean transport alone has in the past resulted in up to a third of the costs to procure and ship commodities for monetization (GAO 2011). Because of a shift in the kind of food being procured that percentage has dropped to 18% on average over the last decade. Other government organizations have come up with similar conclusions. In 2012, the US Department of Agriculture, a department whose purpose is to encourage the purchase of American agricultural goods, ran a local and regional purchase pilot program commissioned by the US Congress, the conclusion of which condemned the current system. In the pilot program, the USDA found that, for nearly every type of commodity, the costs of procuring in the US and transporting the commodity was higher than purchasing the commodity locally.

The lower costs and greater efficiency are not the only benefits of the reforms; they will also allow our food aid to reach more people at the same cost. USAID estimates that as many as four million more people could receive food aid after the enactment of these reforms and without having to appropriate any additional money (Nixon 2013). In a well-researched and thoughtful brief on the issue, Kim Elliott and William McKitterick at the Center for Global Development put the figure of additional aid recipients even higher than USAID did: they estimate as many as ten million more people can be reached if the reforms are enacted.

Costs are, however, not the only problem with the current system. Response time is also a major concern. In the same pilot program, the USDA found that the total time for local purchases for emergency situations averaged 56 days, while the current system of purchasing the food from the US and shipping it to emergency location took 130 days, for a difference of 74 days (USDA 2012). That is 74 days, in an emergency situation, where men, women and children who are in desperate need of food aid, are not getting the food that they need to survive. In the 2009 study, the GAO found that the difference in delivery time for local and regional procurement and US in-kind food aid in sub-Saharan Africa and Asia was more than 100 days (GAO 3, 2009). Shipments from the US to ports on the other side of the world are subject to risks: the food aid warehouses in Texas were nearly destroyed during Hurricane Katrina, pirates off the coast of Somalia captured a food aid ship, and one shipment of food aid to North Korea sank in a storm. The current system is dependent on a long and complex logistics chain that was described by Nobel Prize winner Amartya Sen as an impediment to the efficacy of food aid as a tool to fight famines (Dreze and Sen 85, 1989).

Unfortunately, the time and dollars lost under the current system are not its only problems. There are longer term issues that we must consider as well. A great deal of research has been done to show the negative long term effects of injecting large amounts of free or inexpensive food aid into local markets under non-crisis circumstances. When I was

Administrator of USAID, we launched several programs to try and cut down on opium production in Afghanistan by creating alternate sources of livelihoods for farmers. Famine conditions were beginning to appear in several parts of the country in the summer of 2001, and we instituted an improved wheat seed program to encourage wheat production even before the alternate livelihoods program began.

However, things did not go as planned. An unexpectedly good rainy season occurred combined with the higher yielding wheat resulted in local farmers producing far more wheat than expected. Wheat prices dropped dramatically. Food aid continued pouring in, which depressed prices (Gullet 2003)—refugees and internally displaced persons when they get their food ration often sell part of the food to buy other commodities such as vegetables not provided by aid programs. Because of the low prices, harvesting wheat became more expensive than what they would earn on the markets, and so in some areas farmers did not harvest the wheat which ended up rotting in the fields. Not surprisingly, many Afghan farmers, despite Islamic teachings against the use or production of drugs, returned to poppy farming for opium production. If we had purchased this food locally and bought up the surplus rather than imported more US food aid, we could have ensured that the local Afghan farmers would have earned enough money to make sure the continued production of wheat was economically viable. Many have wondered why Afghanistan is still the world's largest producer of heroin despite all of our efforts to eradicate poppy production. Indirectly food aid played a role in the limited effectiveness of the eradication program. This is not to say the US food aid directly caused poppy production to increase, but locally sourced food aid could have been used to discourage opium production by making wheat farming more attractive as an alternate source of income. We could not do that because the existing law would not allow it.

In many cases, countries who have been hit by natural disaster have specifically asked us not to send them food, and yet we ignored them. After the 2004 tsunami hit Aceh, Indonesia, the Indonesian foreign minister asked the world to not send rice, because there was plenty of food in Indonesia we could have bought locally. But we did not have the flexibility our food aid program to do that. After the Haiti earthquake in 2010, the president of Haiti asked the world to not send food out of concern it would hurt local rice production. We did anyway, and local rice farmers were almost completely ruined (Rosenberg 2013).

