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“American Food Aid: Why Reform Matters”

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Mr. Chairman, Ranking Member Cardin, members of the Committee, thank you for holding this hearing today on the critical topic of international food assistance that the United States provides to hungry people around the world. I appreciate the opportunity to provide testimony on this matter.

I am Stephanie Mercier, the Senior Policy and Advocacy Adviser for the Farm Journal Foundation. The Foundation has not taken a formal position on the issue of food aid reform, so any opinions expressed in my testimony are mine alone. In the last three years, I have also served as a consultant to a number of humanitarian NGO's who support reform of U.S. food aid programs. That group includes CARE, which is represented on this panel by Mr. David Ray, their Vice President for Policy and Advocacy, as well American Jewish World Service, Bread for the World and Oxfam America, among others.

I have worked on food aid policy issues for about 18 years, primarily as part of my portfolio as Chief Economist for the Democratic staff of the Senate Agriculture Committee between 1997-2011. In that role, I helped to lead the Committee's efforts in crafting provisions of the trade title in the 2002 and 2008 farm bills, and we were able to make modest reforms in the direction of improved efficiency and flexibility of the Title II 'Food for Peace' program in both bills. Those modest reforms were continued in the 2014 farm bill passed in February of last year. The reforms to the Food for Peace program proposed in the bill introduced by the Chairman and Senator Coons in February would take a giant stride further down that path.

In the 2002 farm bill, Congress first began to recognize that the traditional mode of U.S. assistance under the Title II program, which consisted of purchasing and shipping U.S.-sourced commodities after a natural disaster or conflict had already occurred and people were going hungry, did not always offer the optimal response. Implementing partners reported struggling to avoid so-called pipeline breaks, during the period when the affected area had insufficient food and U.S. commodity food aid had not yet arrived. In that bill, Congress authorized the U.S. Agency for International Development (USAID) to set up warehouses to hold food aid commodities that could be quickly dispatched when emergencies arose. This greater degree of flexibility, called prepositioning, enabled the Agency to reduce the time needed to deliver assistance.

Congress expanded authority for prepositioning in the 2008 farm bill, allowing USAID to establish additional sites. The bill also increased the share of Title II funding that can be used to cover certain types of non-food expenses under Section 202(e) of the Food for Peace Act, from around five percent to a maximum of 13 percent. That initial bump-up in the 202(e) percentage allowed USAID to provide more cash resources to implementing partners, reducing the sale of commodities in fragile, often poorly functioning markets, a process called monetization, by about 10 percentage points. Monetization has traditionally been used to cover the non-food components of non-emergency projects. Both provisions

improved the efficiency of the program, by reducing the delivery time for food aid substantially and the cost of running development programs under Title II. A recent GAO study found that using commodities stored at prepositioning warehouses cut delivery time for emergency aid by about 2 months compared to shipping directly from the United States.

The other major milestone in the 2008 farm bill was the establishment of a pilot program intended to test in a rigorous way what gains in efficiency might be available from allowing U.S. resources to be used to purchase food closer to where the beneficiaries are actually located, in the local area if possible or from neighboring countries if that is the closest surplus area. The legislation provided \$60 million in mandatory funds for USDA to run this local and regional procurement, or LRP pilot program. Independent studies on the results of the LRP pilot found that buying locally was less expensive for most categories of commodities. Local purchases of unprocessed grain were on average 35 percent less costly, and averaged 31 percent less for unprocessed pulse crops such as peas and lentils. In addition, it was almost always more expeditious to buy locally instead of buying and shipping U.S.-sourced commodities for food aid. The emergency projects under the pilot program had an average response time of 56 days, as opposed to 130 days needed for comparable U.S.-sourced commodities to arrive at their destinations.

The 2014 farm bill moved the dial on reform further, raising the share of Title II funds that can be used to cover non-food expenses from 13 to 20 percent, and expanding the category of eligible expenses. The legislation also authorized a standing LRP program (for up to \$80 million annually) to be run by USDA in part as a complement to the McGovern-Dole international school feeding program. The new program has yet to receive funding, although the President's FY16 budget proposed \$20 million for that purpose.

To augment the limited flexibility available under current Food for Peace Program rules, USAID established the Emergency Food Security Program (EFSP) in 2010. It was designed to utilize LRP and other cash-based mechanisms under the broad authority of the Foreign Assistance Act. USAID now has some ability to tailor the U.S. response to the variety of circumstances under which international food assistance is needed. The steps USAID has taken in recent years have allowed the Agency to reduce the need of implementing organizations to monetize U.S. commodities under Title II development projects around the world, except to meet the overall monetization minimum requirement of 15 percent that remains in effect. GAO studies in recent years indicated that monetization transactions often generated proceeds that were 76 percent or less of what was originally spent on the commodity in the United States.

