

**Testimony of Director of Food for Peace Dina Esposito
United States Agency for International Development to the
Senate Foreign Relations Committee**

“American Food Aid: Why Reform Matters”

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Introduction

Chairman Corker, Ranking Member Cardin, and distinguished members of the Committee, thank you for inviting me today to testify on the United States Agency for International Development’s (USAID) efforts to modernize and improve U.S. food aid programs. We appreciate the opportunity to share how USAID’s Office of Food for Peace (FFP) is working to make our food assistance programs more efficient and effective in a changing world. We likewise recognize and appreciate your bipartisan interest, as expressed in the recently introduced Food for Peace Reform Act, to see food aid modernized.

I first started in humanitarian aid work in 1989 and in the early ‘90s I had the opportunity to visit with refugees and displaced persons in many hotspots around the world, including in places like Liberia, Mozambique, South Sudan, and Somalia. Today as the USAID/FFP Director I am still visiting trouble spots and while the circumstances are equally tragic, I am always struck by just how different the response options available to us are – the use of electronic food vouchers and mobile money to deliver assistance, new technology to better identify beneficiaries, satellite imagery to confirm public works projects are completed– the world is a different place.

USAID is the largest provider of food assistance in the world and we are seeking to maintain our leadership role – to be the best at what we do – by evolving our programs with the times. So today I would like to share with you the evolution of food aid and how evidenced-based learning can improve our programs. I also want to highlight how we are currently using the flexibility provided through the International Disaster Assistance account and how the critical reforms in the 2014 Farm Bill are enabling USAID to reach more people quickly and cost-effectively. These reforms serve as the basis for USAID to continue to pursue additional flexibility in food crises to use the right tool at the right time.

Looking back, looking forward

In 1954, President Eisenhower created the Food for Peace program to ship surplus U.S. food to the developing world and to countries still recovering from World War II. For over 60 years, the Food for Peace Title II program has allowed the United States to live up to its historic mission to alleviate hunger around the world. Through the generosity of the American people we have fed billions of the world's neediest people - perhaps the largest and longest-running expression of humanity ever seen. This has been – and continues to be – possible through the incredible partnership with American farmers, implementing partners, maritime industry partners, and Congress. While we look back on these American achievements with pride, we must also recognize that the world has changed. New opportunities and challenges are presented to us.

Some of the countries that have received Title II U.S. food and other foreign assistance, such as the Republic of Korea, have developed strong economies and become important U.S. trade partners. Foreign direct investment now exceeds development assistance in many of the poorest regions of the world and there is steady economic growth in remote parts of the globe, including in many places where we have historically shipped United States food aid. People can now use cell phones to receive emergency transfers and humanitarian workers can access local banks and food markets to buy and transfer aid to those in need in a way that fosters greater local economic activity and may help to reduce the severity of food crises and their underlying causes.

At the African Union Summit in June, African leaders committed to ending hunger and halving poverty on their continent by 2025 and building resilience to climate-related events, like droughts. USAID/Food for Peace's programs support the United States government's lead initiative in this area, Feed the Future. As part of this effort, USAID's programs seek to decrease hunger by increasing both agricultural production and the incomes of smallholder women and men in areas with high malnutrition and poverty rates who rely on this sector for their livelihoods.

Rising costs and growing needs

Within the changing global landscape, the role of United States in-kind commodity food aid is changing. Strong commercial demand for United States food means that commercial exports have risen dramatically. And food aid has declined as an overall share of United States food exports, representing less than one-half of one percent of the total value today and an even smaller share of overall U.S. agricultural production. USAID shipped over three million tons of in-kind aid in 2003, as compared to just over one million last year – in large part due to the rising costs of delivering food aid and the complex nature of many food security crises.

While we are getting less for our dollar with United States in-kind food assistance the need for emergency food assistance is higher than ever as a record number of civil conflicts and natural disasters continue to threaten the livelihoods of the poorest men, women, and children around the globe.

The UN High Commissioner for Refugees reported last year that more than 51 million people are displaced today by conflict – more than at any time since World War II. The numbers are staggering - for every one person who returned home last year, four more were displaced; three million new refugees fled their countries in the last three years – half of them children; and there are now 33 million conflict-affected people still inside their home borders – more than five million of them displaced in just the last few years. The places generating these grim statistics are familiar to you - Syria, Iraq, South Sudan, the Central African Republic, Somalia, to name a few.

