

Hearing: Modernizing the Food for Peace Program
Senate Committee on Foreign Relations
October 19, 2017

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Thank you Chairman Corker and Ranking Member Cardin for this opportunity to provide testimony to the Senate Committee on Foreign Relations. I am Bill O’Keefe, Vice President for Government Relations and Advocacy for Catholic Relief Services. I have been with Catholic Relief Services for 30 years, starting as a project manager in Tanzania and over the years serving in a variety of positions based in our Baltimore headquarters. I am honored to represent Catholic Relief Services in this hearing.

Catholic Relief Services is the international relief and development agency of the U.S. Catholic Church and a subsidiary of the U.S. Conference of Catholic Bishops. We are one of the largest private voluntary organizations implementing U.S.-funded foreign assistance, including international food security programs. Our work reaches over 120 million poor and vulnerable people in 112 countries. Catholic Relief Services provides assistance based on need, without regard to race, creed, or nationality. Our work is based on the principles of Catholic Social Teaching, including solidarity and subsidiarity. Subsidiarity asserts that the people or communities closest to the problem should solve it. When they struggle, we support them. In living out these principles, we partner with church and other local partners to ensure the most effective and sustainable programming; in 2016 we worked with more than 1,800 partners.

On behalf of Catholic Relief Services, we appreciate the opportunity to give testimony on how the Food for Peace program can be improved. At a time when four countries are facing the specter of famine, over 60 million people are displaced and in need of emergency food assistance, and the number of people struggling with chronic hunger has gone up instead of down, we believe every dollar that can be mobilized to respond to food security needs around the world is critical.

I also wish to share with you the role we see Food for Peace playing in U.S. food security programming overall, and the great work currently being carried out by the program. This also provides context for the recommendations we provide in this testimony, which in short are 1) reducing the use of monetization, 2) greater integration with other emergency food assistance programs, and 3) eliminating cargo preference.

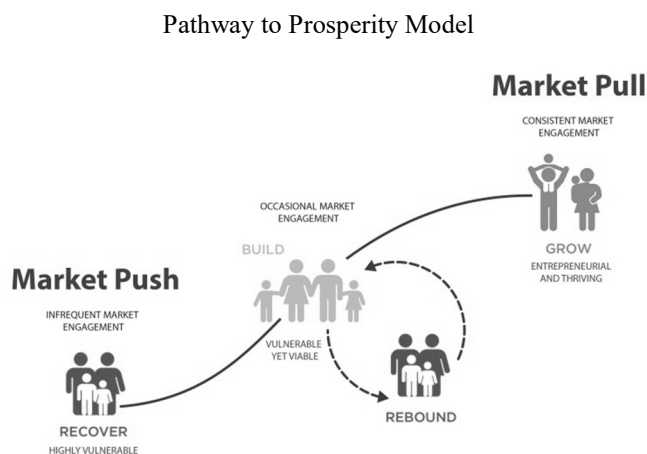
Catholic Relief Services’ Concept of Food Security

A core focus of our work is on improving the livelihoods of smallholder farm families as a means to achieve food and nutrition security. With our integral human development model, based on Catholic social teaching, we help these families to assess their levels of assets, vulnerability, commercial prospects, education, and ability to take on new technologies or risk.

Based on this assessment, we work with smallholder farm families to move them along a Pathway to Prosperity (see graph), and ultimately to self-sufficiency.

Moving people along the Pathway to Prosperity requires transitioning families from subsistence farming into greater engagement with markets. Ultimately, smallholder farming is a small business and even very vulnerable farmers – with the right skills and opportunities – can increase their income through increased connections to markets and ultimately become food secure in a sustainable manner.

Our work toward these goals is supported in different ways by existing U.S. food security programs. For instance, the Food for Peace development programs we implement focus on moving beneficiaries from the recover to build phase of our Pathway, while our Feed the Future programming helps people in the build phase reach further success in the grow phase. Emergency food security programming supported by both Food for Peace emergency programs and the Emergency Food Security Program (EFSP) help to stabilize people at both the recover and rebound phases, particularly those impacted by short term shocks. Because building food security is a continuum, and success in one phase allows transition to the next higher phase, it is important that U.S. food security programs are layered and that strong linkages between them are established.