This flexibility has also been crucial to addressing emergencies in places like Syria over the last few years, where it is almost impossible to safely provide U.S. food as assistance, so they have used cash assistance or food vouchers instead. However, there are some situations, such as in the Democratic Republic of Congo or the Central African Republic, where flexible resources would be helpful but are not available because of the limitations in place. S.525 would expand that flexibility by a significant margin-- I understand that USAID has estimated that the bill's increased flexibility would enable them to help about 12 million more recipients annually, which would amount to a 33 percent increase in the reach of the program compared to FY13 estimates.

I would like to point out, however, that there is no need to assume that this legislation would necessarily turn the Title II program into an entirely cash-based program. We know from the results of the LRP pilot program I described earlier that there are some commodities that are cheaper to produce and ship from

the United States than to purchase locally in recipient countries. This was broadly the case for vegetable oil, which on average costs \$100 less per ton to buy and ship from the United States than it did to procure the same product locally. In general, the more highly processed the commodity was, the smaller the difference in cost between U.S.-sourced and foreign-sourced products. The pilot also showed that it was cheaper to buy a range of food aid commodities from the United States and ship to nearby destinations in Central and Latin America than to buy locally.

We also know that there will always be some situations where the problem is simply inadequate food for those in need in the targeted region. For those beneficiaries, sourcing U.S. food will remain the best solution. In South Sudan, for example, there has been insufficient food locally to feed the population since the most recent outbreak of civil conflict there in December of 2013. As a result, USAID has provided more than \$530 million in Title II food aid targeting 3.2 million people over the past year and a half. No EFSP resources have been used there, because there's little food available in the region.

The Food for Peace program has been around for a long time—the program celebrated its 60th anniversary last summer, and it is estimated to have helped more than 3 billion people over that period. However, like every other U.S. agricultural policy, it needs to be modernized to better reflect the current market and policy environment as well as make use of advancements in knowledge and practice about the best approach to addressing acute and chronic food insecurity.

In its early years, the Food for Peace Program was an important component of U.S. agricultural trade policy—in 1957, it is estimated that U.S. food aid accounted for about 30 percent of all U.S. agricultural exports. Today, food aid shipments account for less than 1 percent of total U.S. agricultural exports. In fiscal 2014, U.S. food aid shipments totaled less than 1 million tons, due in large part to a combination of high commodity and transportation costs. While U.S. farmers continue to take pride in providing food for hungry people, this program is no longer viewed by the most in the agriculture sector as a key engine for expanding U.S. agricultural trade.

Another source of inefficiency in the current food aid program is the requirement that 50 percent of all U.S. food aid be shipped on U.S.-flagged vessels, otherwise known as agricultural cargo preference. One recent study by two economists from Cornell University estimated that shipping on U.S.-flagged vessels in 2006 was 46 percent more expensive than using foreign-flagged shipping. Until recently, the cost of that inefficiency was largely borne by the U.S. Department of Transportation, which was required to reimburse the food aid agencies for at least a portion of the additional costs associated with utilizing U.S.-flagged shipping. However, the reimbursement requirement was repealed as part of the Bipartisan Budget Act of 2013, and now those additional costs mean that fewer hungry people can be fed with the same level of food aid resources.

If preserving military useful sealift capacity is the goal of agricultural cargo preference, it seems to me there are a lot more efficient ways to provide that support than by diverting resources intended to help the poorest people in the world. The Department of Transportation maintains a roster of 60 U.S.-flagged vessels which receive a direct annual subsidy under the Maritime Security Program (MSP) to be ready to be activated in a military emergency. However, a recent analysis conducted by a team at George Mason University found that fewer than half of the U.S.-flagged vessels which carried U.S. food aid during the period of 2011-13 were actually included in the MSP, and those ships carried only 18 percent of the food aid moved on U.S.-flagged ships on a volume basis. The other U.S.-flagged ships

carrying food aid were not eligible for the MSP during that period because either they were too old or did not have the right type of shipping capacity.

Some have raised concerns about the quality of food that might be purchased locally or regionally with U.S. resources under a flexible food assistance program such as S.525 would create. I anticipate that implementing partners would be required to monitor the quality of the food they distribute whether it is procured in the United States or abroad, as has been the case with other LRP activities conducted by the U.S. government. In the 2008 farm bill, specific requirements for quality testing were written into the statutory language for the LRP pilot program. The study on the pilot reported few problems in meeting those requirements, with only a few defaults on contracts due to quality problems with the delivered commodities, and the rejected commodities had to be replaced at no cost to the program. The Annual Program Statement (APS) under which applications are made for both Title II emergency food aid and EFSP resources requires that food products procured locally or regionally must meet the recipient country's food safety standards, and if no standards exist, they must meet international Codex Alimentarius standards instead.

For the last several decades, the United States has been the leading provider of humanitarian food assistance around the world, a position we can all take pride in. However, that assistance is still delivered primarily by a mechanism that was appropriate for the market environment at the time that the Food for Peace program was established 60 years ago, but no longer adequately meets the needs of the people the program is intended to serve. It is past time for U.S. food aid policy to enter the 21st century—Congress should allow USAID and USDA to provide the type of assistance that can be tailored to the complex environments where hungry people around the world are often found.