



White Paper on Food Aid Policy CARE USA

CARE International Vision:

We seek a world of hope, tolerance and social justice, where poverty has been overcome and people live in dignity and security. CARE International will be a global force and a partner of choice within a worldwide movement dedicated to ending poverty. We will be known everywhere for our unshakeable commitment to the dignity of people.

June 6, 2006

Introduction

Food aid has indisputably assisted and, in many cases, saved the lives of millions of people in the half-century or so that it has existed in its current form. CARE has long been associated with food distribution programs and can be justifiably proud of some of the accomplishments achieved through food aid programming in assisting poor, vulnerable, and crisis-affected people throughout the world. CARE believes that, if it is well managed, food aid continues to be an important component of a global strategy to reduce vulnerability and food insecurity. At the same time however, it is clear that many of the practices of procurement, distribution and management of food aid—as well as the politics of allocating resources for food aid—are not always compatible with the CARE International Vision and Mission Statement, adopted by the organization in 2001.

CARE has sought to develop an understanding of the challenges and trends associated with food aid; to identify key policy options and their potential risks and implications; and to outline strategic directions that will position CARE to use food resources even more effectively. This paper briefly summarizes our analyses, options and directions.

Rationale for CARE's Food Policy Review

Recent analysis has shown that under some circumstances food aid can harm local production and markets, undermining long-term food security. Studies have also shown that food aid is often not the most efficient use of resources for alleviating poverty.

Food aid has recently become the focus of important policy debates in the US and abroad:

- Many features of the current system of food aid management have been challenged in the current round of trade negotiations at the World Trade Organization (WTO).
- In Washington, budget constraints in a time of increased demand for emergency food aid have resulted in inadequate funding, particularly for non-emergency food aid.
- The authorizing legislation for US food aid—the Farm Bill—is soon to be renegotiated in Washington. The legislative process will provide another arena for debate about food aid.

These factors have important implications for how CARE approaches humanitarian response and other programs using food resources.

In short, the rules of the game are changing with regard to food aid. CARE's Food Policy Review is part of its effort to actively engage in the food policy debate in order to encourage the evolution of food aid management towards being a more flexible and appropriate resource, while also being aware of the possible consequences of changes in food aid on our policies, programming, and budgets.

Principles for Food Aid Management

CARE adheres to its own six Programming Principles in all of its operations¹, but specifically two principles guide our use of food resources:

1. When it uses food aid, CARE’s central focus is on helping poor and vulnerable people overcome food insecurity and vulnerability. Our objectives are to save lives, protect livelihoods, reduce vulnerability, and address underlying causes of poverty—while monitoring for and minimizing any potential harm from using the resource.
2. CARE is committed to maximizing efficiency and impact, and minimizing unintended harmful consequences. CARE will use food aid only when and where it is appropriate. In CARE’s view, appropriate roles for food aid include emergency response programs, safety net (asset protecting) programs, and a more limited role in asset building programs. CARE takes responsibility for managing food aid appropriately and will:
 - Improve its understanding of local markets and patterns of vulnerability, so that it can make appropriate food aid management decisions.
 - Target the right kind of assistance to the right people at the right time and in the right place.
 - Ensure that when food is used, appropriate non-food complimentary requirements are also met.
 - Ensure the flexibility to choose between food and other resources depending on local conditions. CARE will actively advocate for this flexibility with donor nations.
 - Follow appropriate, internationally-accepted guidelines and codes of conduct, including the SPHERE Guidelines and the NGO Code of Conduct on Food Aid and Food Security.

Specific Policy Decisions

In its food aid review, CARE USA has focused on four major policy areas that affect the overall effectiveness of the food aid system and have potential implications for CARE programs. These are: local and regional purchases of food; monetization; US Department of Agriculture (USDA) programs; and international trade, agricultural subsidies and food aid. After careful analysis, the following decisions have been made:

1. Local/Regional Purchase

CARE supports making funding available to purchase food locally or regionally in developing countries. The two main justifications for local and regional purchases of food supplies are (i) to reduce costs, delays and market distortions brought about by “tying” food aid to domestic procurement programs in the donor country and (ii) to increase procurement flexibility while providing economic opportunities for small farmers in countries where purchases are made.

