

**STATEMENT OF ELLEN S. LEVINSON**  
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before the  
**SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING AND  
THE DISTRICT OF COLUMBIA  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE**

**June 4, 2002**

Mr. Chairman, thank you for the opportunity to testify before the Subcommittee regarding the structure, scope and effectiveness of United States international food assistance programs and the likely impact of the Farm Bill and proposed policy changes on these programs.

In addition to serving as Government Relations Director at Cadwalader, Wickersham & Taft, I am Executive Director of the Coalition for Food Aid, which was established in 1985 and is comprised of US private voluntary organizations and cooperatives (jointly referred to as "PVOs") that conduct development and humanitarian programs overseas.<sup>1</sup> US food aid is used by these PVOs as part of programs that help improve the health, incomes and well being of the poor; to assist refugees and displaced persons; and to meet emergency needs.

Through US food aid programs, Coalition members engage 30 million beneficiaries each year, with collateral assistance reaching 200 million more. PVOs leverage the assistance provided by the US Government by providing local networks and capabilities in developing countries and emerging democracies. Each PVO has its unique purposes and methods, but all are committed to improving the ability of people and communities to meet their own needs.

US food aid programs are in the midst of change because of amendments enacted in the Farm Security and Rural Investment Act of 2002 (FSRIA) and new policies announced in February 2002 as part of the Administration's Food Aid Review. My testimony summarizes the potential consequences of the Administration's Food Aid Review on food aid programming; presents data of worldwide food aid needs; reviews the recommendations for the Farm Bill made by the Agri-PVO Food Aid Working Group and compares them to the actual changes made to food aid programs in FSRIA; and identifies additional changes that are needed.

**The Administration's Food Aid Review**

In February, 2002, the Administration announced policy changes that would be implemented as the result of an interagency "Food Aid Review" and which would have serious consequences for the future of US food aid programs. With the passage of FSRIA, these recommendations are undergoing further review and would benefit from greater consideration of the suggestions made by PVOs and others that have experience implementing food aid programs overseas.

To stop off-budget funding for food aid, the Review concluded that Commodity Credit Corporation (CCC) purchases of commodities for food aid programs must be eliminated. Starting in FY 2003, nearly all Section 416 surplus donations and most Food for Progress donations would be eliminated. Although the Administration simultaneously requested that Congress significantly increase appropriations for PL 480 Title II, the additional 800,000 metric tons that this would provide does not compensate for the loss of 2-to-6 million metric tons (MMT) of CCC-funded commodities each year.

Over half of US emergency food aid has been supplied by Section 416 in recent years. Thus, as a result of this new policy there is tremendous pressure to convert more of the Title II program into emergency food aid, despite the statutory requirement that 75% of Title II is for nonemergency programs that help people who suffer from chronic hunger. These policy changes also will result in the loss of Section 416 and Food for Progress programs that help to strengthen private enterprise development, agricultural productivity and disaster recovery in emerging democracies.

To streamline management, the Review concluded that USDA should only administer programs that involve foreign governments and USAID should only administer programs that involve PVOs or the World Food Program (WFP). This would not streamline management; it would just eliminate access to USDA programs for PVOs and WFP.

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<sup>1</sup> The members are Adventist Development & Relief Agency International, Africare, ACDI/VOCA, CARE, Catholic Relief Services, Counterpart International, Food for the Hungry International, International Relief & Development, Mercy Corps, OIC International, Save the Children, TechnoServe and World Vision, Inc.

FSRIA requires CCC to fund at least 400,000 metric tons (MT) of Food for Progress commodities each year and strongly endorses continued participation of PVOs and other nongovernmental entities. Thus, the Administration will have to revise its policies. If the Administration decides to transfer Food for Progress PVO programs to USAID, and to keep governmental Food for Progress programs at USDA, this will cause a great deal of confusion for program management. Moreover, USAID has its hands full trying to streamline and to expand Title II. It is difficult to envision how USAID would have the time or the staff to create procedures for and implement an additional program.

Finally, the Review concluded that Title II should focus on “feeding” programs, which is a term that describes emergency or institutional programs where food is prepared for participants. Other than emergency food aid, there are few “feeding” programs under Title II right now. This is because food aid programs are developed to help build local capacity, not to create dependency. Most Title II programs involve take-home rations (for example mother-child health care and food-for-work programs) and/or monetization, where commodities are sold in food deficit countries and the proceeds are used to support development activities and program logistics.

