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# U.S. International Food Aid Programs: Background and Issues

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## Summary

For almost six decades, the United States has played a leading role in global efforts to alleviate hunger and malnutrition and to enhance world food security through international food aid assistance—primarily through either the donation or sale on concessional terms of U.S. agricultural commodities. Objectives of U.S. foreign food aid include providing emergency and humanitarian assistance in response to natural or manmade disasters and promoting agricultural development and food security.

Historically, U.S. international food aid has been distributed through four main program authorities: (1) the Food for Peace Act (FFPA, also known as P.L. 480); (2) the Section 416(b) program (which has been inactive since 2007); (3) the Food for Progress Act of 1985; and (4) the McGovern-Dole International Food for Education and Child Nutrition Program. Since 2010, the U.S. Agency for International Development (USAID) has also used its authority under the Foreign Assistance Act of 1961 (FAA) to initiate cash-based food assistance under the Emergency Food Security Program (EFSP) as a complement to FFPA Title II emergency in-kind food aid donations. In addition, the 2014 farm bill (P.L. 113-79) added the local and regional purchase project which also relies on cash-based assistance. These six food assistance programs are administered either by the Foreign Agricultural Service of the U.S. Department of Agriculture (USDA) or USAID. The Section 416(b) program is permanently authorized by the Agricultural Act of 1949. EFSP is authorized through the FAA. The other programs are re-authorized in periodic farm bills; most recently (through FY2018) by the 2014 farm bill.

Average spending on U.S. international food aid programs during the FY2006-FY2013 period was about \$2.5 billion annually, with FFPA Title II activities averaging nearly \$1.9 billion (76%) of annual outlays. Despite recent growth in cash-based assistance under the EFSP, the United States remains one of the few countries that relies primarily on in-kind transfers of domestically purchased commodities as the basis for international food assistance. In contrast, most other major donor countries have converted primarily to cash-based food assistance—cash transfers, food vouchers, or local and regional commodity purchases. U.S. reliance on in-kind food aid has become controversial for several reasons: it is slower and more costly than cash transfers; it tends to cause commodity price distortions and volatility in local markets where monetization—i.e., the process of selling U.S. commodities in recipient-country markets to generate cash for development programs—occurs; it can impede commercial exports; and it has engendered international concerns from key trade partners who contend that it is a form of export subsidy and potentially conflicts with the intent of international trade agreements. Some advocacy groups support in-kind transfers and their suite of legislative requirements that includes U.S.-sourcing of food aid, as well as minimum levels of non-emergency program funding; domestic processing, bagging and packaging; monetization by eligible nongovernmental organizations (NGOs); and ocean shipping of food aid on U.S. registered vessels (referred to as cargo preference).

While the 2014 farm bill made modest changes to existing U.S. food aid programs, the George W. Bush and Obama Administrations (via their annual budget requests), as well as certain Members of Congress, via bills in the 113<sup>th</sup> (H.R. 5656 and S. 2909) and 114<sup>th</sup> (S. 525) Congresses, have proposed making more significant changes to the structure and intent of U.S. food aid programs. Proposed changes include, among others, expanding flexibility in the use of cash-based forms of assistance and eliminating both cargo preference and monetization.

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**Table of Acronyms**

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<b>Acronym</b>	<b>Full Term</b>
<b>ACP</b>	Agricultural Cargo Preference
<b>AoA</b>	Agreement on Agriculture
<b>BEHT</b>	Bill Emerson Humanitarian Trust
<b>CBO</b>	Congressional Budget Office
<b>CCC</b>	Commodity Credit Corporation, USDA
<b>EFSP</b>	Emergency Food Security Program
<b>FAA</b>	Foreign Assistance Act of 1961, as amended
<b>FACG</b>	Food Aid Consultative Group
<b>FAS</b>	Foreign Agricultural Service, USDA
<b>FBF</b>	Fortified Blended Food
<b>FFPA</b>	Food for Peace Act, as amended
<b>FSA</b>	Farm Service Agency, USDA
<b>GAO</b>	Government Accountability Office
<b>IDA</b>	International Disaster Assistance
<b>IFECN</b>	International Food for Education and Child Nutrition
<b>IO</b>	Intergovernmental Organization (e.g., WFP)
<b>ITSH</b>	Internal Transportation, Shipping, and Handling
<b>LRP</b>	Local and Regional Procurement
<b>LRPP</b>	Local and Regional Procurement Project
<b>MARAD</b>	Maritime Administration, Department of Transportation
<b>MSP</b>	Maritime Security Program
<b>NGO</b>	Nongovernmental Organization
<b>OFD</b>	Ocean Freight Differential
<b>PVO</b>	Private Voluntary Organization
<b>TPEF</b>	Twenty Percent Excess Freight
<b>UMR</b>	Usual Marketing Requirement
<b>USAID</b>	U.S. Agency for International Development
<b>USDA</b>	U.S. Department of Agriculture
<b>WFP</b>	World Food Program
<b>WTO</b>	World Trade Organization

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## Background

For almost seven decades, the United States has played a leading role in global efforts to alleviate hunger and malnutrition and to enhance world food security through international food aid—primarily through either the donation or the sale on concessional terms of U.S. agricultural commodities. Since 2006, U.S. food aid has averaged nearly \$2.5 billion per year—accounting for over 6% of total U.S. foreign aid. Health, economic, and security-related assistance account for most of the outlays.<sup>1</sup>

Current U.S. food aid programs had their origins in 1954 with Public Law 83-480, or “P.L. 480,” as it was commonly known. P.L. 83-480 has since been amended multiple times and renamed as the Food for Peace Act (FFPA).<sup>2</sup> One of the original purposes of “P.L. 480” in-kind food donations was to reduce large government stocks of program crops that had accumulated under U.S. Department of Agriculture (USDA) commodity price support programs while responding to humanitarian, economic development, and geopolitical goals in foreign countries. Since the end of the Cold War, U.S. food assistance goals have shifted more toward emergency response and support for long-term agricultural development. However, the United States continues to rely on domestic purchases of U.S. commodities as the basis for its food aid programs. In contrast, most other countries operating international food aid programs have converted primarily to cash-based food assistance. U.S. reliance on in-kind food aid has become controversial due to its identified inefficiencies and potential market distortions compared with cash-based assistance.