The Food for Peace Program

For over 60 years the Food for Peace program has provided food assistance to people in need around the world. Current operations of the Food for Peace program provide funding for both emergency and development food aid programs. Emergency food aid supplied by Food for Peace provides U.S. commodities to people who are suffering emergency conditions due to natural disasters or conflict. As discussed above, these programs help stabilize people facing external shocks by providing them enough food to survive, so they are not forced to migrate and can avoid negative coping strategies like selling off what assets they have.

The Food for Peace authorization provides a minimum of \$350 million a year for “non-emergency” programs; this moniker does not do these programs justice. Food for Peace non-emergency programs are actually development programs that target assistance to the poorest countries, and the neediest farm families in those countries. As noted above, Food for Peace development programs are a linchpin in moving farm families up our Pathways model, and we believe their success in this endeavor stems from the multi-sectoral and multi-year nature of these programs.

The multi-sectoral programs indicative of Food for Peace development programs address a number of sectors simultaneously – agriculture, nutrition, land regeneration, water management, infrastructure improvements, and market engagement – in order to address needs of entire

communities. The root causes of hunger, malnutrition and poverty are many and often interrelated, so in order to address an issue in for instance child nutrition, it may require solving a problem in agriculture. Multi-sectoral programming breaks down the silos that occur too often in foreign assistance, and allows implementers to both understand that tackle challenges from a systems approach.

Food for Peace development programs are also implemented over a period of at least five years. More than anything, development depends on changing practices, behaviors and awareness of both individuals and communities. It takes time to convince a farmer who has been using growing techniques passed on for generations, to do something different. These programs give implementers enough time to make a lasting impact on the people we serve, whether it is helping farmers see the benefits of doing things differently, revitalizing local ground water sources through better land management, or mobilizing a community to construct assets like dikes and irrigation systems.

While Food for Peace has been a mainstay of the U.S. food security response for decades, it is important to note that despite its age, it remains a very dynamic program thanks to skillful management by the Office of Food for Peace. Some of the more recent examples of policies and practices that make it such a good program include emphasis on sustainability; soil and water management; multi-year emergency planning; crisis modifiers; and impact investing.

Emphasis on Sustainability – Food for Peace programs focus on the factors that lead ultimately to self-sustaining and self-replicating impact. This includes 1) building sustainable sources of income through savings groups, diversified livelihoods, new small-scale business opportunities, and links to sources of loans and other financial instruments; 2) improving capacity within local governments and civil society actors to carry forward new skills and practices introduced in programs, but also to continually learn and adapt practices to new challenges long after a program ends; and 3) by building lasting linkages between beneficiaries, service providers, and other market actors so that once the program is over, the network remains in place.

Soil and Water Management – Closely related to sustainability, Food for Peace development programs allow for implementers to tackle challenges on a landscape level. Among the most serious of these challenges is land degradation. The vulnerable farm families Food for Peace targets often only have access to farm land depleted of essential nutrients required for growing crops, and which have little water available to them. Through Food for Peace development programs we work with communities to take steps to recharge local aquifers and restore soil nutrients in sustainable, self-replicating ways. Ultimately, this work makes land more productive and insulates farmers from drought. For example, in Malawi during the El Niño drought last summer USAID produced the video “Wilfred’s Leap of Faith,” documenting irrigation farming, available at https://stories.usaid.gov/video/?video_id=4492. The program work behind this story included soil and water interventions as discussed above, under a Food for Peace development program that ended in 2014. As the video demonstrates, two years after project completion and in the middle of a historic drought, these farmers were still thriving.

Multi-year Emergency Planning – In locations that are impacted by chronic hunger requiring an emergency response, it makes sense to provide emergency funding over a longer term than a

typical 6-12-month emergency program, while linking this kind of emergency response more closely with development programs that provide social safety nets and support resilience. Food for Peace is at the forefront of executing multi-year emergency programming, a chief example of which is the Joint Emergency Operation (JEOP) in Ethiopia managed by CRS. JEOP is designed to establish and maintain capacity to scale up and down overall response as needs fluctuate. Over the course of 2015-2016 growing season, the program was tested as Eastern and Southern Africa, including Ethiopia, were hit by severe drought caused by the El Niño weather phenomena. Prior to the drought, JEOP served 700,000 people, but in just a few months that number rose to over 2.9 million people. Ultimately, the JEOP played a pivotal role in supporting the Government of Ethiopia's food security efforts, which successfully prevented famine during this crisis.