Coupled with these conflict drivers of hunger, the increasing frequency and volatility of extreme weather events, slow or stagnant economic growth, and high food prices are impacting millions more. Drought in Central America, and East and West Africa has deepened hunger across these regions and in Asia extreme storms inflict devastation in places like Vanuatu and the Philippines. At the same time, the Ebola epidemic in West Africa is fueling hunger by disrupting agriculture and other sectors, pushing millions already living on the edge deeper into poverty.

The UN Food and Agriculture Organization (FAO) estimates that today more than 800 million people go to bed hungry; one in five children is stunted- meaning their physical and cognitive development has been impaired by lack of proper nutrition; and every seven seconds a child dies from hunger related causes.

Investing in our global prosperity

There has been enduring bipartisan support for United States leadership in combating hunger not only because it is the right thing to do, but because that response is also part of our arsenal to advance the security and prosperity of the United States.

Fragile states, shrinking economies, and extreme poverty are not fertile ground for American businesses seeking foreign markets. And there is an emerging consensus that food insecurity joins with other factors to worsen instability in societies. Lack of access to food can trigger conflict and civil unrest as it did in more than 48 countries around the world during the food price crisis in 2008. Hunger can drive competition for water and land (food production resources) as we have seen in parts of Africa, and a vicious cycle can emerge of food insecurity driving conflict, which in turn further deepens food insecurity. Displacement and hunger driven by chronic poverty and recurrent crises can give incentives to individuals – including unemployed or underemployed youth – to join rebellions, criminal gangs, or extremist groups. Struggling families often take desperate measures as they seek to cope: men migrate in search of work, women may be vulnerable to trafficking or other forms of exploitation, girls are pulled out of school, children take to the streets to beg, and families begin to disintegrate.

Against the backdrop of a changing environment offering new options for aid delivery, a growing number of people affected by conflict and natural disasters, the rising costs of traditional food aid, and the tight budget environment the United States faces today – reforming U.S. food aid programs is a logical step to advance our economic and national security interests.

The President's FY16 proposal for reform, which requests a modest increase in our ability to provide food assistance not tied to procurement of United States food, would allow us to reach

some two million additional people in food crises without an increase in budget. It also allows us to provide that assistance through means that promote growth and help the world's most vulnerable emerge from a cycle of extreme poverty and instability.

Rationale for food aid reform

Gaining speed, saving money, improving recovery after emergencies

The Government Accountability Office (GAO) in a 2009 report found that purchasing food locally and regionally, rather than shipping it from the United States, is more cost effective and greatly shortens delivery times.¹ For example, the study showed that buying food in Africa and Asia was 34 percent and 20 percent less expensive, respectively, than shipping food aid from the United States.² Studies by Dr. Chris Barrett of Cornell University show significant cost savings for many foods—such as bulk grains or pulses (lentils, peas and beans)—ranging from 53 percent savings for the less expensive, local cereals to 25 percent for pulses.³

Response time is also generally faster and in an emergency, speed can mean the difference between life and death. The GAO found that food aid from the United States typically takes four to six months to reach beneficiaries while locally and regionally purchased food can reach those in need as much as 11-14 weeks sooner. The GAO found that shipping food from the United States to sub-Saharan Africa took 100 days longer than local or regional procurement. Moreover, having the option to use cash-based responses allows us to plan better because response times are shortened, particularly in cases where harvest conditions form the basis for needs.

It is true that the United States has improved in-kind food aid response times in recent years through prepositioning of food supplies. Today, at any one time, up to 60,000 tons of U.S. food

¹ GAO, International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of United States Food Aid, But Challenges May Constraint is Implementation, June 2009.

² GAO, 2009, 16.

³ Lentz, E., Barrett, C. B., & Gómez, M. I, The Impacts of Local and Regional Procurement of US Food Aid: Learning Alliance Synthesis Report. *Chapter in Final Report: A* <http://www.gpo.gov/fdsys/pkg/BILLS-112hr3671ih/pdf/BILLS-112hr3671ih.pdf>, 2012.

stocks are in our prepositioning supply chain. This innovation has been invaluable. It does, however, add to overall costs and has certain constraints that limit its effectiveness. Limited shelf life for some commodities, repeated fumigations to keep commodities stored safely, uncertainty over what commodities will be needed where, and the appropriateness of an in-kind response, are all factors we must consider as we store food.