As a corollary to expanding Title II feeding programs, the Review calls for large cutbacks in monetization programs. Yet, Title II program impacts have dramatically improved in both the agricultural and household nutrition priority sectors because of the use of monetized proceeds. Rather than assessing programs by whether they involve feeding or monetization, a better approach is to look at program benefits and effectiveness.

### **Food Aid Needs**

Hunger has many causes and manifestations, but is most often associated with poverty and lack of empowerment. In developing countries where poverty is endemic, employment opportunities are lacking, governments are unable to provide basic health and education services or sanitation and clean water due to low revenues and high debt burdens, agricultural productivity and marketing systems are usually weak and under-performing, and many people struggle just to meet their basic needs.

The purpose of PL 480 is to improve food security in developing countries. Food security means that an individual has sufficient amounts of the right types of food on a regular basis to meet nutritional needs. To be “food secure,” a person must be able to buy or to produce enough food. Nearly 900 million people are not able to acquire enough food which leads to poor physical development, low productivity, greater susceptibility to disease and premature death. Chronic hunger can be the result of insufficient supply of food in the area, lack of resources to procure food, and/or diseases that make it impossible to digest and utilize the food properly.

In addition to those who suffer from chronic hunger, millions of people are hungry and face starvation each year due to natural disasters and war. In urgent emergencies and as part of safety net programs for the poor and undernourished, targeted food aid distributions can help to save lives, to enhance people’s health, and to preserve household assets that would otherwise be sold to procure food.

At the current rate of progress, the World Food Summit goal to halve the number of hungry people by 2015 is not feasible. It would require a 3.5 percent annual decline in the number of undernourished people. USDA’s Economic Research Service (ERS) projects a 1.6 annual decline, assuming continued declines in population growth rates and World Bank projections of improved global economic growth for 2003 and beyond.

Most recent United Nations reports estimate that 896 million people are hungry. While no region is immune to hunger, the vast majority of these people live in low-income, food-deficit countries. FAO’s “The State of Food Insecurity in 2001” found that worldwide the number of undernourished people is decreasing, but in most developing countries there has been a significant increase in the number of undernourished people during the decade of the 1990’s.

The ERS March 2002 “Food Security Assessment” found that food security in 67 low income, net food-importing countries declined in 2001 compared to 2000. Two measures of “food security” are considered: the total availability of food in a country per capita, whether locally produced or imported, and the access to food by people in different income brackets. About 11 million metric tons of food aid would be needed to maintain the same per capita consumption levels in 2001 compared to 2000, while 18 million metric tons would be needed to reach minimum caloric intake requirements per capita. However, these aggregate data do not take into account that there are very skewed income levels in developing countries and the poor do not consume as much food as those in middle and higher income brackets. To raise food consumption for each income group to a level that meets minimum caloric requirements, 30 million metric tons would be required.

These are measures of chronic hunger. In Sub-Saharan Africa 57 percent of the population consumes less food than what is necessary to meet nutritional needs. In Asia the number of people who do not meet minimum nutritional requirements has been declining, although largely due to skewed income levels and variability in production, there are still 484 million undernourished people in poorer Asian countries. In the Newly Independent States of the Soviet Union, there are also positive trends, which tracks with positive per capita economic growth. On average, in North Africa food consumption is above nutritional requirements, but these countries are dependent on food imports and need to maintain economic growth to finance imports. Food security in Latin America and the Caribbean has improved over the past 20 years and is likely to continue to improve over the next decade due to income growth in some of the more populous countries. However, income inequality is a continuing problem, and the poverty and food insecurity profiles for low income segments of the population are similar to or worse than South Asian countries.

Half of international food is used for emergencies, responding to economic, natural and manmade crises. Such interventions are critical. However emergency food aid does not tackle the problem faced by chronically undernourished people who fall into the low-income brackets where 30 million metric tons of food aid would be needed to meet nutritional requirements.

To address these chronic problems it is not only the availability of food in a country that needs to be improved, but the access to food for the poor also needs to be addressed. For example, in India, Bangladesh, Ecuador, Azerbaijan, Guatemala and Georgia, using national averages it may seem that there is adequate food in each country to meet nutritional needs. However, low-income groups in these countries do not have adequate diets. In Sub-Saharan Africa both the amount of food available countrywide and the access to food for the poor are way too low.