Crisis Modifiers: A key part of the strategy behind development Food for Peace programs is to locate these programs in regions with high levels of chronic hunger, which often are also areas subject to recurrent shocks like droughts and floods. For this reason, development Food for Peace programs now include "crisis modifiers," or clauses in awards that allow resources intended for development work to be repurposed for emergency response if a shock requiring an emergency response occurs in or near program sites. In this way development programs provide a platform for immediate response, and at the same time can protect development gains through targeted emergency response. Crisis modifiers allowed CRS to respond to emergency needs in both Malawi and Madagascar last year during the height of the El Niño drought.

Impact Investing: CRS incorporates the new paradigm of impact investing within some of our Food for Peace development programs. For example, working with USAID's Development Credit Authority (DCA), CRS has used our cost-share in Madagascar to support a private-sector partner's purchase of certified organic vanilla. The vanilla is sourced from up to 9,000 small farmers who participate in the FFP program, and with whom we are working to improve farming practices so they can meet quantity and quality requirements. CRS has also undertaken a similar effort in Malawi working with the private sector and up to 3,400 small farmers in producing the moringa plant, whose protein- and nutrient-rich leaves are harvested for dietary supplements.

On behalf of the many people we serve through both emergency and development Food for Peace programs, I want to express gratitude to Congress for continuing to support the program, especially in light of this year's budget request that eliminated funding of this program. We are thankful that Congress understands that millions of lives depend on the food and funding provided by the Food for Peace program, and that protecting their well-being isn't just the right thing to do, but also has implications for migration, stability and conflict around the world. We strongly urge Congress to continue its support of the Food for Peace program as the FY2018 appropriations process moves forward, and we hope the Administration restores funding of this critical program in the FY2019 budget request.

Reforms to the Food for Peace Program

While Catholic Relief Services is a strong supporter of the Food for Peace program, our deep knowledge of the program also leads us to believe that aspects of its implementation can be improved through further reforms. The principles governing these reforms exemplify the

Church's teaching that we must put the needs of the poor and vulnerable first and protect the common good. Thus, any reforms should maximize the numbers of people who can be served. In sum, our objectives around reform include; 1) limiting the use of monetization in Food for Peace, 2) improving coordination between Food for Peace and other programs as a means to maximize discretion in choosing to use U.S. commodities, locally produced/purchased commodities, vouchers, or cash transfers in the implementation of food security programs, and 3) eliminating the impact that cargo preference laws have on food aid programs. I would remiss not to acknowledge changes made to food aid programs in the 2014 Farm Bill, and the authorization of new programs in the 2016 Global Food Security Act, that have allowed us to achieve progress towards some of these goals. That said, we have specific recommendations to further advance reforms in these areas.

Monetization

Monetization is the practice of selling U.S. commodities overseas in order to raise funds to pay for program costs. For many years monetization was the primary source of funds used to pay for direct costs of Food for Peace development programs. The Government Accountability Office, and our own experience, tell us that monetization is an inefficient mechanism to raise program funds, and that on average proceeds from commodity sales only allowed us to recover 75% of the total cost involved in purchasing and transporting the commodities that were sold. In recent years significant steps have been made to move away from monetization in Food for Peace development programs, but more can be done to solidify this move.

First, current law requires that 15% of commodities made available to Food for Peace development programs be monetized. This is an arbitrary requirement built into the law, and at most the practice of monetization has only occasional programmatic value. Given the well-documented inefficiencies around monetization, **we ask that Congress replace this requirement with a simple permissive authority to monetize so that in rare instances where there is programmatic need, it can still be used.**

Second, we recommend that Congress provide sufficient direct funding for Food for Peace development programs so they can avoid using monetization to raise program funds. In current practice, Food for Peace development programs receive direct funding support from two main sources – the Food for Peace 202e account and the Community Development Fund (CDF). In the 2014 Farm Bill, the Agriculture Committees recognized the need to move away from monetization in Food for Peace development programs and as a result amended the existing 202e account – which until then covered only overhead costs – to also cover direct costs associated with development programs, and they also increased overall Food for Peace funding directed to 202e. Concurrently, USAID has used funding provided through the State and Foreign Operations appropriations to fund a portion of Food for Peace development programs, while at the same time re-routing an equal portion of Food for Peace development funding to emergency purposes. In this way, Food for Peace development programs receive additional direct funding, Food for Peace emergency programs have more commodities available to them. **We ask that Congress maintain the expanded authorities and funding provided to 202e, and that the CDF mechanism be authorized as a permanent aspect of Food for Peace, in upcoming Farm Bill.**