Speed and cost efficiency are not the only reasons we seek more flexibility. In some cases, giving a disaster survivor a food voucher or targeted cash transfer can reinforce economic recovery, support local farmers, generate jobs, reduce tensions, and create goodwill towards the displaced for those hosting them and reinforce their appreciation for the American people and their generosity. At the same time, those receiving aid are accessing a more nutritious diet, including local fruits and vegetables, and have the dignity of choice to select items familiar to them and their families.

Ending monetization for sustainable development

I have been speaking almost exclusively about how food aid reform improves our emergency humanitarian responses. I would like to turn for a moment to our development efforts.

USAID/Food for Peace administers five-year development projects in many parts of the world to address the underlying causes of food insecurity. These programs are a vital part of USAID's agenda to build resilience in communities facing chronic poverty and recurrent crises, such as droughts and storms. For instance, in areas prone to drought, we train farmers to prevent soil erosion and conserve water so that they can increase their yields during dry periods. We teach mothers how to prepare healthy foods for their children and improve their access to nutritious foods to counter malnutrition. We facilitate better livestock management and help them diversify how they make a living, all so that they are better prepared to bounce back and are less reliant on humanitarian assistance when a crisis hits.

USAID/Food for Peace partners provide in-kind food to communities on the ground, while also carrying out development activities that address the underlying causes of food insecurity. Before the historic changes in the 2014 Farm Bill, we were limited under Title II to fund these activities

by buying food in the United States, shipping it overseas, and selling it so that we had local currency on hand to run the projects (i.e. monetization). According to a 2011 GAO study, USAID lost on average 24 cents on the dollar for monetization because on average it costs us more to buy and ship food than we can recover when we resell it abroad. According to the GAO this inefficiency meant that USAID “lost” \$91 million through the monetization process over just the three year period analyzed.⁴

Having cash resources directly available means that USAID can simply provide partners with the resources they need to implement development activities, rather than burdening them with higher staff requirements and costs to implement the complicated and inefficient monetization process, freeing up time as well as valuable dollars that can be invested elsewhere. Last year, thanks in large part to the reforms in the Farm Bill, providing cash to partners rather than monetizing food aid allowed FFP to save \$21 million and reached an additional 570,000 people.

Food aid reform progress to date

Calls for food aid reform date back to the second Bush Administration and it was ultimately the food price crisis of 2008, with millions of people suddenly unable to feed their families and civil unrest rapidly following the sudden price spikes, that led to Congress providing USAID with supplemental funds for food assistance interventions such as the local and regional purchase of commodities for the first time. In 2010, the Administration requested and received funding for emergency food assistance in the base appropriation of the International Disaster Assistance (IDA) account, authorized through the Foreign Assistance Act. USAID used these funds to establish the Emergency Food Security Program (EFSP) to buy food locally and regionally and to provide targeted cash transfers or food vouchers so that people in food crises could buy food directly in local markets. At the same time, we put in place practices to ensure oversight and limit any potential for fraud or misuse of funds. This can range from the use of biometric identification practices to post-distribution monitoring that ensures food assistance is reaching the intended beneficiaries.

⁴ GAO, International Food Assistance: Funding Development Projects Through the Purchase, Shipment, and Sale of US Commodities Is Inefficient and Can Cause Adverse Market Impacts, June 2011.

We prioritize these limited resources for programs where United States in-kind food aid cannot arrive in time or when other forms of food assistance are more appropriate, efficient, or cost effective – such as in Syria. We did detailed analyses of a number of our 2012 EFSP programming and found results consistent with the GAO and Cornell University data on cost-savings, saving on average 33 percent by buying food locally and regionally compared to shipping similar commodities from the United States.

In the FY 2014 Budget request, President Obama proposed reforms to shift funding from Title II into State/Foreign Operations foreign assistance accounts, mainly IDA and Development Assistance (DA). Under the proposal, up to 45 percent of IDA resources could be used for interventions such as local and regional purchases, cash transfers, and food vouchers. The USAID/FFP development programs would have been funded with Development Assistance funds, ending the need for monetization. We estimated that efficiencies gained from this proposal would have allowed us to reach an estimated four million additional people without an increase in funding for food aid.