#### **Agri-PVO Food Aid Working Group Recommendations for the Farm Bill**

In anticipation of the Farm Bill, over a year ago a group of over 30 PVOs and agricultural groups formed the Agri-PVO Food Aid Working Group and developed a comprehensive set of recommendations to reform and to improve food aid programs.

**First**, the Working Group recommended a needs-based program, instead of a surplus-driven program. The amount of US food aid provided each year over the past decade ranged from 2.8 to 9.0 million metric tons (MMT) per year, mainly based on the amount of surplus commodities available rather than the need overseas. This created inefficiencies in program planning and procurement, because there were protracted interagency consultations about how much would be provided each year, delayed funding allocations by OMB, and bunching of commodity orders in the last few months of the fiscal year. Besides, surplus commodities did not guarantee that the right types of products or nutrients would be available. Since 18 million metric tons of food are needed by the poorest countries each year to meet minimum caloric needs, the Working Group recommended that the baseline for US food aid should be 5.6 MMT, about one-third of the minimum amount needed.

**Second**, additional commodities above this 5.6 MMT are needed for emergencies. An emergency reserve of food and funds is the best approach to assure that commodities can be made available quickly, saving lives and reducing suffering. For natural disasters, providing food aid before people sell productive assets, such as seeds and tools, and before people leave their homes in search of food can assure a more rapid transition to the recovery phase. The Bill Emerson Humanitarian Trust is a food reserve that is intended to serve this purpose, and the President has the discretion to use it. However, a new mechanism is needed to provide for replenishment of commodities that have been released from the reserve.

**Third**, administrative policies and procedures need to be more practical and efficient, including early approval of program proposals so commodities purchases can be spread out over the fiscal year rather than bunched at the end of the year. The Working Group called for more transparent procedures for the review and assessment of proposals by USDA and streamlining USAID administrative requirements. The most onerous administrative requirements are applied to PVOs, particularly under USAID programs, and user-friendly program guidance, expedited review and approval procedures, and flexibility for PVOs to adapt a program to meet the changes encountered during the implementation phase were recommended.

**Fourth**, recommendations were made to provide adequate cash assistance for program administration and to complement program implementation under PL 480 Title II, Food for Progress and Section 416 programs.

**Fifth**, in poor, food deficit countries monetization is an effective way to generate funds to support administration and implementation costs. However, USDA and USAID have different sales procedures for monetization. Uniform

monetization procedures for USDA and USAID were recommended, based on the USDA model because it is more reflective of commercial practices.

**Some significant steps were taken in FSRIA to implement these five recommendations. However, additional legislative and policy changes are needed.**

**(1) Increasing the baseline level of food aid for chronic needs.**

*The goal of a 5.6 MMT baseline through a mix of PL 480, Food for Progress and Food for Education programs was not fully met in FSRIA. Under the new law, the minimum level of food aid that is provided each year would increase from about 2.8 million metric tons to about 3.7 million metric tons.*

This additional 900,000 MT is derived from a 475,000 MT increase in the minimum tonnage level for PL 480 Title II and the establishment of a 400,000 MT minimum tonnage level for Food for Progress, which previously had no minimum requirements. This estimate assumes that Congress will appropriate enough money to fund the increased tonnage level for PL 480 Title II and will at least maintain Title I at a funding level that provides about 800,000 MT. This estimate does not include the allocation of \$100 million in FY 2003 for the new McGovern-Dole International Food for Education and Nutrition Program (IFEN), which would supply an additional 200,000 metric tons for that one year.

IFEN is funded at \$100 million for only one year, which makes it difficult to start new programs. However, it will allow the continuation of pilot programs initiated under the USDA FY 2001 Global Food for Education Initiative. PVOs have a great deal of experience with food for education and look forward to participating in this expanded pilot program. The legislation sets the appropriate objectives of improving educational opportunities and food security for children, rather than short-term feeding programs, which will allow these funds to have an impact beyond the short period in which the commodities are made available.