Another concern regarding U.S. international food aid is how that food aid is delivered into foreign countries. In-kind food aid shipments are subject to a set of requirements that potentially limit the flexibility of the U.S. response to emergency food crises. U.S. laws require that

- all agricultural commodities be sourced from the United States;
- at least 50% of U.S. food aid must be shipped on U.S.-flag vessels;
- at least 20%, but not more than 30%, with a minimum of \$350 million, of FFPA funding must be available for non-emergency food aid;
- at least 75% of in-kind food transfers dedicated to non-emergency assistance must be in a processed, fortified, or bagged form;
- at least 50% of any bagging must consist of whole-grain commodities bagged in the United States; and
- at least 15% of non-emergency food aid funding must be made available to qualifying nongovernmental organizations (NGOs) for monetization—i.e., the process of selling donated U.S. commodities in recipient-country markets to generate cash for development programs.

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<sup>1</sup> CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*; in particular, see the text box entitled “Foreign Assistance: Traditional and Non-traditional.”

<sup>2</sup> The original name of P.L.480 was the Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-480). In 1961, President John F. Kennedy renamed it the “Food for Peace Act.” Congress officially changed the name to Food for Peace Act in the 2008 farm bill (P.L. 110-246).

Both the George W. Bush and Obama Administrations have sought greater flexibility in the use of U.S. food aid funding, particularly for cash-based assistance, in order to respond with greater expediency, at lower cost, and with more interest in meeting cultural food preferences when responding to international food emergencies. A majority of NGOs working in the realm of international food assistance and development, as well as some Members of Congress support the goals of these efforts.

U.S. commodity groups and food processors continue to advocate strongly for retention of in-kind transfers of U.S. commodities. A vocal minority of NGOs that benefit from the monetization of in-kind commodity transfers also support retention of in-kind transfers. In addition, U.S. maritime interests are strong advocates for retention of agricultural cargo preference (ACP) requirements.

This report includes three principal sections: the first section is a description of U.S. international food aid programs under current law; the second section discusses several important policy issues related to U.S. international food aid; and the third section describes Administration and congressional proposals intended to change the nature of U.S. food international aid.

### Jargon Buster: What Are Cooperatives, NGOs, PVOs, and IOs?

The international development arena is replete with jargon. As an aid to understanding this development jargon, some common terms—used in this report—are defined here. According to the Food for Peace Act:

- **Cooperative** means “a private sector organization whose members own and control the organization and share in its services and its profits and that provides business services and outreach in cooperative development for its membership.” [7 U.S.C. 1732(4)]
- **Nongovernmental organization (NGO)** means “an organization that works at the local level to solve development problems in a foreign country in which the organization is located, except that the term does not include an organization that is primarily an agency or instrumentality of the government of the foreign country.” [7 U.S.C. 1732(7)]
- **Private voluntary organization (PVO)** means “a not-for-profit, nongovernmental organization (in the case of a U.S. organization, an organization that is exempt from Federal income taxes under section 501 (c)(3) of title 26) that receives funds from private sources, voluntary contributions of money, staff time, or in-kind support from the public, and that is engaged in or is planning to engage in voluntary, charitable, or development assistance activities (other than religious activities).” [7 U.S.C. 1732(8)]

According to USAID, PVOs are a subset of the wider NGO community. USAID maintains a registry of PVOs that enables it to identify legitimate partners and ensure that registrants meet the agency’s basic partnership requirements. Most PVOs must register with USAID in order to compete for grants and other types of funding. As of February 24, 2015, 659 PVOs were registered. Certain types of NGOs do not need to register as a PVO, including universities/colleges, local indigenous NGOs, sub-awardees/grantees, private foundations, hospitals, exclusively religious institutions, and organizations applying for awards from the Office of U.S. Foreign Disaster Assistance.<sup>3</sup>

- An **intergovernmental organization (IO)**—also referred to as a multilateral institution—is an organization composed of independent and sovereign states. Examples include any United Nations (U.N.) agency such as the World Food Program (WFP) or the U.N. Children’s Fund (UNICEF). The World Bank and the International Monetary Fund (IMF) are also intergovernmental organizations.
- **World Food Program (WFP)** is the food assistance branch of the U.N. WFP was created in 1961 to convert the United States’ bilateral food aid into a multilateral asset—thus, its principal activity is food distribution. It is governed by an executive board through which the United States plays a leadership role—the executive director of the WFP is traditionally an American.

<sup>3</sup> For more information see USAID, Non-Governmental Organizations (NGOS), <http://www.usaid.gov/partnership-opportunities/ngo>; and USAID, PVO Registration, <http://www.usaid.gov/pvo>.

IOs are unique in that they allow donor governments to pool resources in meeting common objectives (while adhering to internationally accepted standards), thus offering certain efficiencies and economies of scale otherwise difficult for an individual country to attain.

A final term is a catch-all for when any of the above organizations participates in a U.S. food aid program.