CARE recognizes that local purchase is a complex undertaking. A greater understanding of local markets and potential risks and unintended consequences is necessary before engaging

¹ CARE’s Programming Principles are: Promote empowerment; Work with partners; Ensure accountability and promote responsibility; Address discrimination; Promote non-violent resolution of conflicts; and Seek sustainable results.

in local purchase on a significant scale. CARE will support efforts to increase the provisions for local purchase in donors' budgets. Some donors (especially the European Commission and Canada) have already moved towards more local/regional procurement.

Our reasoning:

1. Currently, most food aid (including virtually all US food aid) must be sourced from the donor country (i.e. in WTO language, it is “tied aid”). This means that:
 - Food aid deliveries can be slow and expensive. The average time for delivery of Title II emergency food aid from call forward to arrival in-country is five months.
 - Food aid is nominally tied to the export and surplus disposal objectives of the exporting country.
 - Imported food aid can cause commercial displacement, causing harm to traders and local farmers.
 - The cost of tied food aid has been shown to be significantly higher—in many cases 30-50% higher—than alternative, non-tied sources of food aid.²
2. The local purchase option will increase procurement flexibility. In countries (or regions) where food supplies are adequate and where markets function properly, shifting from imported food aid to local purchase has the potential to significantly reduce delays and delivery costs. It can also provide important economic opportunities for small farmers in countries where food purchases are made. However, certain caveats need to be taken into consideration:
 - Most humanitarian organizations have only recently begun to experiment with local purchase. Experiences to date are still being assessed, and no broad consensus has yet emerged about when to resort to local/regional purchase and how to best manage it.
 - It is clear that local purchase is a complex undertaking. It brings significant operational challenges and risks, as does the use of imported food aid.
 - The appropriateness of local purchase will depend on various factors, including highly variable local market conditions.
 - If not managed properly, local purchase can cause harm. Of particular concern is the possibility that local purchase, in places where markets do not function effectively, will trigger price spikes for basic food stuffs. Surging prices can be very harmful to poor people who must purchase food in order to meet their basic needs. New analytical procedures are required to predict and monitor the impact of local and regional purchases

2. Monetization.

By September 30, 2009, CARE will transition out of monetization -- that is, the sale of food aid to generate cash for humanitarian programs. The only exceptions will be where it can be clearly demonstrated that monetization can be used to address the underlying causes of chronic food insecurity and vulnerabilities with reasonable management costs and without causing harm to markets or local production. CARE will use monetization only when it is sure that the food which is monetized reaches vulnerable populations and has effective targeting of poor people with limited purchasing power. This will result in minimum or no displacement of domestic production.

² OECD (2005) “The Development Effectiveness of Food Aid: Does Tying Matter?” Paris: OECD.

CARE will advocate the adoption of a principled approach by the US Government and Private Voluntary Organizations (PVOs) that addresses the potential harm to markets and local production as well as the high management costs associated with monetization.

Our reasoning:

For many years, monetization has been a useful source of funding for programming to protect and enhance the livelihoods of poor people. However, there are three major problems with monetization:

1. Experience has shown that monetization requires intensive management and is fraught with risks. Procurement, shipping, commodity management, and commercial transactions are management intensive and costly. Experience has shown that these transactions are also fraught with legal and financial risks.
2. Monetization is economically inefficient. Purchasing food in the US, shipping it overseas, and then selling it to generate funds for food security programs is far less cost-effective than the logical alternative – simply providing cash to fund food security programs.
3. When monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitably causes commercial displacement. It can therefore be harmful to traders and local farmers, and can undermine the development of local markets, which is detrimental to longer-term food security objectives.