*A very positive step taken in FSRIA is that the ratio of PL 480 Title II nonemergency programs to emergency programs remains at 75 percent. However, the Administration does not seem to be trying to implement this provision.*

The nonemergency level is intended to assure that an adequate proportion of the increased Title II assistance will be provided to improve food security in communities where there is pervasive poverty and people cannot meet their basic needs. Previously, the law required that in each fiscal year at least 1.55 MMT of Title II commodities be provided for such programs, which was about 75% of the minimum tonnage level of 2.025 MMT. FSRIA increases the nonemergency level to 1.875 MMT, which is 75% of the new 2.5 MMT minimum tonnage level.

Under the law, the 75% nonemergency requirement cannot be waived until after the start of a fiscal year, in order to assure that USAID does not hold back commodities that could be used effectively for development programs. Nonetheless, PVOs are currently being told, as USAID reviews their fiscal year 2003 Title II proposals, that they have to reduce their tonnage levels because less food aid will be available for nonemergency programs in FY 2003 than in FY 2002. Apparently, the Administration does not plan to try to meet the increased minimum tonnage level for nonemergency programs.

The Administration may be holding back Title II commodities partially because it has not yet developed a plan to respond to emergency needs. By not deciding which of alternative mechanisms to use to address emergency needs, mother-child health care, early childhood development, food for education, agricultural development, small enterprise development, and other “nonemergency” programs that target pervasively poor communities will be hurt.

**(2) Additional amounts of food aid for early and rapid response to emergencies.**

*FSRIA did not directly address this issue, although the amount available for emergencies under PL 480 Title II is increased by 150,000 MT, from 475,000 MT to 625,000 MT. Under current law, there are other ways to meet emergency needs, but using these authorities is left to the Administration’s discretion. Of the options available, so far the Administration is considering drawing down commodities from the Bill Emerson Humanitarian Trust, an emergency reserve which currently holds 2.5 MMT of commodities. This is a good option, but it is necessary to assure that the Trust will be replenished without depleting funds for other food aid programs. This would require an Administrative decision to use CCC funds to buy commodities to replenish the Trust and legislation to waive the requirement for encumbering future food aid funds to repay the Trust for commodities that are used to meet urgent needs.*

The purpose of food aid in emergencies is to sustain life and to eliminate the need for people to resort to selling assets needed for survival and recovery. Early provision of assistance also prevents the movement of people in

search of food and the development of displaced persons camps, where disease can readily spread and resettlement and recovery becomes more difficult. Thus, it is important to be prepared to respond quickly to avoid the worst impacts and to save lives. There are three options to meet urgent needs.

First, Congress could provide emergency supplemental appropriations, such as the \$150 million earmark for food aid in the emergency supplemental for the War in Yugoslavia and the use of about \$100 million of the September 11 emergency appropriations for food aid to Afghanistan. However, emergency supplemental legislation is not a reliable source of funding and is often not available for early response.

Second, USDA has authority under Section 416(b) of the Agricultural Act of 1949 to donate overseas surplus commodities held by the CCC. This is a second best method for emergency response, since emergencies may occur in years when the CCC does not have surplus stocks. If commodities are available, they may not be the right types for the target country and often do not meet the nutritional needs.

Traditionally, CCC obtained surplus commodities through forfeitures under commodity support programs. From 1984 through 1993, when CCC inventories were high, Section 416 became an important, additional source of food aid for both emergency and nonemergency needs. Due to changes in commodity programs, since 1994 CCC rarely holds any stocks of grains, rice or oilseeds. However, in 1998 commodity prices were low and supplies were abundant, so the Administration decided to use CCC Charter Act authority to buy commodities to stabilize prices, and then to donate these commodities overseas under Section 416. Starting in FY 2003, the Bush Administration has announced that it will no longer use the CCC Charter Act authority to buy wheat, corn, rice, soy and other commodities to donate abroad. Thus, under Section 416 it is anticipated that nonfat dry milk is the only commodity that will be available, because CCC acquires this commodity under normal price support program mechanisms.

The third option for meeting urgent needs is the Bill Emerson Humanitarian Trust, which may hold up to 4 million metric tons of wheat, rice, corn or sorghum, or any combination of these commodities. Rather than waiving the 75% nonemergency requirement under PL 480 Title II, up to 500,000 MT tons of wheat or the equivalent value of another commodity, including processed products, can be provided from the Trust for emergency assistance in any fiscal year. If all or part of the 500,000 metric tons is not used in a fiscal year, the remaining amount can be added to the 500,000 metric tons for the next fiscal year. This reserve has rarely been used for emergencies since its inception in 1980 as a wheat reserve. The Administration is contemplating using the Trust to respond to the current southern African drought, which would help to assure timely response and could avoid waiving the 75% nonemergency Title II level.

