

# CRS Report for Congress

## Rising Food Prices and Global Food Needs: The U.S. Response

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# Rising Food Prices and Global Food Needs: The U.S. Response

## Summary

Rising food prices are having impacts across the world, but especially among poor people in low-income developing countries. Since 2000, a year of low food prices, wheat prices in international markets have more than tripled, corn prices have doubled, and rice prices rose to unprecedented levels in March 2008. Such increases in food prices have raised concerns about the ability of poor people to meet their food and nutrition needs and in a number of countries have led to civil unrest. More than 33 countries, most of which are in Sub-Saharan Africa are particularly affected by food price increases. The World Bank has estimated that more than 100 million people are being pushed into poverty as a result of food-price escalation.

A number of interrelated factors have been identified as causes of the rising food prices. Droughts in Australia and Eastern Europe and poor weather in Canada, Western Europe and Ukraine in 2007 have reduced available supplies. Reduced stocks have prompted many countries to restrict exports. Rising oil and energy prices have affected all levels of the food production and marketing chain from fertilizer costs to harvesting, transporting and processing food. Higher incomes in emerging markets like China and India have resulted in strong demand for food commodities, meat and processed foods and higher prices in world markets. Increased demand for biofuels has reduced the availability of agricultural products for food or feed use. Export restrictions in many countries have exacerbated the short supply situation.

One immediate consequence of the rise in global food prices is the emergence of a shortfall in funding for international food aid. The World Food Program has launched an urgent appeal for \$755 million to address a funding gap brought on by high food and fuel prices. WFP indicates that without additional funding it would have to curtail feeding programs that meet the needs of more than 70 million people in 80 countries.

The United States has responded to the WFP appeal for food aid and its own food aid funding shortfall by announcing a release of \$200 million from the Bill Emerson Humanitarian Trust (BEHT), a reserve of commodities and cash that can be used to meet unanticipated emergency food aid needs. Congress is considering an FY2008 emergency supplemental appropriation for emergency food aid requested by the Administration. The President announced on May 1, 2009 a request for Congress to appropriate an additional \$770 million in FY2009 to deal with the international food situation.

In addition to near-term measures to meet food needs in low-income countries, aid agencies are focusing on medium- and long-term efforts to enhance food security and agricultural productivity. There have been calls for increasing the priority and allocation of resources to agricultural development in poor countries, particularly in Sub-Saharan Africa. The World Bank and USAID are two aid agencies that are promoting agricultural development and growth in low-income countries. Both indicate that African agricultural development should be a priority.

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# Rising Food Prices and Global Food Needs: The U.S. Response

## Introduction

Rising food prices are having impacts across the world, but especially among poor people in the low-income developing countries.<sup>1</sup> According to the United Nations Food and Agriculture Organization (FAO), its index of food prices in March 2008 was 80 points higher than in March 2007, a rise of 57%.<sup>2</sup> In 2007, the index rose by 36% over its 2006 level. The International Food Policy Research Institute (IFPRI) reports that since 2000, a year of low food prices, the wheat price in international markets has more than tripled, corn prices have doubled, and the price of rice rose to unprecedented levels in March 2008.<sup>3</sup>

Such unprecedented increases in food prices have raised concerns about the ability of poor people to meet their food and nutrition needs and in a number of countries have led to civil unrest. Food price escalation affects the cost of living for everyone, but the poor are most severely impacted because the share of spending for food in their total expenditure is higher than for better off populations. According to FAO, food represents about 10%-20% of consumer spending in industrialized nations, but from 60%-80% in poor developing countries.<sup>4</sup> Low-income consumers in both rural and urban areas in poor countries have been adversely affected by the rise in food prices.

High food prices have resulted in social unrest and food riots in Egypt, Cameroon, Cote d'Ivoire, Senegal, Burkina Faso, Ethiopia, Indonesia, Madagascar, the Philippines, and elsewhere. In Haiti, several deaths resulted from violent protests of price increases for staple foods. Popular discontent about food price inflation led to the fall of the Haitian government. Most recently, violence marked protests of high

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<sup>1</sup> See CRS Report RL34474, *High Agricultural Commodity Prices: What are the Issues?*, by Randy Schnepf, for an extensive discussion of the situation and outlook for commodity prices. Food prices and their effects on U.S. food and nutrition programs are discussed in CRS Report RS22859, *Food Price Inflation: Causes and Impacts*, by Tom Capehart. CRS Report RS22824, *High Wheat Prices: What are the Issues?*, by Randy Schnepf, discusses the factors responsible for rising wheat prices.

<sup>2</sup> FAO's food price index is reported in *Crop Prospects and Food Situation* - No. 2, April 2008 viewed at [<http://www.fao.org/docrep/010/ai465e06.htm>].

<sup>3</sup> International Food Policy Research Institute, *The World Food Situation: New Driving Forces and Required Actions*, Food Policy Report #18, viewed at [<http://www.ifpri.org/pubs/fpr/pr18.pdf>].

<sup>4</sup> FAO, *op. cit.*

food prices in Somalia. In Pakistan and Thailand, governments have deployed troops to prevent the seizure of food from farmers' fields and from warehouses.

More than 33 countries, most of which are in Sub-Saharan Africa, are adversely affected by food prices increases.<sup>5</sup> The World Bank has estimated that more than 100 million people are being pushed into poverty as a result of the escalation of food prices.<sup>6</sup>

Market analysts predict that global grain and oilseed supplies will rebound in 2008 because of current high market prices. However, most analysts, including the United Nations Food and Agriculture Organization (FAO), also anticipate that food prices will remain at significantly higher levels than previously.<sup>7</sup>

An immediate consequence of soaring food prices is a shortfall in funding for international emergency food aid. The escalation in food prices, and its long term effects, has also lead to suggestions that a higher priority and more resources be devoted to enhancing food security and agricultural productivity in developing countries.

## Why Are Food Prices Increasing?

A number of interrelated factors have been identified as causes of escalating prices for food.

