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THE STORY UNDERNEATH

Tuesday, April 08, 2008 02:01 GMT

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DEVELOPMENT:**A Winding Journey From Seed to Plate**

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WASHINGTON, Mar 28 (IPS) - Ballooning food prices around the world are prompting a reevaluation of the underpinnings of aid practices that many analysts consider to be inefficient and, in some cases, counterproductive.

And while many hope rising prices will force changes in the way food aid is administered, it also appears this could further entrench current practices.

At least two key food aid providers, the World Food Programme (WFP) of the United Nations and the United States Agency for International Development (USAID), warn their current budgets can't keep up with rising costs. The WFP says it is short more than 500 million dollars and has issued an emergency appeal to donors, noting that the cost of its food purchases has risen 55 percent since June 2007.

The problem relates to two factors, says Sophia Murphy, a senior advisor at the Institute for Agriculture and Trade Policy. The first is "less surplus, so less in-kind food to ship." Countries like the United States are less able to donate domestically grown products because of tightening supply related to increasing demand for grains in Asia and expanding biofuel production in the West.

High demand and low stockpiles have led to increased prices, which in turn has reduced the amount of food that aid organisations can afford to purchase. Murphy says this second factor has been particularly problematic for those buying food with U.S. dollars, which has seen its value steadily decline. "Hence the crisis for the WFP -- they get about 50 percent of their resources from the U.S., and that money is not buying enough food," she told IPS.

Food experts also point out the difficulties posed by current inflationary pressures are only one part of food aid woes -- but one that exposes deeper problems with the way this aid is administered.

Food aid is split between two kinds of sources: cash payments and in-kind food transfers. This second type is used almost exclusively by the United States.

Most donor governments prefer cash payments, which are used to purchase food directly in recipient countries or the surrounding region. This has several benefits. For the donor country it is the least expensive option because it reduces logistical and transportation costs associated with sending food that is grown domestically. And for recipient nations, the food arrives more quickly and is a boon to local production because it is purchased either within the country itself or nearby.

The other half of food aid comes from in-kind shipments, nearly all of which originate in the United States. This type of aid is seen as problematic for several reasons. The first is the cost to the donor country, which must pay more because of long distance transportation and lengthier logistical coordination.

Farmers in recipient nations are also disadvantaged because this type of food aid is often sold at prices below the prevailing rate, thus creating a disincentive for local production and making some countries more reliant on trade distorting imports.

In the current bout of food inflation, both of these types of food aid have struggled to keep up with demand because both rely on purchasing food, whether at home or abroad. But whereas the first encourages local production, Christopher Barrett, of Cornell University, and Daniel Maxwell, of Tufts University, warn in a policy brief that the second can "undermine agricultural production, market development and international trade, thus impeding economic development."

Set up in the mid-1950s, U.S. food aid was initially seen as a way to get rid of excess agricultural supply and maintain the nation's merchant marine force. Food was donated directly by the U.S. government to foreign governments. During the Cold War this was also seen as a strategy for garnering favour in developing nations.

Today, however, little U.S. food aid is given directly to foreign governments. Instead the U.S. purchases food from large domestic agricultural businesses at rates above the market price and then donates them free of charge to various NGOs. These organisations then sell the food, often at rates below the market price, in recipient countries in a process called monetisation. The money NGOs accumulate from this process is then used to finance the organisation's activities.

Most experts agree this is an inefficient and short-sighted strategy. According to calculations by Barrett and Maxwell, this practice means that U.S. taxpayers pay two dollars for every one dollar of aid that actually ends up in recipient countries. The other dollar is lost in the gap between what the government pays and the amount NGOs receive, transportation costs, and administration.

Research by the U.S. Government Accountability Office (GAO) offers a slightly worse estimate. It finds that nearly two-thirds of the cost of in-kind food transfers is eaten up in transportation, handling, and administration costs before it reaches consumers.

Who benefits the most from this type of aid? According to a 2005 report by Murphy, it boils down to three U.S. interest groups, sometimes called the "iron triangle": agricultural businesses, shipping companies, and the NGOs that rely on monetisation to finance their relief efforts.

Federal law requires that 75 percent of food aid be shipped on U.S. carriers, and with all of this aid guaranteed to be in the form of in-kind transfers, domestic agribusiness and shipping companies are almost always supportive.

Food aid comprises a very small portion of U.S. agriculture sales, but it makes up approximately 65 percent of global food aid. Even though it is one of just a few countries to practice in-kind transfers, this can have a dramatic impact. For example, according to the GAO, in-kind food transfers from the U.S. make up "about 43 percent of WFP's total contributions." So even though the WFP prefers to use cash payments, nearly half of its donations are in-kind because it relies on U.S. contributions.

Experts had hoped U.S. policy would have changed in the last several years. In August 2007, a leading aid group, CARE International, broke ranks and declared that it was turning down 46 million dollars in food subsidies from the U.S. government to protest the monetisation arrangement.

Maxwell said he also saw positive signs in last year's farm bill debate. President George W. Bush, for example, had proposed making 25 percent of food aid available in the form of cash payments (currently all U.S. aid is in-kind). However, under continued lobby pressure by the "iron triangle", Congress decided not to include the proposal in the final version of the bill.

If no official policy changes take place, rising prices will mean that less U.S. farm product finds its way abroad in the form of food aid. For some this is a blessing. Less subsidised U.S. food in foreign markets, coupled with higher prices, creates an incentive for local production. In the medium and long term, this boosts agricultural output, but in the short run food aid organisations are finding that their cash doesn't go as far as it once did.

And whereas farmers will find more of an incentive to produce, consumers may not benefit immediately from this increased output if it costs more than they can afford. As investment in agriculture increases, however, it should spur job growth in the sector and increase accompanying wages.

Forecasts suggest food inflation is likely to continue in the foreseeable future as a result of an increasing population, changing consumption patterns in Asia, biofuel production, weather disruptions, and low grain stocks. On top of this, Maxwell points out that since the world is currently in a la Niña weather cycle, food harvests are particularly vulnerable to weather conditions this year.

"In the end," Murphy argues, "food aid is necessary but a very insufficient tool. Our energy has to go into building resilient, productive and just food systems that limit food aid's role to emergencies, and that build those food systems to ensure local and regional emergency coverage, not dependence on the U.S. Congress."

(END/2008)