- **Cooperating Sponsor** (or implementing partner) refers to any NGO, PVO, cooperative, IO, or recipient government that partners with USAID or USDA to implement an international food aid program.

## Food Aid Programs

The U.S. government provides international food aid through a variety of programs administered by either USDA's Foreign Agricultural Service (FAS) or the U.S. Agency for International Development (USAID).

**Table 1** lists each international food assistance program, the year it was enacted (or first instituted in the case of the Emergency Food Security Program [EFSP]), the statutory authority, and the administering agency. The two implementing agencies, USDA and USAID, are under different congressional jurisdiction for authorization, oversight, and appropriations. **Table A-1** (at the end of this report) provides a breakout of annual outlays by program since FY2006.

Average annual spending on U.S. international food aid programs increased gradually over the past six decades (**Figure 1**). During the FY2000 to FY2009 period (**Table 2**), average food assistance outlays were approximately \$2.2 billion annually, with FFPA Title II activities comprising the largest share (77% of outlays). More recently, FY2010-FY2013, new cash-based outlays under the EFSP have supplemented traditional FFPA Title II program outlays to push total U.S. international food aid program spending up slightly to about \$2.4 billion annually while lowering Title II's share to 67%.

When adjusted for inflation using year-2013 dollars (as shown in **Figure 2**), total U.S. food assistance outlays peaked in 1964 at \$11.3 billion then declined to a low of \$1.5 billion in 1996. In 2013, U.S. food assistance outlays were at \$2.3 billion (2013 dollars), thus having somewhat recovered from the 1990s level. However, outlays remain well below the inflation-adjusted levels of the 1960s.

### Food Aid Versus Food Assistance

Officials, academics, international aid workers, and others that closely follow international food aid developments in their publications and written material make a distinction between food aid and food assistance as follows.

- **Food aid** refers to in-kind food transfers, whether used directly or monetized.
- **Food assistance** refers to both in-kind food transfers (i.e., food aid) and cash-based programs that provide the means to acquire food. Thus, food assistance is a broader, more inclusive term.



**Table I. U.S. International Food Assistance Programs**

<b>Program</b>	<b>Statutory Authority<sup>a</sup></b>	<b>Year Began</b>	<b>Funding<sup>b</sup></b>	<b>Type<sup>c</sup></b>	<b>Agency</b>
<b>Section 416(b)<sup>d</sup></b>	1949 farm bill	1949	M	E+NE	USDA
<b>FFPA, Title I - Economic Assistance and Food Security</b>	2014 farm bill	1954 <sup>e</sup>	D	NE	USDA
<b>FFPA, Title II - Emergency and Private Assistance</b>	2014 farm bill	1954 <sup>e</sup>	D	E+NE	USAID
<b>FFPA, Title III - Food for Development</b>	2014 farm bill	1977 <sup>f</sup>	D	NE	USAID
<b>FFPA, Title V - Farmer-to-Farmer</b>	2014 farm bill	1985 <sup>g</sup>	D	NE	USAID
<b>Bill Emerson Humanitarian Trust</b>	2014 farm bill	1980 <sup>h</sup>	M	E+NE	USDA
<b>Food for Progress, Title I</b>	2014 farm bill	1985 <sup>i</sup>	D	NE	USDA
<b>Food for Progress, CCC</b>	2014 farm bill	1985	M	NE	USDA
<b>McGovern-Dole International Food for Education and Child Nutrition Program</b>	2014 farm bill	2002 <sup>j</sup>	D	NE	USDA
<b>Local &amp; Regional Procurement Projects</b>	2014 farm bill	2008 <sup>k</sup>	D	E	USDA
<b>Emergency Food Security Program (EFSP)</b>	FAA of 1961 <sup>l</sup>	2010	D	E	USAID

**Source:** Compiled by CRS. FFPA = Food for Peace Act; FAA = Foreign Assistance Act.

- a. The Agricultural Act of 1949 (P.L. 81-439) permanently authorized Section 416(b). The trade titles of periodic farm bills amended FFPA to reauthorize the other programs (except EFSP). Most recently, the Agricultural Act of 2014 (P.L. 113-79) reauthorized those programs through FY2018.
- b. Discretionary funding (D) relies on annual appropriations. Mandatory funding (M) is available through the authorizing legislation independent of annual appropriations and is financed via the borrowing authority of USDA's Commodity Credit Corporation (CCC). Congress has occasionally limited spending on these mandatory programs via annual appropriations acts.
- c. E= emergency; NE = non-emergency; and E+NE = both.
- d. Permanently authorized by the 1949 farm bill (Agricultural Act of 1949; P.L. 81-439; §416).
- e. FFPA, Titles I and II, established by the Trade Development and Assistance Act of 1954 (P.L. 83-480).
- f. Originally a provision of P.L. 83-480 (§303) with authority to barter surplus commodities in exchange for strategic materials. Title III was reauthorized as "Food for Development" by the International Development and Food Assistance Act of 1977 (P.L. 95-88, §211) which amended the FFPA to replace barter authority with debt forgiveness authority.
- g. Created by the Food for Peace Act of 1966 (P.L. 89-808; Title IV); first funded under the 1985 farm bill (P.L. 99-198; §1107).
- h. The Bill Emerson Humanitarian Trust (BEHT) is a CCC-owned reserve of grain or funds, originally intended for use by food assistance programs that rely on in-kind shipments of U.S. commodities. The BEHT was originally authorized by the Agricultural Act of 1980 (P.L. 96-494) as the Food Security Wheat Reserve, but was later reauthorized as the BEHT by the Africa Seeds of Hope Act of 1998 (P.L. 105-385). BEHT has been reauthorized by subsequent farm bills.
- i. Food for Progress was established by the Food Security Act of 1985 (P.L. 99-198, §1110) which amended FFPA to authorize USDA to sell and ship U.S. agricultural commodities on credit terms or grant basis, using either CCC mandatory financing or Title I discretionary funds
- j. Established by the Food Security and Rural Investment (FSRI) Act of 2002 (P.L. 107-171; §3107).
- k. Originally authorized as a pilot program under the 2008 farm bill (Food, Conservation, and Energy Act of 2008; P.L. 110-246; §3206); later authorized as a permanent program through FY2018 by the 2014 farm bill (Agricultural Act of 2014; P.L. 113-79; §3207).
- l. EFSP was started in FY2010 to complement U.S. in-kind food aid using general authority in the FAA (P.L. 87-195). Funding for EFSP is included in USAID's International Disaster Assistance (IDA) account, which is provided in annual State Department and Foreign Operations appropriations.