- **Droughts in Australia and Eastern Europe and poor weather in Canada, Western Europe, and Ukraine have reduced available supplies.** As a result of adverse weather conditions, global stocks of corn, wheat, and soybeans are at historically low levels. Some suggest that the apparent increases in harsh and frequent climatic shocks are due to climate change.<sup>8</sup> It is, however, an open question as to whether the abnormal growing conditions of 2007 were a one-time event or part of a more systemic change in climate.

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<sup>5</sup> See World Bank President Robert Zoellick speech at the Center for Global Development, April 2, 2008, viewed at [<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21711307~menuPK:34472~pagePK:34370~piPK:34424~theSitePK:4607,00.html>].

<sup>6</sup> Bilingual Transcript of Statements by Secretary-General, Heads of Concerned Agencies, and Response to Questions at Press Conference on Global Food Crisis, April 29, 2008, viewed at [[http://www.unog.ch/80256EDD006B9C2E/\(httpNewsByYear\\_en\)/DC9886DEEFC314B3C125743A005A9B09?OpenDocument](http://www.unog.ch/80256EDD006B9C2E/(httpNewsByYear_en)/DC9886DEEFC314B3C125743A005A9B09?OpenDocument)].

<sup>7</sup> See CRS Report RL34474, *High Agricultural Commodity Prices: What are the Issues?*, by Randy Schnepf.

<sup>8</sup> Josette Sheeran, Executive Director of the World Food Program, *Testimony to the European Parliament Development Committee*, Brussels, Belgium, March 6, 2008.

- **Countries around the world, but especially Asian rice-producing countries, have introduced export restrictions.** In response to high prices for food grains, some countries have introduced grain export restrictions to augment domestic supplies and hopefully contain the effects of high prices on their own consumers. Such export restrictions are intended to augment domestic supplies and hopefully contain the effects of high prices on consumers. However, such measures exacerbate the food supply situation in importing countries.
- **Rising oil and energy prices have affected all levels of the food production and marketing chain, from fertilizer costs to harvesting, transporting, and processing food.** These rising fuel costs are reflected in higher food prices. The costs for transporting food aid from the United States to beneficiaries in developing countries are already high. In FY2007, for example, of every dollar provided for U.S. food aid, about 56 cents represented the cost of transporting commodities.<sup>9</sup> Rising fuel prices could make shipping food even more expensive in 2008.
- **Higher incomes in emerging markets like China and India have resulted in strong demand for food commodities, meat, and processed foods and higher prices in world markets.** The increased demand for food and energy in emerging markets is considered by many to be a structural change that will affect the supply and demand for food and feed well into the future.
- **Increased demand for biofuels has reduced the availability of agricultural products for food or feed use.** Some think that the competition between crops for food and crops for fuel will affect food supply and prices for years into the future. The food price impact of biofuels demand has caused some policy makers to suggest that biofuel subsidies and mandates be reconsidered. Others have suggested that there is not a conflict between meeting food and fuel demands for agricultural products.<sup>10</sup>

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<sup>9</sup> Calculated from USDA Food Aid Tables, available at [<http://www.fas.usda.gov/excredits/FoodAid/Reports/reports.html>].

<sup>10</sup> Remarks by Mr. Bob Stallman, American Farm Bureau President, viewed at [<http://www.fb.org/index.php?fuseaction=newsroom.newsfocus&year=2008&file=nr0430.html>]

## How Countries Have Responded

Countries affected by the rising prices have responded in various ways. As noted above, some food exporting countries have restricted exports. While such moves can increase the availability of domestic supplies in the short run, it can lower domestic farmers' incentives to produce, and reduce the availability of supplies to importing countries. A number of food importing countries have reduced or eliminated import duties so as to reduce the cost of food. Some have introduced price controls, while at the same time augmenting input subsidies for farmers to induce them to increase production. A few other countries have addressed mounting food prices by expanding existing social safety net programs that provide food or cash to poor people; however, most low-income countries lack the administrative capacity and financial resources to implement such programs.

The UN Food and Agriculture Organization (FAO) is monitoring the steps that governments of developing countries are taking to mitigate the effects of global price increases.<sup>11</sup>

### Asia

In Asia, home to some of the world's largest rice producing and exporting countries, governments have announced ceilings and in some cases bans on rice exports. For example, India has banned the export of non-basmati rice and set a minimum export price for basmati rice at \$1200 /metric ton (MT). Viet Nam has banned rice exports until June of 2008. Cambodia has announced a short-term ban on rice exports and has released rice stocks to curb rising domestic prices. China has banned some grain exports and, to increase domestic supply, has raised minimum purchase prices of wheat and rice and increased agricultural subsidies. The Philippines, Bangladesh and Thailand are selling rice stocks at subsidized prices; Thailand plans to release 650,000 metric tons of rice to be sold at subsidized prices.

### Africa

In North Africa, Egypt, has banned rice exports and the government there has ordered the army to bake bread to increase the supply of subsidized bread. In West Africa, Senegal, which imports about half of its grain consumption, is subsidizing the purchase of wheat flour by 40%. In addition, it has waived tariffs and imposed price controls. Liberia has suspended import duties on imported rice. Cote d'Ivoire has suspended import duties on essential foodstuffs, following protests of price increases for cooking oil and milk. In East Africa, Zambia, despite available export surpluses of corn, has continued an export ban in place for much of the previous marketing year. Zambia also is implementing a large input subsidy program to foster grain production this year. In Malawi, the government is continuing its program of subsidies for fertilizers and quality seeds. Zimbabwe continues import controls for corn, wheat and sorghum, which are sold at subsidized prices. The government of

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<sup>11</sup> Developing country responses to rising food prices are surveyed in *FAO Crop Prospects and Food Situation* - No. 2, April 2008, viewed at [<http://www.fao.org/docrep/010/ai465e/ai465e007.htm>].