Program Integration and Flexibility

One of the most profound changes to U.S. food security programming in recent years was the introduction and ultimate authorization of the Emergency Food Security Program (EFSP). Prior to EFSP, all emergency food assistance was in the form of U.S. commodities provided via the Food for Peace program. Beginning in FY2010, USAID dedicated \$240 million of International Disaster Assistance money to fund emergency cash transfer, voucher and local purchase programs used to address acute food security needs. Since then the program has grown to close to \$1 billion in funding, and was authorized as a permanent program in the Global Food Security Act.

We recognize the authorization of EFSP was a result of the leadership of this Committee and for that we express our deepest gratitude. Indeed, EFSP was the missing ingredient in U.S. emergency food assistance response and is a critical complement to the Food for Peace program. Today, the Office of Food for Peace manages both EFSP and Food for Peace emergency programs, and is now able to provide implementers like CRS the right resources – whether it is U.S. commodities or other modes of assistance – to respond to the emergency food needs of the people we serve.

While the Office of Food for Peace has been able to make EFSP and Food for Peace work together, we know that it isn't easy. These programs draw their authorization from two separate statutes with different authorities, rely on two different funding streams that provide resources at different points of the year, and have two separate sets of regulations and reporting requirements. These differences increase the administrative burden for both implementers and USAID, and make it impossible to combine funding from both programs into one award – at present, if implementers want to draw funding from both programs, USAID must grant two separate awards. **We ask Congress to make it easier for EFSP and Food for Peace emergency programs to work together, by giving USAID authority in both the Farm Bill and the Global Food Security Act to harmonize regulations and practices between these programs, with the goal of being able to use resources from either program in one award.**