**Table 2. U.S. International Food Assistance Outlays Since 1952**  
(period average: \$ million and % of total)

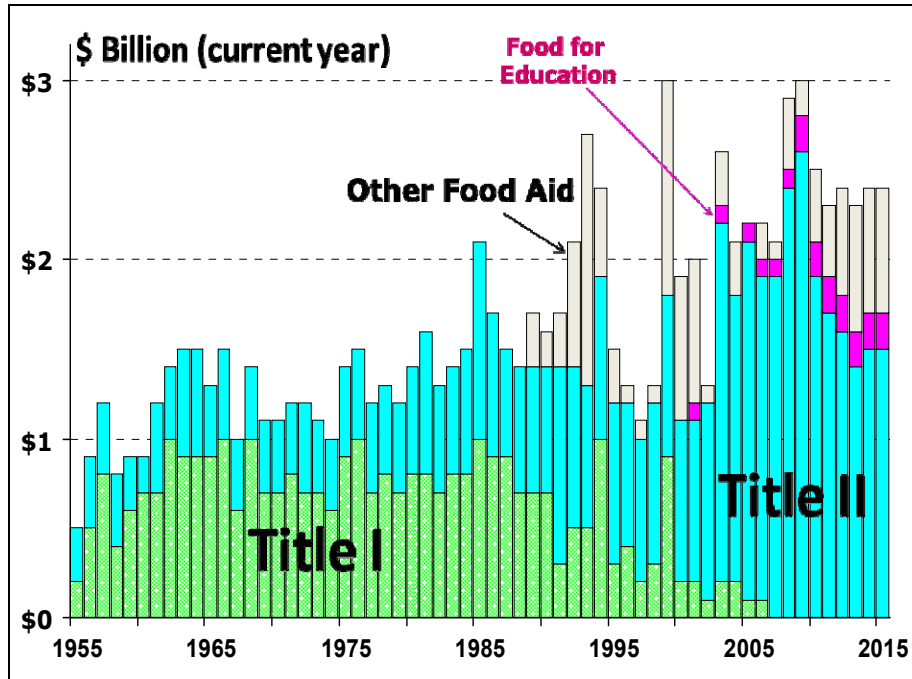
Period	World Total	Food for Peace Act, Title I <sup>a</sup>	Food for Peace Act, Title II	McGovern-Dole IFECN <sup>b</sup>	Other Food Assistance <sup>c</sup>
<b>Current-Year Prices<sup>d</sup></b>					
1952-1959	546	307 56%	240 44%	- 0%	- 0%
1960-1969	1,288	850 66%	458 34%	- 0%	- 0%
1970-1979	1,222	768 63%	454 37%	- 0%	- 0%
1980-1989	1,537	800 52%	712 46%	- 0%	25 2%
1990-1999	1,888	526 28%	876 46%	- 0%	486 26%
2000-2009	2,229	111 5%	1,709 77%	86 4%	323 14%
2010-2013	2,396	10 0%	1,605 67%	188 8%	594 25%
<b>Inflation-Adjusted Prices (constant year-2013 dollars)</b>					
1952-1959	4,545	2,539 56%	2,006 44%	- 0%	- 0%
1960-1969	9,417	6,215 66%	3,202 34%	- 0%	- 0%
1970-1979	5,617	3,535 63%	2,082 37%	- 0%	- 0%
1980-1989	3,456	1,809 52%	1,599 46%	- 0%	47 2%
1990-1999	2,953	826 28%	1,370 46%	- 0%	757 26%
2000-2009	2,668	141 5%	2,023 76%	102 4%	403 15%
2010-2013	2,448	11 0%	1,643 67%	192 8%	602 25%

**Source:** USAID, Detailed Foreign Assistance Data. Period averages compiled by CRS. **Table A-1** provides detail on funding levels for USAID-administered international food aid programs since 2006. Data are adjusted for inflation using a gross domestic product (GDP) deflator (2013 = 100) from the Economic Research Service (ERS), USDA.