South Africa, which has an extensive social safety net program, has announced an increase in disability and old age payments, and increased social grants (cash grants) to poor families. Ethiopia, which also has a social safety net program, has announced wheat subsidies of \$38 million, and fuel subsidies of \$366 million. Ethiopia is increasing the wheat ration it distributes to 800,000 low-income urban residents. Ethiopia also has increased the cash wage rate of a large cash-for-work program by 33%. Ethiopia's government has also announced it will increase imports of sugar, wheat, and cooking oil. Tanzania has authorized duty-free imports of 300,00 metric tons of corn, and banned exports of agricultural commodities.

## **Latin America and the Caribbean**

Mexico has removed quotas and tariffs for food imports, and has negotiated agreements with traders to increase corn imports and reduce retail food prices. Mexico has announced a number of food production support measures and announced that it will reduce fertilizer prices by a third. El Salvador, Guatemala, Nicaragua, and Honduras have jointly agreed to cancel the import duty on wheat flour for all of 2008. Argentina has imposed taxes on grain and oilseed exports in order to increase domestic supplies and, to partially offset the negative effect of these taxes on farmers incomes, is considering a 20% reduction in the price of fertilizers. Brazil has removed import tariffs on 1 million MTs of non-Mercosur wheat until June 30.<sup>12</sup> Peru has revoked its tariff on grain imports and has announced a program to distribute food to the poorest members of its population. Ecuador has increased the subsidy on wheat flour. Bolivia has authorized tariff-free imports of rice, wheat, and wheat products, corn soybean oil and meat until the end of May. At the same time, Bolivia has banned exports of grains and meat products.

## **Food Aid Funding Shortfalls**

One immediate consequence of the rise in global food prices is the emergence of a shortfall in funding for international food aid. Both the United Nations' World Food Program (WFP) and the U.S. Agency for International Development (USAID) are experiencing food aid funding shortfalls as a result of high food and fuel prices.

### **The World Food Program (WFP)**

On March 20, 2008, the United Nations World Food Program made an urgent appeal to the United States and other food aid donors for an additional \$500 million to address a funding gap for food aid caused by rising food and fuel prices.<sup>13</sup> The WFP, the United Nations agency that is charged with meeting hunger needs of vulnerable people throughout the world, subsequently announced that its funding

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<sup>12</sup> MERCOSUR, the Common market of the South, is a regional free trade agreement, between Brazil, Argentina, Uruguay, and Paraguay. Chile is an associate member country.

<sup>13</sup> Letter to President Bush from WFP Executive Director, Josette Sheeran, March 20, 2008, viewed at [<http://documents.wfp.org/stellent/groups/public/documents/newsroom/wfp174162.pdf>].



shortfall had increased to \$755 million for 2008. Without the additional funds WFP would have to scale back on feeding operations in 2008 that would provide assistance to 73 million people in 80 countries.

WFP is the world's largest food aid provider. In 2007, the WFP provided \$2.7 billion of food aid to an estimated 70 million people in 80 countries. The United States contributed 44% of this amount or \$1.2 billion in 2007. This percentage has been the United States' average annual contribution to the WFP since 1999. Other major donors to the WFP in 2007 included the European Union (the EU Commission and individual EU member countries), \$586 million; Canada, \$161 million; and Japan, \$118 million.<sup>14</sup>

The United States provides almost all of its food aid to the WFP in the form of commodities; other donors provide primarily cash which WFP uses to purchase and ship food commodities. In order to maximize the commodity value of its cash resources and to mitigate the increased commodity and transports costs it faces, the WFP says it is making 80% of its food purchases — an estimated \$612 million — in local and regional markets in developing countries. In 2007, the WFP Executive Director Josette Sheeran reported that WFP increased its local purchases by 30%, resulting, she indicated, in savings on food and transport costs and in helping local farmers from whom the food was purchased break the “cycle of hunger at its root.”

## **U.S. Agency for International Development**

USAID also has indicated that rising food and fuel prices could result in a significant scaling back of emergency international food aid in FY2008. According to press reports in March 2008, USAID expects that in FY2008 it would need as much as \$200 million in additional funding to meet emergency food aid needs. USAID provides U.S. agricultural commodities for both emergency relief and for use in development programs under the authority of P.L. 480 Title II.<sup>15</sup> In FY2007, the P.L. 480 Title II emergency program provided 1.5 million metric tons of emergency food aid at a cost of \$1.4 billion (80% of total Title II) to meet emergency needs in 30 countries. Approximately 594,840 metric tons of food aid valued at \$348 million (20% of total Title II) was used to support non-emergency development projects in FY2007. Non-emergency or development food aid has been declining in recent years as the need for emergency food aid has increased. The congressional appropriation for Title II food aid was \$1.2 billion in FY2007. In addition, Congress provided emergency supplemental funding in FY2007 for Title II of \$460 million.

For FY2008, the President requested and Congress appropriated \$1.2 billion for P.L. 480 Title II food aid for both emergency and non-emergency food aid. For FY2009, the President's budget also requested \$1.2 billion for P.L. 480 Title II commodity donations. The Administration also again requested \$350 million for FY2008 supplemental appropriations for Title II.

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<sup>14</sup> Data on WFP donors is available at [[http://www.wfp.org/appeals/wfp\\_donors/index.asp?section=3&sub\\_section=4](http://www.wfp.org/appeals/wfp_donors/index.asp?section=3&sub_section=4)].

<sup>15</sup> USAID, *U.S. International Food Assistance Report 2007*, January 2008, viewed at [[http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/fy07\\_usifar\\_final.2008.pdf](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/fy07_usifar_final.2008.pdf)].

## The U.S. Response to Food Aid Funding Shortfalls

The United States responded initially to the WFP's appeal for food aid and its own food aid funding shortfall by announcing a release of \$200 million from the Bill Emerson Humanitarian Trust (BEHT), a reserve of commodities and cash that can be used to meet unanticipated emergency food aid needs. Congress also is considering an FY2008 emergency supplemental appropriation for food aid requested by the Administration. Some portion of the Emerson Trust release and some of an emergency supplemental would be allocated to meeting WFP and USAID food aid funding shortfalls. The President announced on May 1, 2009 a request for Congress to appropriate an additional \$770 million in FY2009 to deal with the international food situation. Both FY2008 and FY2009 supplemental requests are part of war funding supplementals.