3. US Department of Agriculture (USDA Programs)

Most of the food resources programmed by CARE come from the PL 480 Title II (USAID/ Office of Food for Peace). Occasionally, CARE has utilized other resources, managed by the USDA, including food resources from Title 1 and Section 416b, whose stated objective is to support US farmers, and Food for Progress, whose stated purpose is to promote free enterprise and competition in agricultural economies.

CARE takes the position that food aid should not be used to enable a donor to establish an unfair commercial advantage and must not create disincentives to local production and markets. CARE believes two USDA programs, Title I (concessional sales) and Section 416 (b) (surplus disposal) are inconsistent with its position and therefore will phase out of participation in these programs. Regarding a third program, Food for Progress, CARE's stance is more complex. In many contexts, the goal of Food for Progress Programs is compatible with CARE's focus on addressing the underlying causes of poverty. However, in recent years past, some of the food aid provided under Food for Progress has come from Title I or Section 416(b), and much of it has been monetized. CARE will not accept Food for Progress Resources that originate from those resources; nor will CARE monetize from this (or any other) program.

In practice, these policies are likely to mean that CARE will receive little support from Food for Progress.

Our reasoning:

1. The USDA food programs under Title 1 and Section 416b: Title 1 programs involve concessional (subsidized) sales of food for the stated purpose of promoting export market development for US goods. Section 416b programs involve disposal of surplus production.
 - Evidence shows that these programs actually have no measurable effect either as strategies to promote the development of export markets or as price support mechanisms.
 - However, tying food aid to domestic agricultural priorities makes it difficult to maximize the cost-effectiveness and minimize the unintended harmful consequences of food aid.

2. Food for Progress: While the goal of this is broadly compatible with CARE's focus on the underlying causes of poverty:
 - Some of the resources programmed under Food for Progress come from Title 1 and Section 416b.
 - Much of the food aid programmed under Food for Progress is monetized.

4. International Trade, Agricultural Subsidies and Food Aid

Generally, CARE supports free and fair trade as far as it does not increase food insecurity and vulnerability of poor and marginalized populations. By focusing on the impact of that trade liberalization, CARE believes that it can make an important contribution in this area to the trade debate. Of particular interest is the possibility that the proposed reduction of agricultural subsidies and trade barriers may be linked to reform of the food aid system, a development that could lead to the elimination of safety nets at a time of rising commodity prices, thus causing the erosion of poor people's purchasing power and access to food.

Our reasoning:

Current debates about food aid are, to some degree, linked to a much larger discussion about international trade and agricultural subsidies. In the Doha Round negotiations of the WTO, European negotiators have demanded stringent restrictions against tied food aid, in-kind food aid, and non-emergency food aid (including monetization) in exchange for substantial reductions in European agricultural subsidies. In short, achieving dramatic reductions in agricultural subsidies may in the end be offset by dramatic changes in the way food aid is currently organized and managed.

The potential impacts of these policy changes are complex. A significant reduction of agricultural subsidies in developed nations is expected to cause international agricultural commodity prices to rise. Broadly speaking, this trend will lead to uneven development, producing economic opportunities for some and harmful consequences for others. The rise of commodity prices is expected to create economic opportunities for households, firms and countries that produce and sell agricultural commodities. At the same time, households and countries that must purchase food in order to meet basic needs will have to cope with rising commodity prices. This can be expected to erode purchasing power and deepen patterns of poverty amongst the urban poor. In rural areas, the impact will be mixed. Rising commodity prices can be expected to provide benefits for small farmers and traders. However, many poor households whose food production is insufficient to meet basic needs may find that a higher percentage their income must go for food purchases.

Some have argued that reforming the food aid system in exchange for the reduction of agricultural subsidies is a good deal for poor farmers. Others have pointed out that eliminating subsidies will cause hardship for poor people who purchase food, and that linking the reform of the food aid system to economic liberalization would have the effect of eliminating safety nets precisely at the moment when they are most needed.