**Note:** Totals may not equal the sum of the components due to rounding.

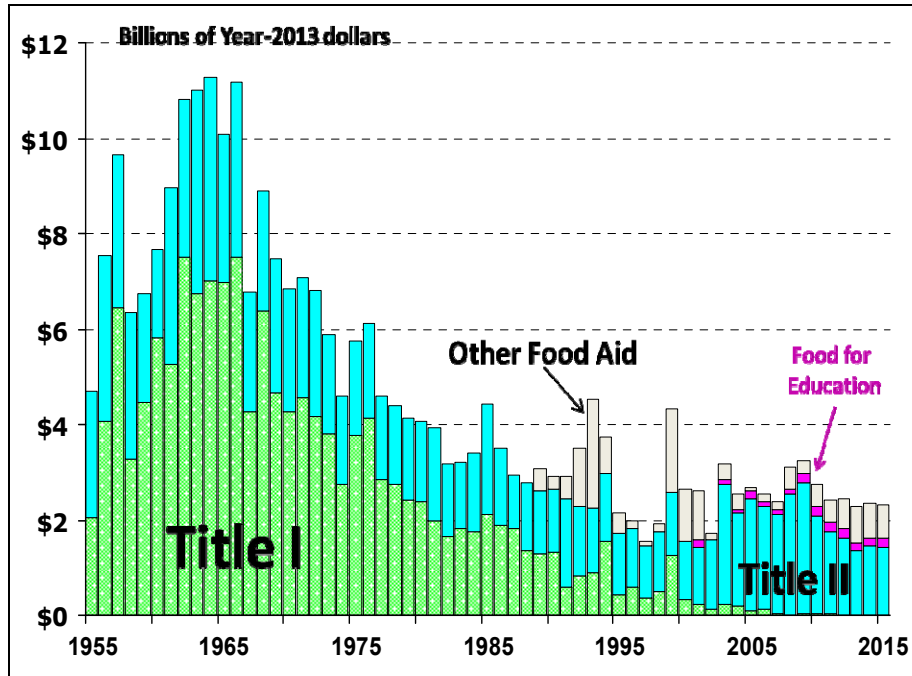
- a. Includes Title I-funded Food for Progress outlays.
- b. The McGovern-Dole International Food for Education and Child Nutrition (IFECN) program.
- c. "Other Food Assistance" includes Section 416(b), CCC-funded Food for Progress, Title III Food for Development, Title V Farmer-to-Farmer, and EFSP outlays.
- d. Otherwise referred to as nominal prices, they are the observed prices for any given date, not adjusted for inflation.

Figure 1. U.S. International Food Assistance Since 1955



Source: See source notes for Figure 2.

Figure 2. U.S. International Food Assistance Since 1955, Inflation-Adjusted



Source: Historical data 1955-2005 are from USAID, Detailed Foreign Assistance Data; data for 2006-2013 are actual reported outlays from USAID, *U.S. International Food Assistance Report*, various years; data for 2014-2015 are discretionary funding levels enacted by Congress; mandatory outlays are estimated by using 2013 reported outlays. Data in Figure 2 are adjusted for inflation by CRS using GDP deflator, 2013 = 100, from the macroeconomic data set, ERS, USDA.

## **Section 416(b)<sup>4</sup>**

The Agricultural Act of 1949 (P.L. 81-439; §416) permanently authorized the Section 416(b) program. As such, it represented the first permanent, large-scale U.S. international food aid program;<sup>5</sup> however, its original intent was more than humanitarian response. The Cold War was beginning to influence foreign policy decisions, and policymakers viewed international food aid as an important foreign policy tool. U.S. agricultural producers were looking for new foreign markets to replace the now faded war-driven demand of the 1940s. By the late 1940s, USDA's Commodity Credit Corporation (CCC) was accumulating substantial stocks of wheat and corn as part of its commodity price support programs.<sup>6</sup> These large CCC-owned stocks depressed domestic market prices and contributed to a cycle of government support payments and stock accumulation. Policymakers designed the Section 416(b) program, in part, to help draw down government stocks by donating and shipping surplus government-owned commodities to foreign countries that lacked sufficient buying power to participate in commercial markets.

USDA (via the CCC) made surplus commodities available for donation through agreements with foreign governments, NGOs, cooperatives, and IOs. In the early years, Section 416(b) donations supplemented food supplies in food deficit countries. However, over time Section 416(b) food donations became a source of U.S. commodities for FFPA Title II and Title III programs, as well as for the Food for Progress program (described later in this report in "Food for Progress"). As a result, depending on the agreement, the cooperating sponsor could use commodities donated under Section 416(b) directly for distribution to a target population, or they could be sold (i.e., monetized) in the recipient country with the proceeds then used to support emergency and non-emergency activities, such as agricultural, economic, or infrastructure development programs.

USDA administers the Section 416(b) program. It has been a highly variable component of food aid because it is entirely dependent on the availability of surplus commodities in CCC inventories. Thus, the program's utility has changed along with changes to federal price support programs. In particular, Congress instituted special marketing loan program benefits in the mid-1980s and decoupled price and income support programs in the mid-1990s to prevent further government stock accumulation of program crops. These changes eventually led to the depletion of government-owned grain stocks by 2006. The Section 416(b) program has been inactive since FY2007 because of the unavailability of CCC-owned stocks.

## **Food for Peace Act (FFPA)**

The Food for Peace Act (FFPA), historically referred to as P.L. 480, is the main legislative vehicle that authorizes U.S. international food assistance. Under FFPA programs (with the exception of Title V, Farmer-to-Farmer), cooperating sponsors (i.e., implementing partners) ship U.S. commodities to recipient countries either for direct use in food distribution programs or for monetization. The Agricultural Trade Development Assistance Act of 1954 (P.L. 83-480)

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<sup>4</sup> For more information, visit <http://apps.fas.usda.gov/excredits/FoodAid/416b/section416b.asp>.

<sup>5</sup> After both World Wars, the United States shipped large volumes of food and other aid to parts of Europe as part of the recovery effort; however, these were temporary, one-off events and not sustained programs.