### Release from the Emerson Trust

On April 14, 2008, the White House announced that the President had directed the Secretary of Agriculture to draw down on the Bill Emerson Humanitarian Trust (BEHT) to meet emergency food needs abroad.<sup>16</sup> This action would make an estimated \$200 million (commodity value and transport costs) in emergency food aid available through the U.S. Agency for International Development, to the World Food program and private voluntary organizations. The additional food aid, according to the White House press briefing, would be used to address the impact of rising commodity prices on U.S. emergency food aid programs, and be used to meet unanticipated food aid needs in Africa and elsewhere.

The Emerson Trust is a reserve of commodities and cash that can be used to meet unanticipated humanitarian food needs in developing countries or when domestic supplies are short. It is authorized under the Bill Emerson Humanitarian Trust Act of 1998 (P.L. 105-385). Up to four million metric tons of grains can be held in the Trust in any combination of wheat, rice, corn, or sorghum, but wheat is the only commodity ever held. With record prices for corn, rice, and sorghum, it seems unlikely that, in the near term, other commodities would be purchased to bring the Trust anywhere near its authorized maximum volume of grains. Funds regularly appropriated for P.L. 480 can be used to replenish the Trust, but the P.L. 480 funds that can be used for this purpose are limited to \$20 million per fiscal year, about 70,000 MT at today's prices. Emergency supplemental appropriations on occasion have been devoted to replenishing the BEHT. The authorizing statute, however, does not require the replenishment of the Trust.

Before the recent release, the Trust held 915,000 metric tons of wheat and \$117 million. Following the announcement of the release, U.S. Department of Agriculture Kansas City Commodity Operations Office sold 260,371 MT of wheat stocks. The proceeds of the sale — \$80 million — will be placed in the Trust and made available to purchase commodities under P.L. 480 Title II.

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<sup>16</sup> White House, Statement of the Press Secretary, April 14, 2008, available at [<http://www.whitehouse.gov/news/releases/2008/04/print/20080414-4.html>].

Both House and Senate versions of a new farm bill address the reauthorization of the Emerson Trust. The House version of the farm bill extends the authorization for the Trust until 2012. The Senate version of the farm bill reauthorizes the Trust to 2012, but also makes changes in the Trust that would enable it to accumulate and use cash reserves. The Administration made no suggestions for replenishing the Trust or enhancing its ability to respond to emergencies in its farm bill proposals.

## **FY2008 Emergency Supplemental Appropriations**

Congress is considering the President's request for a \$350 million supplemental appropriation for P.L. 480 Title II food aid. In six out of ten years since 1999, the Administration has requested and Congress has passed emergency supplemental appropriations for P.L. 480 Title II food aid. For the most part these funds have been allocated to emergency food needs. However, supplemental funds also have been allocated to non-emergency development food aid and to replenishing the Emerson Trust (see below).

**Table 1. P.L. 480 Title II Supplemental Appropriations, 1999-2007**  
(\$ in millions)

<b>Fiscal year</b>	<b>P.L. 480 Title II Supplemental Appropriation</b>	<b>Comments</b>
1999	\$149	Emergency food aid for Balkan countries
2001	\$95	Emergency food aid for Afghanistan to mitigate the effects of conflict and drought
2003	\$369	Title II funds allocated to emergency needs, previously approved non-emergency projects, and replenishing the Emerson Trust
2005	\$240	Emergency food relief in Sudan (Darfur) and elsewhere in Africa
2006	\$350	"... to the maximum extent possible" to be used to support previously approved non-emergency projects
2007	\$460	Appropriated generally for Title II programs; also included \$10 million for the Emerson Trust.

**Source:** CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2008*.

The major issues with respect to an FY2008 emergency supplemental for P.L. 480 Title II food aid would be its size and the ways in which it could be allocated between emergency and non-emergency programs, and the Emerson Trust. The allocation of a supplemental appropriation between the WFP and U.S. non-

governmental organizations who implement food aid programs would also be a consideration. Some private voluntary organizations (PVOs) that implement food aid programs have called for a larger supplemental than proposed by the Administration. Catholic Relief Services, for example, has indicated that it believes a supplemental of at least \$600 million is needed.<sup>17</sup> Senators Casey and Durbin have proposed adding \$200 million to the FY2008 supplemental for emergency food aid. The Congressional Black Caucus has urged that Haiti get priority consideration in U.S. food aid programming. An amendment to the FY2008 supplemental appropriations bill in the House would add \$500 million to the President's request for additional funding for P.L. 480 Title II.<sup>18</sup> The Senate Appropriations Committee Chairman's mark also calls for an additional \$ 500 million in P.L. 480 food aid.

## **The President's FY2009 Food Aid Request**

On May 1, 2008, the President requested that Congress appropriate \$770 million to meet food needs due to rising food prices in developing countries. This funding would be part of a FY2009 bridge supplemental appropriation to fund wars in Iraq and Afghanistan. The requested amount would be allocated to

- emergency food aid, \$395 million;
- international disaster and famine assistance, \$225 million; and
- agricultural development assistance, \$150 million.

The additional emergency food aid would be allocated to P.L. 480 Title II donations. The additional funds for disaster assistance would be allocated to the International Disaster and Famine Assistance (IDFA) account and used to purchase food locally in developing countries, to provide vouchers, and to purchase seeds and other supplies. No detail was suggested with respect to how the additional \$150 million for agricultural development assistance would be allocated.

Some Members of Congress have been critical of the President's proposal. They have suggested that additional funds for food aid and disaster assistance may be needed prior to FY2009. The effort by the House and Senate Appropriations Committees to increase the amount of FY2008 supplemental funding for P.L. 480 by \$500 million — instead of waiting for a FY2009 supplemental — may be a reflection of this concern.

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<sup>17</sup> Statement of Douglas Norell, Catholic Relief Services, at the Briefing for the Congressional Hunger Caucus, April 10, 2008.