While the proposed reforms were not adopted, USAID continued to press for reform through subsequent budget requests, as well as during the reauthorization of the Farm Bill. The 2014 Farm Bill advanced meaningful reform, offering USAID for the first time new flexibilities that increased the limited amount of cash available to support Title II programs by seven percent to reduce monetization, purchase food locally and regionally, and help disaster victims access food in their local markets.

The Administration's FY2015 and FY 2016 Title II budget proposals build on these past proposals and achievements and seeks an additional 25 percent of the \$1.4 billion requested in Title II funding for flexible food assistance programming. We estimate this will enable USAID to reach an additional two million emergency beneficiaries.

Why more flexibility is needed

The need for additional flexibility is clear. Despite these critical improvements to the Title II program and the additional IDA resources that USAID/FFP has received over the past several years, much of the IDA has been needed to meet the exponentially increasing needs in Syria. USAID/FFP now spends some \$500 million a year to help meet the needs of more than ten million Syrian displaced persons and refugees in the region. And let us be clear – without these flexible funds, we would not be able to feed people inside Syria and would have great difficulty feeding those displaced within the region, particularly where refugees are dispersed within host communities. Similar to our Title II budget, our IDA budget for emergency food assistance for the rest of the world has remained stable since 2010, even as needs have grown in places like Sudan, the Central African Republic, northern Nigeria, and Ukraine. With regard to the new flexible funding in the Farm Bill, we have prioritized its use first and foremost to largely end monetization above the current statutory minimum required for the development programs.

With the cash flexibility we have, we still miss opportunities to run faster, more efficient, and effective emergency programs. Just this week we have learned that congestion in the port in Cameroon has disrupted the offloading of United States food, which in turn will delay its arrival in Chad, where refugees from the Central African Republic and Sudan are in need of emergency food assistance. And we have learned that increased global demand for United States sorghum will preclude our ability to buy this staple commodity for our programs over the next four months. Additional funds for local and regional procurement would not only help mitigate these kinds of unforeseen events, it would also allow us to help more of those in desperate need.

I want to emphasize that even as we seek additional flexibility, the majority of the Title II request is for in-kind food. USAID will continue to need United States commodity food aid. Last year, for example, a large-scale in-kind food response was exactly the right response in South Sudan when conflict cut off millions and markets were not functioning. USAID provided nearly 120,000 metric tons to help save lives and pull South Sudan back from the brink of famine. With 3.5 million people projected to face extreme food insecurity by June, United States in-kind commodities will continue to be a critical part of USAID's response there. During the Sahelian

drought of 2012 United States food arrived at the height of the lean season when markets were not well stocked; we provided just over 209,000 metric tons of United States food for that response. The President's FY2016 proposal envisions continued need for United States in-kind food, both traditional commodities as well as United States manufactured specialized products to treat malnutrition, known as "blended" and "ready to use" foods. Many parts of the world do not manufacture these specialized nutrition products and they are playing an increasingly critical role in the prevention and treatment of malnutrition, especially for children.

How Food for Peace Uses Existing Flexibilities

I would like to share some examples of programs we have funded with the flexibility provided through the new Farm Bill and the IDA funding. From assisting refugees to responding to typhoons, food aid reform has allowed us to tailor our assistance to be more efficient, accountable, and responsive to local needs.

Syria

Since the onset of the Syrian crisis, USAID has provided more than \$1.4 billion to respond to the needs of refugees as well as those impacted by conflict inside Syria. In the past, the Assad regime turned away United States food shipments, and regime and extremist attacks make it impossible to provide United States-branded food products. In response, our partners procure commodities regionally for prepackaged food parcels for individuals and flour for bakeries to help feed more than 4.8 million people inside Syria. We are also supporting a debit card approach to provide food assistance to more than two million Syrian refugees in neighboring countries. Most Syrian refugees are not in camps but live in host communities widely dispersed geographically, many of them in towns and cities where markets are available. By providing a debit card with a pre-paid sum, refugees can go to the market and choose a variety of foods, including fresh fruits and vegetables. The debit card not only drastically simplifies the distribution of food and provides greater choice, better nutrition and dignity to Syrian refugees, but also eases the pressure on host countries by supporting their local economies. According to the U.N. World Food Program (WFP), the food voucher program has created 1,300 new jobs and injected approximately \$1 billion into the economies of Lebanon, Jordan, Turkey, Egypt, and

Iraq since the program began. This also helps reduce the stress on host communities and build and sustain community support for refugees as the situation in Syria continues to deteriorate.