<sup>6</sup> The CCC is a U.S. government-owned and -operated corporation, created in 1933. It has broad powers to support farm income and prices and to assist in the export of U.S. agricultural products. The CCC finances USDA's domestic price and income support programs and its export programs using its permanent authority to borrow up to \$30 billion at any one time from the U.S. Treasury.

originally authorized FFPA in 1954 as the first comprehensive U.S. international food aid program.<sup>7</sup> Since 1970 FFPA has been reauthorized as part of subsequent farm bills.<sup>8</sup> Funding for FFPA programs is authorized in annual agriculture appropriations bills.

Since 2000, FFPA outlays have accounted for 78% of total U.S. annual international food aid spending.<sup>9</sup> FFPA food aid has five statutory objectives: combating world hunger and malnutrition and their causes; promoting sustainable agricultural development; expanding international trade; fostering private sector and market development; and preventing conflicts.<sup>10</sup>

The FFPA is comprised of four program areas, each listed under a different title and having a different objective. FFPA authorities for these programs are in the following titles.<sup>11</sup>

- **Title I**, administered by USDA's FAS, authorizes concessional sales (i.e., using long-term, low-interest loans) of U.S. agricultural commodities to developing country governments and private entities to support specific non-emergency food security and development projects. Title I has been inactive since FY2006.
- **Title II**, administered by USAID, provides for the donation of U.S. agricultural commodities to IOs and NGOs to support specific emergency or non-emergency food needs either by monetization or for direct food distribution.
- **Title III**, administered by USAID, makes government-to-government grants of U.S. agricultural commodities for monetization in support of non-emergency projects targeting long-term growth in least-developed countries. Title III has been inactive since FY2002.
- **Title V**, administered by USAID, finances non-emergency activities under the Farmer-to-Farmer Program to provide short-term volunteer technical assistance to farmers, farm organizations, and agribusinesses in developing and transitional countries.

### *Since Mid-1980s, Title II Outlays Have Dominated*

During the first 35 years of the FFPA (FY1955 through FY1989), **Title I** funding was the largest program in terms of outlays, but since the mid-1980s it has slowly been phased out of operation (**Figure 1**). Successive Administrations have not requested funding for any new **Title I** food aid programs since FY2006. In contrast, since the late 1980s **Title II** has emerged as the largest funding source for U.S. food aid shipments. This pattern was reinforced by the 1990 farm bill, when strengthening global food security was made a formal objective of American food aid.

A partial motive behind the funding shift from Title I to Title II was international pressure from major trading partners who argued that U.S. use of concessional sales terms for exporting surplus

<sup>7</sup> 7 U.S.C. §§1691-1738r. The 2008 farm bill (P.L. 110-246; §3001) changed the title of the underlying legislation from the Agricultural Trade Development Assistance Act of 1954 to the Food for Peace Act. Additional information on the FFPA food aid is available at <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance>.

<sup>8</sup> The 1970 farm bill (P.L. 91-524, §701) reauthorized Titles I and II of FFPA.

<sup>9</sup> The McGovern-Dole IFECN, Farmer-to-Farmer, and EFSP programs make up the balance. Calculations are by CRS using USAID data (<http://www.usaid.gov/results-and-data/data-resources>).

<sup>10</sup> FFPA (§2), as amended through the 2014 farm bill (P.L. 113-79).

<sup>11</sup> Title IV of the FFPA general authorities and program requirements.

commodities was displacing normal commercial activity.<sup>12</sup> These concerns influenced the development of an international framework to monitor and discipline international food aid.<sup>13</sup> In anticipation of these international commitments and to avoid potential conflict with trading partners over what constitutes an export subsidy, the United States began shifting funding away from Title I concessional sales in the mid-1980s, and toward Title II grants.<sup>14</sup>

### ***Food Aid Consultative Group (FACG)***

A Food Aid Consultative Group (FACG) advises the USAID Administrator on food aid policy and regulations, especially related to Title II of the FFPA. The Administrator meets with the FACG at least twice per year. The 1990 farm bill (P.L. 101-624, §1512) first established the FACG. It has been reauthorized under subsequent farm bills. The 2014 farm bill (§3005) reauthorized the FACG and added representatives from the processing sector. FACG membership consists of the USAID Administrator; USDA's Under Secretary of Agriculture for Farm and Foreign Agricultural Services; the Inspector General for USAID; a representative of each PVO and cooperative participating in FFPA programs; representatives from African, Asian, and Latin-American indigenous NGOs as determined appropriate by the Administrator of USAID; representatives from U.S. agricultural producer groups; representatives from the U.S. agricultural processing sector involved in providing agricultural commodities for FFPA programs; and representatives from the maritime transportation sector involved in transporting agricultural commodities overseas for FFPA programs. The 2014 farm bill specified that USAID is to consult with FACG on the implementation of food aid quality provisions (discussed below in "Food Aid Quality") and also required that FACG review and comment on any changes to USAID's regulation handbook implementing FFPA.

### **Title I—Concessional Sales of U.S. Agricultural Commodities**

Title I of the FFPA provides for sales on concessional credit terms of U.S. agricultural commodities to developing country governments and to private entities for monetization in recipient country markets. Loan agreements under the Title I credit program may provide for repayment terms of up to 30 years with a grace period of up to five years. Donations of Title I commodities can also be made through Food for Progress grant agreements (described below in "Food for Progress"). The local currency derived from such concessional sales has been used to support specific non-emergency food security and development projects. Congress has given no new funding for Title I credit sales and grants since FY2006, although some funding has been provided to administer Title I program agreements entered into prior to FY2006.