<sup>18</sup> See Fact Sheet: Emergency Supplemental: Iraq, Afghanistan, Veterans, and Workers, viewed at [<http://appropriations.house.gov/pdf/FactSheet-Supplemental5-07-08.pdf>].

## Additional U.S. Food Aid Policy Options

Some policy options under consideration in the debate over the reauthorization of food aid programs in the farm bill, now under consideration in Congress, could affect the way in which the United States provides emergency food aid. These include providing legislative authority to purchase non-U.S. commodities for emergency food aid in countries or regions close to where food emergencies are occurring and earmarking a portion of food aid for development rather than emergency uses.

### Allocating Some Title II Funds to Local or Regional Purchase

High transportation costs and lengthy delays before U.S. commodities arrive at their destinations in emergency situations prompted the Administration, in its 2007 farm bill proposals, to recommend that the Administrator of USAID be given the authority to use up to 25% of the funds available for P.L. 480 Title II to purchase commodities in locations closer to where they are needed.<sup>19</sup> The rationale for this proposed new authority is that it would increase the timeliness and effectiveness of the U.S. response to food aid emergencies by eliminating the need to transport commodities by ocean carriers.<sup>20</sup> According to the Administration's proposal, savings achieved in transportation and distribution costs would be available for additional commodity purchases, thus increasing the overall level of the U.S. response to emergencies. In addition, local or regional purchases would also shorten the time it takes to get food supplies to where they are needed, provide for flexibility in the choice of commodity, and contribute to local economic development. Proponents of local or regional purchase argue that it also would be less likely to disrupt receiving country markets.<sup>21</sup> The Administration indicated that most of U.S. emergency food aid would continue to be provided by U.S. commodities.

The House-passed farm bill (H.R. 2419) did not endorse the Administration's proposal, but the bill did stipulate that \$40 million of the funds appropriated for USAID's International Disaster and Famine Assistance (IDFA) program be allocated to famine prevention and relief. IDFA funds can be used to purchase commodities locally or regionally, but most IDFA funds are used to purchase non-food relief supplies, e.g., medicines, tents, blankets, cooking utensils, sanitary facilities, and the like. In contrast to the House version of the farm bill, the Senate version establishes a pilot program, authorized at \$25 million annually, to explore how local or regional procurement of food in emergency situations might be used.

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<sup>19</sup> The Administration farm bill food aid proposals are available at [<http://www.usda.gov/documents/07finalfbp.pdf>]. Legislative language for food aid programs proposed by the Administration is at [[http://www.usda.gov/documents/fbtrade\\_071.pdf](http://www.usda.gov/documents/fbtrade_071.pdf)].

<sup>20</sup> Cargo preference legislation requires that 75% of U.S. food aid be shipped on U.S.-flagged vessels, which often costs more than shipping on foreign-flagged vessels.

<sup>21</sup> See for example, "U.S. International Food Assistance Programs: Issues and Options for the 2007 Farm Bill," by Christopher B. Barrett, in American Enterprise Institute, *The 2007 Farm Bill and Beyond, Summary for Policymakers*, Washington, DC, 2007, p. 97 ff.

Its 2007 farm bill food aid recommendation was not the first time that the Administration proposed allocating funds for local or regional purchase. The President's FY2003 budget request contained a proposal to shift \$300 million from P.L. 480 Title II to IDFA to purchase food for emergency relief in markets closer to their final destinations rather than in the United States as required under P.L. 480. The proposal, however, proved controversial with farm groups, agribusinesses, and the maritime industry that supply and ship commodities for Title II, and with many private voluntary organizations (PVOs) that rely on food aid to carry out development projects in poor countries. A major concern of the PVOs is that allocating Title II funds to local/regional purchase would undercut political support for the food aid program and reduce the volume of commodities available for both emergencies and development projects.

The conference report (H.Rept. 109-255) accompanying the FY2006 agriculture appropriations act (P.L. 109-97) addressed the issue of converting a portion of P.L. 480 commodity food aid into cash by stating: "The conferees ... admonish the Executive Branch to refrain from proposals which place at risk a carefully balanced coalition of interests which have served the interests of international food assistance programs well for more than fifty years."

The President's FY2007 and FY2008 budget requests also contained proposed appropriations language to allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises. The Senate report (S.Rept. 109-266) accompanying the FY2007 agriculture appropriations bill explicitly rejected this proposal, stating that "the Committee does not agree with the Administration's proposal to shift up to 25% of the Public Law 480 Title II program level to USAID to be used for direct cash purchases of commodities and other purposes."

Proponents admit that there would be some risks if local markets are unable to absorb large increases in food demand that local purchases could represent. The quality of local food products and ability to transport food locally are also potential problems. One study of the World Food Program's experience with local and regional purchases found that such risks are manageable, however, and could be avoided.<sup>22</sup> Another study of global food aid transactions found that local food aid procurement was 66% less expensive than shipments directly from donor countries.<sup>23</sup> An estimated 60% of all food aid from all donors is locally or regionally procured.<sup>24</sup>

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<sup>22</sup> See "Local and Regional Food Aid Procurement: An Assessment of Experience in Africa and Elements of Good Donor Practice," by David Tschirley, MSU International Working Paper no. 91, 2007, available at [<http://www.aec.msu.edu/fs2/papers/idwp91.pdf>].

<sup>23</sup> Edward Clay et al. *The Development Effectiveness of Food Aid: Does Tying Matter?* Report prepared for OECD, Paris, 2005.

<sup>24</sup> Barrett, op. cit.

## **Earmarking Food Aid for Non-Emergency Projects**

The volume of Title II commodities allocated to emergencies as opposed to development projects has grown in recent years. Current law provides a mandate for a minimum volume of commodities to be used for P.L. 480 Title II development projects; however that mandate has not been met as the demand for emergency food aid has increased substantially. House and Senate versions of the farm bill provide for hard earmarks, expressed in dollar terms, for development food aid. The purpose of these hard earmarks is to ensure that a minimum amount of food aid would be devoted to development projects.