However, there are problems with repayment and replenishment of the Trust. Currently the Trust holds 2.5 MMT of commodities, but is allowed to hold up to 4 MMT. If food is withdrawn, the Trust has to be repaid for commodities used. The Administration will encumber future PL 480 funds for repayment, cutting back on the amount of food aid that can be provided through PL 480 in later years. Further, the law only allows \$20 million received as repayment in any fiscal year to be held by the Trust to replenish the commodities, which can only buy about 140,000 metric tons of wheat. This is insufficient to refill the Trust. Although commodities can also be transferred from CCC inventories to replenish the Trust, the Administration has no plans to replenish the Trust through CCC-obtained commodities.

To fix this standby reserve, repayment should be not be required for commodities used in any fiscal year for urgent needs. This would require an amendment to the law. When commodity prices are low and supplies are abundant, CCC Charter Act authority should be used to buy commodities, which could then be transferred to the Trust. This would not require an amendment, but it would require a change in the Administration's policy.

***A challenge for food aid programs is to integrate the response to short-term crises with long-term development efforts. Vulnerable populations and regions need programs to help improve their ability to prevent the worst impacts of floods and droughts, such as flood control systems, post-harvest and storage technology, improved seeds and land use methods, and nonagricultural sources of incomes in rural areas. Simultaneous with emergency aid, recovery programs must be planned.***

The frequency of emergencies and their terrible costs in terms of human lives, productivity and economic and social deterioration, brings international attention. Low-income countries do not have the means to cope with such shocks, so there is great demand for international relief. Emergency preparedness should include early warning, mitigation against emergencies where possible through developmental food aid programs, support for developing local response and coping mechanisms, preparedness to intervene early and adequately, and coupling emergency supplies and with recovery.

Rather than just increasing food aid during emergencies, programs to mitigate against such shocks are needed to reduce the economic and human costs of emergencies. Approved food aid programs in vulnerable countries should be elastic, allowing PVOs to adapt to observed changes in food supply during the life of the agreement.

Short-term shocks also can have long-term impacts, setting back agricultural production, human productivity and economic growth. Thus, just intervening with food aid for the emergency is not enough, there has to be simultaneous planning for recovery and reconstruction. Although not all famines can be predicted, early warning systems that monitor weather patterns as well as local conditions and trends can give advanced signals in vulnerable areas.

Famine trends were observed over the past year in southern Africa, where crop harvests declined by nearly 50% some areas in the 2001-2002 season. Factors contributing to the drop in production included: 1) increased early rains that delayed the planting season and decreased land under production by 30-40%; 2) late rains during the planting season; 3) periods of frost that affected crop development; and 4) poor farming practices that reduce the availability of top soil and deplete nutrients from the soil. Poor agricultural policies and political instability aggravate these problems in some countries, and the deterioration of transportation systems will make food delivery more difficult.

USAID understands the importance of avoiding the devastating impacts of famine. For the current drought in southern Africa, USAID is considering ways to address these issues. It requires more than just getting food there early; it also requires integrating food aid with development activities as soon as possible in order to assure that this year's crop is sown. PVOs conduct these types of activities and also implement programs in refugee and displaced persons camps. Assuring there is a pipeline for recovery activities is an essential part of emergency response.

### **(3) Streamlining and improving food aid administrative guidelines and procedures.**

*One of the most beneficial aspects of FSRIA is its emphasis on flexibility for choosing the appropriate commodities and interventions to meet local needs and to require streamlined program management. If the flexibility and streamlining provisions are implemented within the spirit of the legislation, then the result will be more effective programming and the elimination of redundancy and unnecessary paperwork. However, there is reason to be concerned about how the Administration will implement the law, since the Food Aid Review called for changing the focus of Title II to "feeding" programs and eliminating PVOs and WFP from USDA programs. These changes would be detrimental to the success of food aid programs.*

For PL 480 Title II, FSRIA requires USAID to develop streamlined guidelines and expedited procedures for program reviews in consultation with PVOs and other interested parties and to implement these changes within one year after enactment. To the maximum extent possible these changes should apply to FY 2004 new program guidelines and resource requests for ongoing programs. These changes should make the procedures for reviewing the proposals more consistent and less time consuming; simplify the reporting requirements and annual resource requests; and provide more flexibility in decision-making once the program is approved.