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<sup>12</sup> Phillip Abbott, "Overview of the 2007 USDA Farm Bill: Food Aid & the Farm Bill," EC-750-W, Purdue Extension, July 2007, p. 2; hereafter referred to as Abbott, "Food Aid and the 2007 Farm Bill," EC-750-Purdue Extension (2007).

<sup>13</sup> Alexander Gaus and Julia Steets, "The Challenging Path to a Global Food Assistance Architecture," in *United on Food Assistance: The Case for Transatlantic Cooperation*, C. Barrett, A. Binder, and J. Steets, Eds. (2012) London: Routledge, p. 11-29; hereafter referred to as Gaus and Steets, "Global Food Assistance Architecture" (2012).

<sup>14</sup> See related discussion of Title I concessional sales as a potential implicit export subsidy later in this report in "History of International Trade Agreements Governing Food Aid."

## **Title II—In-Kind Donations via PVOs, Cooperatives, or IOs**

Title II of the FFPA provides for the donation of U.S. agricultural commodities (referred to as “in-kind” donations) to IOs and qualifying NGOs to support specific emergency or non-emergency food needs either by monetization or for direct food distribution. The 2008 farm bill (§3020) authorized appropriations for Title II programs at \$2.5 billion annually. However, because all FFPA funding is discretionary, it is up to annual appropriations bills to set the actual amount of annual Title II funding. Over the five-year life of the 2008 farm bill (FY2008-FY2012), Title II funding averaged \$1.9 billion annually, well-below the authorized levels (see **Table A-1** for actual Title II annual outlays).

FFPA Title II in-kind donations may be used for both emergency and non-emergency assistance.<sup>15</sup> In 2002, emergency food aid accounted for a majority of U.S. food aid flows for the first time in history. Since then, the volume of Title II emergency food aid has far exceeded the amount of non-emergency or development food aid (**Figure 3**). This divergence highlights the divide between conflicting interests—emergency versus non-emergency—in the use of U.S. international food aid in general and Title II funds in particular.

### ***Title II Emergency Food Assistance***

USAID targets emergency food aid to vulnerable populations in response to malnutrition, famine, natural disaster, civil strife, and other extraordinary relief requirements. Emergency assistance is provided through recipient governments and public or private agencies, including IOs, particularly the WFP.

### ***Title II Non-Emergency Food Assistance***

Non-emergency food assistance involves multi-year (generally three to five years) development programs—made through eligible PVOs, cooperatives, or IOs—that target chronically food-insecure populations. These programs include monetization and/or direct distribution of food aid. Under monetization—and depending on the agreement with the recipient country—proceeds from the sale of donated U.S. commodities are used by cooperating sponsors either to fund distribution expenses in the case of direct feeding programs or to implement various development projects that address chronic food shortages and food security. Title II food aid is subject to several requirements (see box below) including an in-kind mandate, coupled with processing and monetization requirements.

The 2014 farm bill authorized the use of up to \$17 million annually for the monitoring and assessment of non-emergency food aid programs. The 2014 farm bill also required that USAID prepare an annual report for Congress that addresses how funds are allocated to and used by eligible organizations as well as the rate of return on aid funds—defined as the sum of the proceeds from monetization of food aid commodities relative to the total cost of procuring and shipping the commodities to the recipient country’s local market. Sponsors and projects with rates of return below 70% are to come under special scrutiny.

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<sup>15</sup> §202 of the FFPA (7 U.S.C. 1722).



## Legislative Requirements Affecting FFPA Title II Food Assistance

Title II food assistance is subject to several legislative requirements.<sup>16</sup>

### U.S. Sourcing of All Food Aid

In reference to eligible agricultural commodities for use under a FFPA program, agricultural commodities are defined as “any agricultural commodity or the products thereof produced in the United States.”<sup>17</sup>

### Minimum Share of Food Aid Shipping on U.S. Registered Vessels—Cargo Preference

At least 50% of the gross tonnage of U.S. agricultural commodities financed under U.S. food aid programs must ship via privately owned, registered U.S.-flag commercial vessels.<sup>18</sup>

### Minimum Tonnages—Total and Non-Emergency

The FFPA mandates that Title II commodity donations provide an annual minimum tonnage level of 2.5 million metric tons (mmt).<sup>19</sup> Of the 2.5 mmt, at least 1.875 mmt (75%) is to be channeled as non-emergency (development) assistance through eligible organizations.<sup>20</sup> However, the USAID Administrator has the discretion to determine if there is a greater emergency need and/or that the mandated volume of commodities cannot be used effectively in non-emergency situations. In the face of declining funding allocations,<sup>21</sup> enforcing a minimum tonnage requirement on Title II funds would put considerable pressure on USAID to purchase and distribute low-cost, bulk commodities in order to stretch a tight budget. This would work directly against the food-quality provisions added to the FFPA by the 2014 farm bill (§3003). As a result, USAID’s Administrator has waived this mandate every year for decades—as evidenced by the emergency versus non-emergency ratios in **Figure 3**.

### Specified Allocation for Non-Emergency Programs

The 2014 farm bill (§3012) re-affirmed a funding allocation initially established by the 2008 farm bill (P.L. 110-246; §3021) for non-emergency activities under Title II—USAID shall make available not less than 20%, nor more than 30%, of Title II funds to carry out non-emergency food aid, with a minimum of at least \$350 million each fiscal year.<sup>22</sup> The targeted funding is intended to assure partnering PVOs and cooperatives of funding to carry out their development projects. Under the initial 2008 allocation, the minimum non-emergency funding level ranged from \$375 million in FY2009 to \$450 million in FY2012. These FY2009-FY2012 requirements were binding and resulted in the increase in the non-emergency funding share that started in FY2010 (**Figure 3**).<sup>23</sup>

### Monetization Requirements

Not less than 15% of all commodities distributed under Title II non-emergency programs must be monetized<sup>24</sup>—that is, sold to generate proceeds. These proceeds may then be used to fund the transportation, storage, and distribution of Title II commodities within the recipient country; implementation of income-generating, community development; health; nutrition; cooperative development; agricultural; and other development activities—or be invested with any interest earned also contributing to the original assistance intent.