Both versions of a new farm bill contain earmarks of P.L. 480 Title II funds that would be allocated to non-emergency projects. The House-passed bill stipulates that of the funds made available for Title II, not less than \$450 million annually be made available for non-emergency (development) food aid. This minimum level of non-emergency assistance could not be waived unless requested by the Administrator of USAID, followed by enactment of a law approving the Administrator's request. The Senate bill establishes a minimum of \$600 million for development food aid that also would not be subject to waivers. The Administration has indicated that it prefers a continuation of the status quo which provides for waivers of the current minimum volume of commodities that is devoted to development activity. Following passage of the House-passed bill, the Office of Management and Budget, in its Statement of Administrative Policy, said that it strongly opposed this provision because it would deprive the Administration of the ability to quickly waive it in an emergency. OMB estimated that this House bill provision would result in a \$100 million decrease in emergency food aid.

## **Other Near-Term International Donor Responses**

### **Responses to the WFP Appeal**

As of early May 2008, food aid donors had pledged to provide \$613.4 million to the WFP appeal or about 81% of the appeal.<sup>25</sup> Of that total, the confirmed amount is \$40.4 million. Public announcements by donor countries amount to \$221.6 million. Committed emergency food aid of which WFP's share is to be determined is \$340 million. (The U.S. contribution to WFP's urgent appeal is in this category.) Another \$11.4 million is under discussion. Among the contributions announced are \$181 million from the European Commission. Individual countries announcing contributions to the WFP appeal include Japan, France, Germany, the United Kingdom, Canada, and Norway.

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<sup>25</sup> Personal communication from the Washington Office of the World Food Program, May 6, 2008.

## FAO's Proposal

The United Nations Food and Agriculture Organization (FAO) has called for donors to contribute funds to increasing local food production in the near term.<sup>26</sup> FAO launched an Initiative on Soaring Food Prices on December 17, 2007. FAO has allocated \$17 million to this activity and is helping with the provision of inputs to four African countries. FAO has convened a meeting in Rome from June 3-5, 2008 that will focus not only on mobilizing short and near term resources to provide inputs and increase production, but also on longer-term approaches to enhancing world food security.

## World Bank and IMF Responses

Both the World Bank and the International Monetary Fund (IMF) are engaged in activities to alleviate the effects of rising food prices on vulnerable countries in the near term.<sup>27</sup>

The World Bank is providing policy advice to countries affected by rising food prices and discussing possibilities of helping countries meet short-run financial needs. The Bank reports that a few countries, among them Burkina Faso, are considering increasing the size of their Development Policy Loans.<sup>28</sup> The Bank is also reviewing the possibility of scaling up financing of existing programs and investment projects for safety net and agricultural programs. To respond to an urgent food price situation in Haiti, the World Bank is making available a grant of \$10 million. These grant funds are expected to cover the provision of food for poor children and other vulnerable groups, partly through an expansion of the Bank's existing school feeding program, and job creation through labor intensive public works.

The IMF reports that it is exploring augmenting existing financing arrangements under its Poverty Reduction and Growth Facility (PRGF).<sup>29</sup> About 10 countries,

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<sup>26</sup> FAO discusses its Initiative on Soaring Food Prices at [<http://www.fao.org/newsroom/common/ecg/1000826/en/ISFP.pdf>].

<sup>27</sup> The World Bank approach to rising food prices is detailed in "Rising food prices: Policy options and World Bank response: Background note for the Development Committee," viewed at [[http://siteresources.worldbank.org/NEWS/Resources/risingfoodprices\\_backgroundnote\\_apr08.pdf](http://siteresources.worldbank.org/NEWS/Resources/risingfoodprices_backgroundnote_apr08.pdf)]. The IMF approach is spelled out in a recent article from the IMF Survey, viewed at [<http://www.imf.org/external/pubs/ft/survey/so/2008/NEW042808A.htm>].

<sup>28</sup> Development Policy Loans provide quick-disbursing assistance to countries with external financing needs, to support structural reforms in a sector or the economy as a whole. According to the Bank, they support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth. Over the past two decades, development policy lending — previously called adjustment lending — has accounted, on average, for 20 to 25 percent of total Bank lending. See [<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120732~menuPK:268725~pagePK:41367~piPK:51533~theSitePK:40941,00.html>].

<sup>29</sup> The Poverty Reduction and Growth Facility (PRGF) is the IMF's low-interest lending (continued...)



mostly in Africa, have raised the possibility of augmenting existing arrangements so as to acquire additional financing to cover the import costs of higher food prices. The IMF is also working with PRGF-eligible countries and with other economies on appropriate responses to higher food prices. The IMF thinks that targeted social assistance is the best initial policy, but that other temporary measures such as tax or tariff cuts on food products, are available supporting measures. Other financing instruments of the IMF also are available to help countries overcome food-related balance of payments strains. IMF also is exploring the use of stand-by arrangements<sup>30</sup> which are intended to help all member countries of the IMF address short-term balance of payments problems.

## **Long-Term Considerations: Giving Priority to Agricultural Development**

In addition to near-term measures to meet food needs in low-income countries, aid agencies are focusing on medium- and long-term efforts to enhance food security and agricultural productivity. Many suggest that changes in the world market for food and fuel are long-term and structural, and, consequently, that more attention should be given to efforts to reduce poverty, increase food production, and enhance food security, especially in the poor developing countries.<sup>31</sup> There have been calls especially for increasing the priority and allocation of resources to agricultural development in Sub-Saharan Africa.

Official development assistance for agriculture, however, has been declining since the 1980's. World Bank data show, for example, that in 1980, the Bank provided 30% of its annual lending to agricultural projects, but by 2007, that had declined to 12%.

Data from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) show that the share of agricultural development assistance in total Official Development Assistance (ODA) has declined substantially from the 1980s, when it was 13% of total ODA. By 2006, the overall percentage of ODA from all donors bilateral and multilateral going to

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<sup>29</sup> (...continued)

facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies. A more detailed explanation of the PRGF is available at [<http://www.imf.org/external/np/exr/facts/prgf.htm>].