The mechanism for consultation as the changes are developed is the Food Aid Consultative Group, which was established in by law in 1990, is chaired by the Administrator of USAID and is comprised of PVOs, farmer and commodity groups, WFP, and officials from USAID and USDA. Public comment will also be solicited through notice in the Federal Register.

USAID must also report to Congress in 270 days on progress made to upgrade procurement, information management and financial systems used for administering Title II programs. The intent is to reduce micromanagement, multiple layers of reviews and extra paperwork that make it burdensome for PVOs that implement these programs and cause inefficiencies in the commodity procurement and delivery processes. These onerous procedures also create management burdens for USAID.

FSRIA also requires USDA to complete the review of a proposal 120 days after submission, which means it should no longer be necessary to submit proposals 11 months in advance of the fiscal year. FSRIA also calls for programs to be approved before or early in the fiscal year, allowing programs to get started on time and the commodities to be purchased and delivered in an orderly fashion throughout the fiscal year.

*FSRIA states that PVOs should have flexibility to develop program objectives that address local needs and meet one or more of the objectives of Title II. The focus of Title II is to relieve hunger and its causes. To help populations that suffer from chronic hunger, merely creating welfare programs of large-scale food distribution is not the answer, but a statement in the Administration's Food Aid Review about the need to focus Title II on*

***“feeding” programs seems to imply that this may be the direction the Administration is taking, which would be a setback for development-oriented programming***

The great benefit of food aid is that it can be used to address a variety of problems. For example, nutritious foods along with immunization and health care are provided during critical growth periods for mothers and children. A nutritious meal served in classrooms combined with the establishment of PTAs, teacher training and improved lessons provides an incentive for poor families to send their children to school. Infrastructure and sanitation in poor communities are improved by giving food as payment for work on sewage and water systems. Land use and conservation are enhanced when food is provided as an incentive for community participation in reforestation and land conservation projects. Agricultural productivity and incomes are improved by selling donated food and then using the sales proceeds to invest in agricultural and small business projects. PVOs are also expanding the use of food aid as part of their assistance to HIV/AIDS-affected communities.

As part of these efforts, PVOs and commodity groups are looking at alternatives to the traditional food aid commodities, seeking out more nutritious foods for people with diseases and products that could ultimately improve the quality of the food supply in developing countries.

***Under FSRIA, guidelines for Food for Progress and Section 416 are to be revised to identify the criteria for program approvals, and USDA procurement, transportation, information management and other procedures are to be revised. These programs are also supposed to be approved early in the fiscal year. However, because of the Administration’s policy to no longer allow PVOs to participate in USDA programs, program changes and requests for proposals for FY 2003 have not been announced.***

The Statement of Managers accompanying FSRIA strongly states that nongovernmental entities should continue to be engaged in Food for Progress programs, but it seems that the Administration has not yet decided how or whether to accomplish this intent. It would be a mistake to no longer permit nongovernmental organizations, such as PVOs, to carry out Food for Progress programs. PVOs provide effectiveness and accountability. They are required under US law to have transparent management and accounting procedures. Further, eliminating PVO participation in Food for Progress would run counter to the intent of the program, which emphasizes private sector development in countries that are making economic reforms in their agricultural economies.

It would also be disruptive and confusing to remove some or all Food for Progress programs from the Secretary of Agriculture’s authority and shift it to USAID. USDA’s Foreign Agricultural Service is well-suited to manage these programs which emphasize private sector and agricultural development in emerging markets. Further, it would take a very long lead time for USAID to establish procedures for administering a new food aid program.