Last year, I had an opportunity to visit with a Syrian woman at a refugee camp in Turkey. She explained how the daily visit to the market helped to normalize what is not at all a normal situation. She fled her seaside town and a comfortable stone-built home where she lived with her two sons and their wives. Now she lives in a tent, sharing showers and other facilities with hundreds of others. The ability to shop on a daily basis and prepare foods familiar to her helps her get through the day.

Market-based approaches to reaching refugees and displaced people are increasingly preferred throughout the world and other major donors have modernized their food aid, adopting this approach. Current funding flexibilities would preclude the United States from shifting toward this approach for other refugee populations, including in Kenya and Ethiopia where these new methods are being brought to scale.

Philippines

In response to Super-Typhoon Haiyan in the Philippines in 2013 we used both United States in-kind food and cash based assistance: we airlifted United States specialized foods that served as daily meal replacements for those who lost their homes, and we provided an immediate cash grant that allowed the UN and the Government of Philippines to tap into local rice stocks and distribute them within five days of the storm. Six weeks later, this help was supplemented by U.S. in-kind food- mostly rice – which arrived from prepositioned stocks in the region. And in the recovery phase, when markets had begun to function again, we supported a cash transfer program that allowed survivors to begin to access local markets again and revive local economic activity in the hardest hit areas. Had that storm happened at the end of the fiscal year when our limited pool of flexible funds was expended, our response would have been less timely, less effective, and more costly.

Kenya

In Kenya, we are using a variety of tools to build the resilience and address the emergency food assistance needs of the between one and four million Kenyans each year who do not have enough food during the lean season just before the harvest. In remote areas where people do not have easy access to markets, we provide in-kind food aid to meet needs. For those who can access markets in semi-arid counties, we use electronic cash transfers for food purchases to avoid disrupting functioning markets and to support livelihoods. We are also providing farmers with the tools and know-how to increase their agricultural production, even during tough times.

Ndeli Samuel, a widow with four children, is training with other community members to learn new farming techniques that will save water when irrigating crops in the arid zones. In return, she receives a U.S. in-kind food ration for her participation because local markets are not accessible. Ndeli's training workshop was one of more than 700 resilience projects that USAID's implementing partner is undertaking to help farmers adopt simple but effective technologies to improve water and land use in the tough climate of Kenya's drylands. Ndeli says she is now ready to graduate and teach this technique to others in her community. She now grows enough crops for her family and is selling the rest to her neighbors. Here cash resources are critical so that we can help farmers buy better farming tools and train them in the farming techniques that helped Ndeli and her family increase their food security. These efforts are critical to USAID's resilience agenda, which seeks to help the world's most vulnerable build adaptive capacities so that they can mitigate and bounce back from droughts, conflict, and other risks they face.

Conclusion

Be it relief or development, USAID's food assistance programs are evolving based on years of experience, evidence-based learning and a willingness to innovate to assure hunger needs and United States interests are met in some of the world's toughest places. In our 60th anniversary year, we look back with pride at all that has been accomplished and look ahead, clear-eyed and focused, on the challenging work today's crises present to us. As part of USAID's mission to end extreme poverty and promote resilient, democratic societies, we are committed to continuing

to find ways to work smarter and better so we can effectively and efficiently combat hunger around the globe. The President's food aid reform agenda furthers these goals.

I would be remiss if I did not close by saying that we in USAID/Food for Peace are proud to be entrusted with these resources and leading global humanitarian efforts to reach those most in need of food assistance. Our goal is to remain the best at what we do. We recognize our many partners who make this work possible and honor those who risk their lives or have lost their lives in their mission to deliver assistance to hungry people around the world.

We are proud to be carrying out this lifesaving work on behalf of the American people and appreciate the longstanding bipartisan Congressional support for the mission of ending global hunger.

Thank you again for this opportunity to testify about why we have prioritized food aid reform as an agency and an Administration. I look forward to your questions.