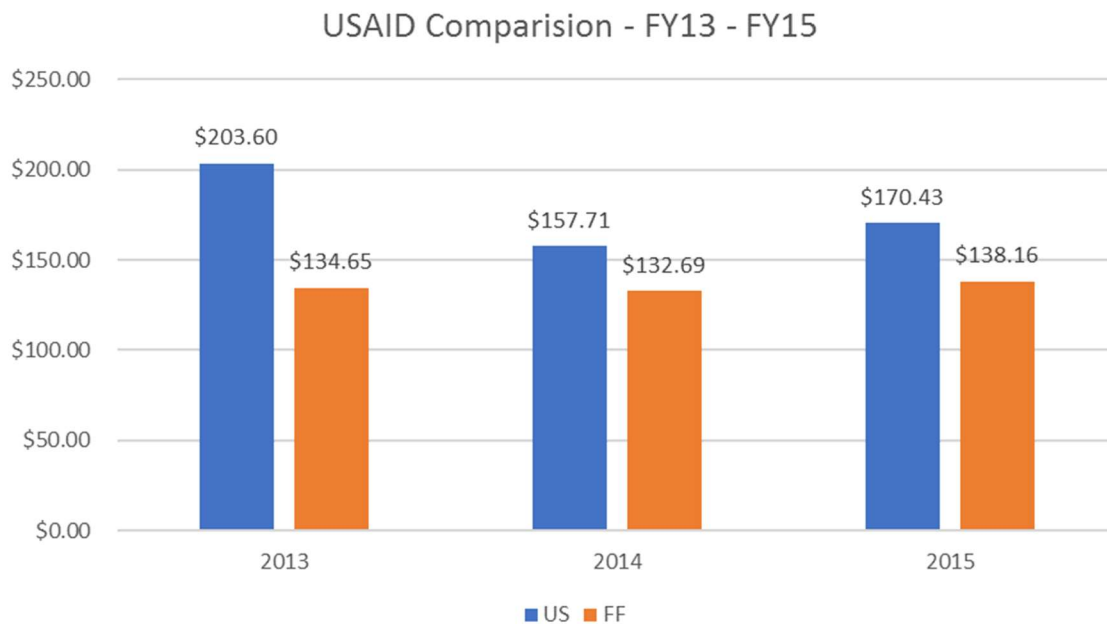
Cargo Preference

Cargo preference is a policy, carried out in federal law, that establishes minimum quotas for U.S. flagged vessels to carry U.S. funded cargo to foreign ports. Under current law, at least 50% of food aid commodities shipped via ocean freight for Food for Peace programs, as well as food aid programs administered by the U.S. Department of Agriculture, must be shipped on privately owned U.S. flag cargo vessels. Catholic Relief Services implements both Food for Peace programs, as well these USDA programs, so we have experience with cargo preference applied to both.

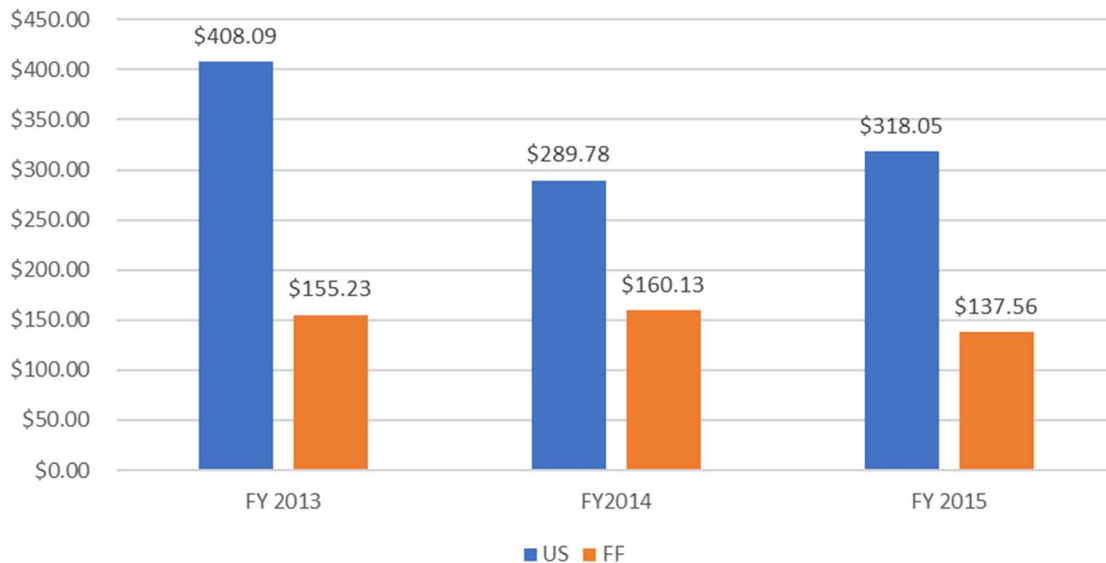
The intention behind this law ostensibly is to maintain a U.S. merchant marine fleet available to transport military cargos, and trained and experienced U.S. crews to operate these vessels. As a relief and development organization, Catholic Relief Services is not in a place to comment on whether cargo preference has been successful in meeting these goals. However, as an aid

organization with many active food aid programs subject to cargo preference, we can speak to its effects on these programs. The most significant effect cargo preference has is reducing price competition and thereby increasing ocean transportation costs of food aid commodities.

We have collected pricing, vessel flag and other information on shipments for food aid programs CRS operated in fiscal years 2013, 2014, and 2015. During this period, Catholic Relief Services shipped between 11-13% total volume of food aid commodities shipped in the Food for Peace program, and 9-10% of all commodities shipped in USDA programs. About 53% of our USAID shipments and 83% of our USDA shipments were on U.S. flag vessels. For our USAID programs, U.S. flag carriers charged on average 31% more per metric ton to ship commodities than foreign flag carriers; for our USDA programs, U.S. flag carriers charged on average 124% more per metric ton than foreign flag carriers did. The price differentials between U.S. and foreign flag carriers by year for both our USAID and USDA programs are depicted in the below charts. **If U.S. carriers had matched the average foreign flag rates in each of these years, Catholic Relief Services would have spent \$23.8 million less on ocean freight shipping in this three-year period. If this money were spent on emergency food aid, it could have used to serve over 500,000 more beneficiaries.** Let me also underscore, this is solely based on CRS ocean freight data, which represents only a small fraction of either USAID or USDA food aid shipments.