<sup>30</sup> Stand-by arrangements enable countries to rebuild their international reserves; stabilize their currencies; continue paying for imports; and restore conditions for strong economic growth. Unlike development banks, the IMF does not lend for specific projects.

<sup>31</sup> See International Food Policy Research Institute, *The World Food Situation: New Driving Forces and Required Actions*, Food Policy Report #18, viewed at [<http://www.ifpri.org/pubs/fpr/pr18.pdf>]. WFP Executive Director Sheeran also has called for giving a higher priority to food safety nets and enhancing agricultural productivity in poor countries, especially in Africa. World Bank President Zoellick and others also have called for increased priority to food security and agricultural development, especially in Africa. See footnote 11, above.

agriculture was 4%.<sup>32</sup> U.S. aid for agriculture also has declined in relative terms since the early 1980s. In 1983-84, U.S. assistance for agriculture represented 11.4% of total development assistance from DAC member countries, while by 2006, the percentage of bilateral development assistance accounted for by U.S. agricultural development assistance had fallen to 2.3% of the total provided. In terms of U.S. assistance for agriculture in comparison with total U.S. assistance, aid for agriculture declined from 20% in 1980 to 3% in 2006.

Other OECD data show that although the total amount of aid for agriculture has decreased, there has been a relative increase in the proportion of agricultural development assistance going to Africa in recent years, but this has been an increasing share of a decreasing total. However, the Partnership to Cut Hunger and Poverty in Africa, an organization that advocates for increased support for African agricultural development, found that U.S. assistance to African agriculture had increased in real terms between 2000 and 2004.

The World Bank and USAID are two aid agencies that are promoting agricultural development and growth in low-income countries.<sup>33</sup> Both indicate that African agricultural development should be a priority. But competing aid priorities, congressional earmarks, and institutional factors could make it difficult to re-order U.S. development assistance priorities.

## **U.S. Assistance to Agriculture: Focus on Africa**

The U.S. Agency for International Development (USAID) provided almost \$600 million of development assistance to Africa in FY2006. Of that amount, \$353.8 million was allocated to a wide range of agricultural activities, such as research and development of new agricultural technologies (including biotechnology), assistance with managing natural resources, including water resources, and support for agro-forestry development. A report, prepared by the Partnership to Cut Hunger and Poverty in Africa, chaired by Peter McPherson, examined U.S. agricultural development assistance to Africa during the period 2000-2004.<sup>34</sup> It identified two main factors that affect USAID's allocation of resources to agricultural development. These are

- competing priorities and congressional earmarks that influence funding for agricultural development assistance, and

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<sup>32</sup> Data in this section of the report on official development assistance is available from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), which can be accessed at [[http://www.oecd.org/document/0/0,2340,en\\_2649\\_34447\\_37679488\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/0/0,2340,en_2649_34447_37679488_1_1_1_1,00.html)].

<sup>33</sup> For a discussion of other international efforts aimed at addressing high food prices and their impacts on developing countries, see CRS Report RL34474, *High Agricultural Commodity Prices: What are the Issues?*, by Randy Schnepf.

<sup>34</sup> Partnership to Cut Hunger and Poverty in Africa, "Investing in Africa's Future: U.S. Agricultural Development Assistance for Sub-Saharan Africa," Final Report-September 2005.

- institutional factors that affect the scale and potential effectiveness of development resources.

**Competing Priorities and Congressional Earmarks.** Priorities established by USAID officials, such as giving higher priority to assisting development of African agriculture, are difficult to translate into budgetary allocations because decisions are shaped by so many other executive branch institutions and by Congress, according to the Partnership. USAID funds devoted to agricultural development compete with allocations to other important priorities for U.S. foreign assistance, notably health (including HIV/AIDS), education, and humanitarian assistance (mainly P.L. 480 food aid). Funding for health-related assistance in Africa has grown dramatically through USAID and special presidential initiatives to fight HIV/AIDS, TB, and malaria.

Congressional earmarks, the Partnership says, limit the flexibility of agricultural development assistance at the country level. The Partnership estimates that 90% of USAID's development assistance devoted to agriculture is pre-allocated to specific areas, such as trade capacity building, micro enterprise development, biodiversity, and plant biotechnology. Congressional earmarks, in the view of the authors of that study, limit the flexibility of development assistance programs to respond to the most important needs at the field level and thus reduce the effectiveness of assistance.

**Institutional Factors.** The Partnership found that spending on agriculture-related objectives in Africa from 2000 to 2004 was spread across 24 countries and four regional programs, resulting in average annual funding of about \$6 million per year per country. These funds were further dispersed among multiple contractors and grantees. This approach, the Partnership concludes, raises questions over whether agricultural projects are large enough to have a lasting effect and whether their combined effects collectively generate a sustainable development impact. The Partnership asserts that USAID agriculture program managers must compete for development resources with other sectors on the basis of quantifiable and near-term results reported through USAID's internal management system. This process, the Partnership suggests, may put projects that have longer-term impacts such as investment in infrastructure or in human capacity at a disadvantage vis-à-vis projects that have a shorter term impact.

The Partnership questioned the effectiveness of coordination of agricultural development assistance within USAID, among other U.S. agencies that provide agriculture-related assistance, and with other bilateral donor countries and international institutions. It highlighted the absence of a mechanism for USAID to closely coordinate agricultural development strategy, resource allocation, and field program activities with these other U.S. agencies (especially the U.S. Department of Agriculture), other donors, and multilateral development institutions. Improved coordination, according to the Partnership, would help to decrease costs and increase the effectiveness of assistance by integrating priority setting and resource allocation and by boosting the scale of such efforts. A final institutional consideration raised by the Partnership is that costs of U.S. development assistance are higher because of the costs incurred by tying aid to procurement from U.S. sources (including the requirement that US. food aid must be procured in the United States and shipped on

U.S.-flagged vessels), and by the requirement to use predominately U.S. contractors to implement development projects.