### **(3) Cash assistance to support program management and logistics.**

***FSRIA establishes the funds available for program administration, technical assistance and implementation under both Food for Progress and PL 480 Title II, and allows the President to provide funds for such needs for the new McGovern-Dole International Food for Education and Nutrition Program (IFEN). Funds can also be provided to support in-country distribution costs associated with Title II programs in the poorest countries. These are positive changes and it is important to assure that these funds are made available for the intended purposes.***

FSRIA increases the funds available to PVOs and the WFP for program implementation from \$10 - \$28 million to 5-10% of title II funding (this year it would have been \$42.5 - \$85 million). The funding available for Food for Progress administrative costs is increased from \$10 to \$15 million. The law was not changed to make administrative funds available for the implementation Section 416 programs. This mainly disadvantages PVOs, since the Administration has a policy of using general CCC authority to cover all direct and indirect administrative costs, both at headquarters and in the field, for WFP Section 416 programs.

### **(4) Uniform monetization procedures.**

***FSRIA provided uniform monetization procedures at USDA and USAID, including sales for the local market price and sales for either dollars or local currencies. These positive changes will foster the use of the appropriate commodity for monetization, and will no longer disfavor high-value products. However, the Administration has announced a policy to set an arbitrary limit on monetization under PL 480 Title II, which could impede the implementation of effective programs.***

In food deficit, import-reliant countries, monetization provides a boost to the economy and allows needed commodities to be provided through the market. The generated proceeds support the cost of program

implementation and management, and allow effective grassroots development in poor communities. Where monetization is feasible, rather than just exporting cash to support program costs, US commodities can be exported providing an additional benefit to the US agricultural sector.

The uniform procedures for monetization include several existing requirements, such as market analysis to choose a commodity that does not interfere with local production and marketing or commercial imports. In addition, for both USAID and USDA programs, when monetization is used, FSRIA requires the sales price for the commodity to be the reasonable market price for that commodity in the economy where the commodity is sold. This resolves a very problematic procedure used by USAID whereby an artificial benchmark price was developed by USAID that did not reflect the local price of the commodity.

The reasonable market price, as with commercial sales, would depend on local market prices for similar commodities and the final price will be affected by the product quality and delivery and payment terms. The “benchmark” price that was used by USAID was based on USDA procurement costs and estimated freight costs, and if the sales price could not recoup at least 80% of that value, then the commodity could not be used. This precluded the use of US commodities that are more costly to buy in the United States than in the world market, particularly processed products such as flour and milled rice. USAID will have to change its procedures to meet the terms of the new provision, and USDA and USAID are supposed to set similar policies.

***Due to a change in Section 416(b), at least 20 FY 2002 Section 416 PVO programs that planned to use monetized proceeds to support program administrative costs are in jeopardy. Millions of people who would be reached by these maternal-child health care, agricultural, and emergency recovery programs will not be able to receive assistance.***

The law permits the use of proceeds realized from the sale of commodities furnished under Section 416 to be used by PVOs to meet related administrative expenses. This critical provision provides the funds needed to administer, monitor and implement Section 416 programs.<sup>2</sup> Such costs can be covered under PL 480 Title II and Food for Progress through monetized proceeds or through direct funding in US dollars and headquarters and field costs can be covered. Under Section 416 only monetized proceeds are available for administrative costs – there is no direct cash assistance available to PVOs and cooperatives. Thus, this provision is critical for PVOs and cooperatives to be able to participate in the Section 416 program.

USDA’s General Counsel has had various interpretations of this provision in recent years. In some cases USDA would allow monetized proceeds to be used to cover administrative costs incurred outside of the recipient country and to purchase needed materials (such as medicines and vaccines) outside of the country. For FY 2002, USDA originally agreed to allow administrative expenses incurred out of the recipient country to be covered and program plans and budgets assumed coverage of such costs.

A provision FSRIA strikes a clause in Section 416(b) that states that proceeds can be used outside of the country of origin as long as that currency is accepted in the other country. Because of this change, USDA will not permit funding of administrative costs incurred outside of the country of origin. This consequence essentially will eliminate the ability of many PVOs and cooperatives to participate in the Section 416 program, although WFP will be able to continue because it receives direct cash assistance from USDA. This provision needs to be fixed immediately in order for these 20 or so programs to go forward in FY 2002, and for PVOs to be able to conduct programs in the future.