We have considerable evidence that purchasing food locally provides additional support to local farmers and help to boost the local economy. In one particular article looking at the WFPs local purchase program in Uganda, the author found numerous favorable secondary effects of purchasing the food locally, including improved farmer knowledge of local markets, improved reliability of the markets, a lack of a middle man leading to higher prices for the farmers, and improved housing and cash income (Ferguson 2011).

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4 million more people could receive food aid after the enactment of these reforms and without having to appropriate any additional money (Nixon 2013).

With such strong evidence pointing out the negatives of the current food aid system, why is there any opposition to these reforms? The answer is simple and lies within special interest groups. The main opposition consists of what has been described as “the iron triangle”: domestic producers, maritime shipping, and a diminishing number of NGOs, most of which have now endorsed the food aid reforms. NGOs have historically been opposed to such reforms because of the monetization option that funds their development programs. NGOs see food aid as the only resource that would be made available, and so have supported the existing system where they must sell their food aid in order to access local currency they need for their various programs (Barrett 88, 2005). Increasingly, however, more and more NGOs have been refusing to participate in the monetization system because they realize the negative effects it has been having on local agriculture. CARE, one of the largest of NGOs involved in food aid, decided to stop taking food from the government to sell in 2007, and, in the process, lost \$47 million a year from their budget. They were willing to lose the money, however, because they realized that purchasing the food locally allowed them to reach more people (Nixon 2013). As early as 2005 Oxfam, another leading NGO, criticized the current system (Oxfam 16, 2005) and strongly supports the reforms.

With the number of NGOs opposing these reforms quickly diminishing, the only opposition that remains is agribusiness, labor unions, agricultural processing plants, and maritime interests. Food aid is, first and foremost, an emergency response tool, not a subsidy for domestic economic interests. I have already discussed the inefficient bidding process that is used for the procurement and shipping of these goods, which results in the US paying higher than market prices both for the commodities and for the transportation of these commodities resulting in the US government paying roughly 11 percent more than market prices (Barrett 92, 2005). It may be in these companies best interest to support the existing system policies, but it is not in the best interest of American food aid, the American taxpayer, or, most importantly, the millions who rely on food aid to help them survive humanitarian crises. In fact, with food aid only accounting for 0.86% of US agricultural exports, and 0.56% of net farm income, the impact these reforms would have on the US agricultural industries would be negligible (Plumer 2013).

One cautionary note with regard to all of these proposed reforms. Under Secretary Clinton’s reorganization of the State Dept. budgeting functions in 2009, the Administrator of USAID no longer has control over the spending of the Agency (prior to Secretary Clinton the Administrator of USAID was dual-hatted as Deputy Secretary of State for Foreign Assistance and controlled both USAID and State Department spending—the two positions have now been separated) which is entirely controlled with the State Department. Our humanitarian assistance programs in emergencies, including food aid, could be directed to short term geostrategic purposes if the Food for Peace budget line item is abolished and funding centralized in the International Disaster Assistance Account. I urge the Congress to protect the food aid budget should these reforms go

through by requiring by statute that funds be used for disaster relief and humanitarian feeding programs only.

There should be no question of the importance of these reforms. President Bush pushed strongly for them during my tenure in USAID because the evidence showed that they were greatly needed. President Obama is doing the same now because he does as well. Since that time, more and more evidence has shown that purchasing food aid locally is faster, more cost-efficient, and can have greater beneficial effects on local economies in desperate need of an economic boost after a humanitarian crisis. Two GAO reports, a USDA pilot program, several NGOs, and numerous academic articles have all shown that these reforms are greatly needed. I strongly urge the committee to approve the Royce-Bass Bill for the good of the American taxpayers and the people most desperately in need of aid. The legislation increases the flexibility of the current system for aid program officers, but would allow US purchases of food aid when they are the most appropriate response (in a widespread regional famine buying food locally might increase food prices and so importing large amounts of food aid from the US might be the most appropriate response). Their thoughtful legislation directly deals with many of the major issues facing the current US food aid system. Making US procurement of food aid optional, eliminating monetization (except during famines as a market intervention), and exempting of Title II of PL 480 from cargo preference would allow the Food For Peace program the flexibility and cost savings to improve their efficiency and save more lives.

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