## Other U.S. Assistance Initiatives

Two other U.S. assistance initiatives provide resources for agricultural development assistance. One is the Initiative to End Hunger in Africa (IEHA) and the other is the Millennium Challenge Corporation (MCC).<sup>35</sup>

**President's Initiative to End Hunger in Africa (IEHA).** The IEHA, launched in 2002, is a multi-year effort to increase agricultural productivity and rural incomes. USAID specifically links the IEHA with the U.N. Millennium Development Goal (MDG1) of cutting the number of hungry people in Africa and the world in half by 2015. IEHA focuses funding on investments with the greatest potential for raising smallholder producers' productivity and incomes. In FY2006, USAID estimates IEHA funding at \$47 million. The Initiative has projects in Ghana, Kenya, Mali, Mozambique, Uganda, and Zambia, and regional activities in East, West, and Southern Africa. In Ghana, for example, USAID reports that IEHA activities focus primarily on improving the productivity of the agricultural sector. In FY2006, USAID allocated \$14.2 million to agricultural development assistance in Ghana, which is about 20% of all U.S. foreign Assistance to Ghana that year. In Mali, another IEHA focus country, the Initiative emphasizes removing obstacles to agribusiness development and actively promoting agribusiness. About a quarter of total U.S. foreign assistance to Mali (\$10.4 million) was allocated to agricultural development in FY2006. No new countries have been added to the IEHA since 2006.

**Millennium Challenge Account.** The Millennium Challenge Account (MCA), administered by the Millennium Challenge Corporation (MCC), was established in January 2004 as a new vehicle for providing U.S. foreign assistance. Establishment of the MCA was announced at the March 2002 International Conference on Financing for Development in Monterrey, Mexico. The MCA aims to help fulfill the U.S. commitment to the U.N. Millennium Development Goals aimed primarily at reducing poverty and, eliminating hunger, and fostering sustainable development. The president pledged to allot \$5 billion annually by FY2006 to the MCC. Countries that have created the necessary enabling environment for economic growth through market-oriented, pro-growth policies, good governance and investment of their own resources in health and education can qualify for assistance under the MCC. The Partnership says that the MCC has potential importance for agricultural development in Africa for two reasons:

- **The MCC represents a large, and potentially larger, pool of resources for development assistance.** Congress appropriated almost \$1 billion in FY2004, \$1.5 billion in FY2005, and \$1.752 billion in each of FY2006 and FY2007. These funds are available until expended. Spreading such a large volume of funds over a relatively few countries could dwarf the small programs of development assistance that USAID generally operates in its

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<sup>35</sup> See CRS Report RL32427, *Millennium Challenge Account*, by Curt Tarnoff.

recipient countries. Half of the 20 low income countries that were deemed eligible for MCC grants in 2007 are in Africa. Compacts under the MCC have been entered into with 8 African countries: Madagascar, Cape Verde, Benin, Ghana, Mali, Mozambique, Lesotho, and Tanzania.

- **Agriculture is a key sector for MCC funding.** The MCC looks to the eligible developing country to develop its own MCA proposal, but informs countries that increasing economic growth and reducing poverty requires them to emphasize investments that raise the productive potential of a country's citizens and firms and help integrate its economy into the global product and capital markets. One of six key areas of focus for MCAs is agricultural development. Other key areas are education, enterprise and private sector development, governance, health, and trade capacity building. The MCC website reports that almost all of the MCA country proposals submitted include an agriculture component.

**Development Food Aid.** Although as noted above, most U.S. food aid to Africa goes to address emergency food needs, a smaller portion of such aid is used in development projects, many of which aim to enhance food security. In FY2007, of \$1.2 billion of U.S. commodity food aid provided to Africa, just over \$1 billion was provided as emergency food aid, while \$167 million was allocated to development projects, many of which focus on agriculture.

Non-emergency food aid financed projects are the largest amount of funding devoted to promoting food security in the USAID portfolio of projects in Africa. Observers have noted problems of scale of activity funded with food aid and also lack of coordination with other development assistance. However, USAID's food security strategy emphasizes that it will reduce the number of countries in which it carries out food aid development projects and that it will integrate P.L. 480 development projects into a country's overall agricultural development assistance program.

## World Bank

To address problems of food security in poor countries resulting from high food prices, the President of the World Bank, Robert Zoellick, recently called for a "New Deal for Global Food Policy."<sup>36</sup> In his view, not only would such a New Deal require a higher priority to food security especially in poor countries, but also attention to the interrelated challenges of energy, yields, and climate change. Zoellick said that immediate food needs such as those identified by the WFP should be met, but attention also should be paid to meeting the Millennium Development Goal (MDG) which calls for reducing by half global hunger and malnutrition by 2015. Zoellick called for "a shift from traditional food aid to a broader concept of food and nutrition

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<sup>36</sup> See Zoellick's April 2, 2008, speech to the Center for Global Development at [<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21711307~pagePK:34370~piPK:42770~theSitePK:4607,00.html>].

assistance....” Cash or vouchers, he suggested, as opposed to commodity support, would be appropriate and enable the assistance to build local food markets and farm production. If commodities were needed, he said, they should be purchased from local farmers. The World Bank could support emergency measures to help the poor meet their food needs while encouraging incentives to produce and market food as part of sustainable development.

The World Bank identified four key elements for a comprehensive medium- to long-term approach to fostering growth in developing country agriculture in its 2008 World Development Report.<sup>37</sup> They include (1) improving producer incentives (including the removal of subsidies which benefit richer farmers more); (2) providing quality core public goods, e.g., science (research), infrastructure and human capital; (3) strengthening institutions to provide more access to rural finance and risk management, improve property rights, and ensure greater opportunities for collective action by farmers; and (4) ensuring sustainable use of natural resources.

According to World Bank President Zoellick, Africa should be a particular priority. Echoing Ms. Sheeran’s call for a Green Revolution to boost productivity in Africa, he announced that the World Bank will double its lending to agriculture in Africa from \$400 million currently to \$800 million by 2010.

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<sup>37</sup> *World Development Report 2008, World Bank: Agriculture for Development, 2008.*