USDA Comparison - FY13 - FY 15



Cargo preference works by guaranteeing a significant portion of the food aid market to U.S. carriers, which allows them to avoid price competition with more competitively priced foreign flag carriers in this market. The results are higher prices to move each metric ton of U.S. wheat, rice, corn-soy blend, or vegetable oil used in the food aid programs we implement.

While the minimum tonnage requirement is 50%, constraints in how other aspects of the cargo preference law are applied further reduces competition. For instance, preference tonnage must be computed separately for dry bulk carriers, dry cargo liners, and tankers. While at one time there were three separate classes of vessels, most ocean transport of goods – including food aid commodities – is done on large container ships (in some cases tankers are used, but only to extent loose grain are shipped). Nevertheless, vessel operators argue, often successfully, that they fall into one of these classes of vessels and their bid should take precedence over other bids – including that of other U.S. flag carriers – because minimum tonnage has not been met for the vessel class. This allows vessel owners to game the system, and forces USAID and USDA to pay higher prices for shipments on vessels that are not materially different from one.

Another requirement within the cargo preference law is that the 50% tonnage requirement be distributed across geographic regions, but the law fails to note what geographic regions entail. As a result of a lawsuit against USDA on this question, USDA programs are required to calculate the 50% tonnage requirement by country, while USAID uses eight designated geographical regions which were worked out between the agency and the Maritime Administration which oversees implementation of the cargo preference law. In either case, competition is further restrained since 50% quotas have to be met across multiple countries/regions. This is particularly impactful for USDA programs, which typically only have one shipment a year. In order to meet their 50% quota, these country programs have to ship 100% of their commodities on U.S. carriers.

Entry of additional U.S. flag carriers into the market is also hamstrung by another part of the cargo preference law which requires a vessel to have a U.S. flag designation for three years before it can be considered a U.S. flag vessel for food aid shipments. This “wait time” serves as a barrier to additional U.S. flag vessels entering the food aid delivery market, artificially constraining the number of vessels in competition for U.S. flag cargo.

While not specific to the cargo preference law, another issue around ocean freight transport that drives up costs is an effective mechanism to hold carriers to reasonable performance standards. All bidding for ocean freight shipments is conducted through USDA’s WBSCM, an online system which accepts bids from both U.S. and foreign flag carriers. USDA and USAID, for their respective programs, determine which bid is awarded the freight contract based first on whether minimum tonnage for U.S. carriers is met, and second on cost. Past performance is not considered in this equation, and as such carriers do not have incentive to perform well. This isn’t to say that all carriers perform poorly, but there are indeed some carriers who regularly damage food aid cargos during transit, deliver shipments well past scheduled delivery dates, and provide poor customer service to implementers like CRS when we try to work with them to resolve issues related to our shipments, all of which increase administrative burden and costs, while negatively effecting food aid program outcomes.

Catholic Relief Services is grateful for the role U.S. flag carriers and their crews have played in delivering food aid commodities to people in need. We are not seeking to exclude U.S. carriers from delivering food aid, and in fact we consider them an important part of the food aid delivery system. Our concern is that the manner in which Congress has chosen to support these vessels and crews relies on requiring U.S. food aid programs to use higher cost vessels. We do not believe food aid programs, which are intended to help hungry people around world, should bear the added costs associated with meeting cargo preference requirements. As such, **we strongly recommend that Congress eliminate cargo preference requirements applied to international food aid programs.** This will force U.S. carriers to more competitively price their services based on international market prices and lead to significant savings in food aid programs. Further, beyond cargo preference, **we also ask that past performance become a prominent factor in awarding freight contracts in food aid programs.** This will motivate carriers to improve how they deliver food aid, and help food aid programs weed out poor performers – whether they are U.S. or foreign flag carriers.

Conclusion

As a privileged partner of the US government, Catholic Relief Services has had the honor of witnessing the life-saving and life-altering impact of the Food for Peace program. With as many as 20 million people still at risk of famine, we encourage Congress to continue to support this program, and to consider the changes we recommend – further addressing monetization, improving program coordination between Food for Peace and EFSP, and eliminating cargo preference on food aid programs – as a path forward to improving the Food for Peace program.