***The President’s Food Aid Review requires USAID to implement a policy to limit the monetization of nonemergency Title II commodities to 30% of the tonnage provided. This is being justified as part of an effort to focus Title II on “feeding” programs, however, it will actually take away from the very successful use of Title II to assure that food is not just a hand out, but is integrated with development activities that have lasting benefits.***

As the Statement of Managers accompanying the FSRIA Conference Report states, food aid program approvals should be based on the potential benefits of the program on food security and the choice of the appropriate commodity for the intended use. Through monetization US commodities are sold in poor, food deficit countries that must rely on imports to meet their food needs. The proceeds are used in developing countries to support the distribution of commodities and the implementation of development programs. Where monetization is feasible, rather than just exporting cash to support program costs, US commodities can be exported.

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<sup>2</sup> This provision is important to US PVOs and cooperatives because it is their only source of funding for Section 416 costs. The UN World Food Program is not affected by this provision because for Section 416 programs, USDA uses CCC Charter Act authority to pay in cash direct and indirect administrative costs for WFP, covering both in-country and headquarters costs plus a significant overhead rate.



This proposed arbitrary monetization limit will result in a 50% cut in the beneficiaries of Title II PVO nonemergency programs, or about 10 million people. Proceeds from about 60% of the monetized commodities under PL 480 Title II currently support the implementation of food aid programs that involve distribution, and the other 40% supports development activities that make sure the programs have a lasting impact rather than building dependency.

Although some of these funds can now be covered by the new cash assistance made available under FSRIA, it would be beneficial to continue monetization in many countries. Monetization can have multiple benefits – US commodities are exported, the sale boosts economic activity and the availability of products in the recipient country, and it creates funds to support food distribution and to carry out sustainable development activities. It can be a powerful tool for expanding private sector trading and infrastructure in a developing country, and improving local markets.

Title II program impacts have dramatically improved in both the agricultural and household nutrition priority sectors because of the use of monetization proceeds. For example, Maternal-Child Health and Nutrition has evolved from center-based efforts where growth monitoring and food supplementation were the major objectives to integrated community-based development programs with long-term health, nutrition and sustainability objectives. Improvements include reduction of diarrheal disease, increased immunization rates, and improved health status of mothers and children. Supplementary feeding programs have been integrated with complementary activities designed to improve food consumption by the child/mother in the home and to improve the biological utilization of food through the provision of essential health services and improvements in health care behaviors, as well as access to clean water.

### **The WTO and the World Food Summit**

In the next few months, the United States has the opportunity to take the lead once again in the international arena on food aid policy.

First, as part of the World Trade Organization (WTO) agricultural negotiations, the United States should hold firm to the position that food aid provisions in the Uruguay Round shall not be re-negotiated in the Doha Round, and food aid shall remain exempt from limitations placed on agricultural export programs.

Under Article 10.4 of the Uruguay Round Agriculture Agreement, food aid is permitted as long as it meets the requirements set forth by the Food Aid Convention (FAC). Food aid may be provided for emergencies or non-emergency purposes and through governments, international organizations or PVOs. The food may be distributed or sold in the recipient country. US food aid programs meet these requirements.

The European Union has led a charge to reconsider the treatment of food aid during the Doha Round, because of concerns about the large amounts of surpluses donated abroad by the United States in recent years. The United States should be able to show that this food aid went to food deficit countries and countries that were in going through difficult economic periods.

The treatment of food aid should not be subject to change under the new WTO agricultural negotiations. For a "net food-importing, developing country," a low-income country that depends on imports to meet basic food requirements, food aid is particularly important. As part of the Uruguay Round Trade Agreement, the Ministers acknowledged that such countries may not benefit from expanded trade, since they do not have adequate hard currency earnings from exports and cannot afford to meet their food needs through commercial imports. Their need for food aid was expected to increase as the availability of subsidized commercial commodities decreased. Because of this, the Ministers declared that donor countries would seek to increase food and agricultural aid to these low-income countries. Indeed, developing countries are seeking continued commitments of food aid during the Doha Round.

Second, at the five-year follow-up to the World Food Summit, the United States has the chance to state how it will use food aid to advance the goal of cutting hunger in half by year 2015, such as committing to greater levels of food aid for areas where chronic hunger is prevalent; integrating US food aid with developmental activities to help people improve their health, education, incomes and living conditions; and strengthening the Bill Emerson Humanitarian Trust to assure that the United States has an emergency reserve to respond to crises.

Mr. Chairman, thank you for this chance to testify. I would be glad to answer any questions you may have.