### Value-Added Requirements

At least 75% of non-emergency in-kind shipments must be in the form of processed, fortified, or bagged commodities, and not less than 50% of the bagged commodities must consist of whole-grain commodities bagged in the United States.<sup>25</sup> Although not a specific requirement, FFPA also includes recommendations for micronutrient fortification—such as vitamin A, iron, iodine, and folic acid—for grains and other commodities donated through FFPA.<sup>26</sup>

<sup>16</sup> Specific criticisms of these requirements are discussed later in this report in “Issues for Congress.”

<sup>17</sup> 7 U.S.C. 1724a(2).

<sup>18</sup> 46 U.S.C. 55305.

<sup>19</sup> 7 U.S.C. 1732(2).

<sup>20</sup> 7 U.S.C. 1724a(2).

<sup>21</sup> Title II outlays averaged \$2.1 billion annually during 2005 to 2010, but only \$1.5 billion annually since 2010.

<sup>22</sup> §412(e) of the FFPA (7 U.S.C. 1736f(e)).

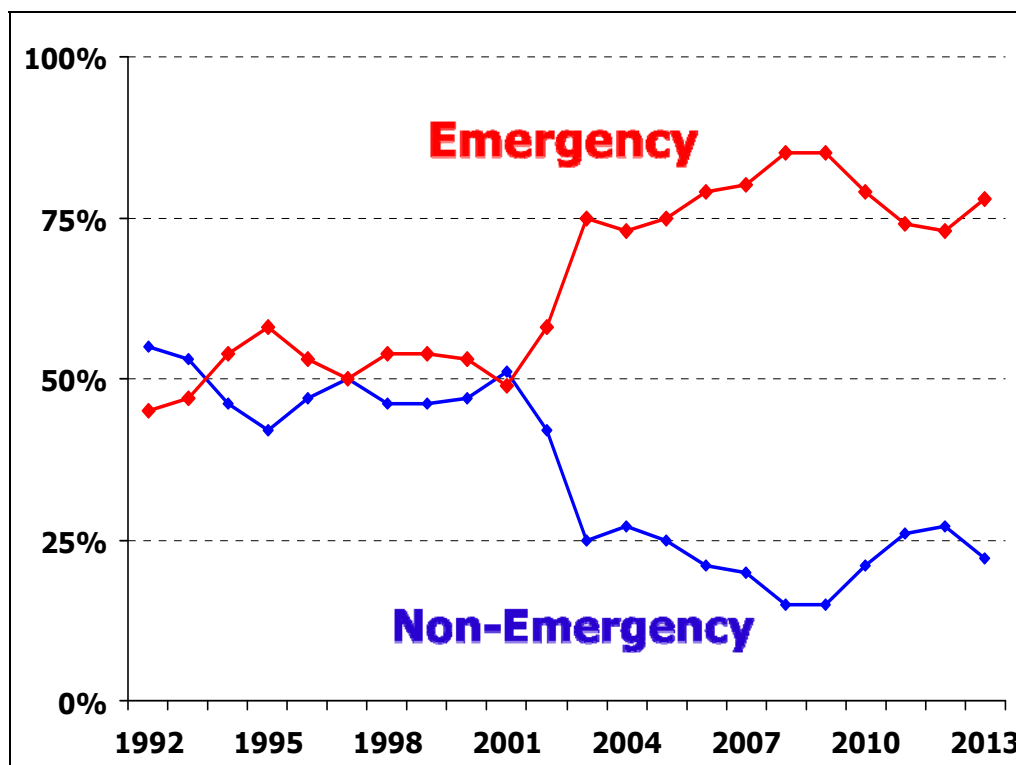
<sup>23</sup> In FY2013, the FY2012 minimum allocation of \$450 million was reauthorized for FY2013 under P.L. 112-240.

<sup>24</sup> §203(b) of the FFPA (7 U.S.C. 1723).

<sup>25</sup> §204(b)(1) of the FFPA (7 U.S.C. 1724(b)(1)).



**Figure 3. Allocation of Food for Peace Title II Commodities to Emergency and Non-Emergency Programs, FY1992-FY2013**



Source: Data compiled by CRS from USAID, *U.S. International Food Assistance Report*, various years.

### *Shelf-Stable Foods and Prepositioning of FFPA Commodities*

The 2014 farm bill (§3007) authorized appropriations of \$10 million for shelf-stable (i.e., not easily spoiled) prepackaged foods—70% of the funds are for their preparation and stockpiling in the United States, and the balance is for their rapid transportation, delivery, and distribution to needy individuals in foreign countries.<sup>27</sup>

USAID may also use funds appropriated for FFPA Titles II and III to procure on the open market, transport, and store agricultural commodities in pre-positioned locations at various sites in the United States—e.g., near major port facilities—and around the world to expedite their delivery in the event of emergency need.<sup>28</sup> The 2014 farm bill (§3009) reauthorized pre-positioning of commodities through FY2018, increased the annual funding for pre-positioning to \$15 million from \$10 million, and allowed USAID to have discretion over whether to establish additional prepositioning sites based on the results of assessments of need, technology, feasibility, and cost.

(...continued)

<sup>26</sup> §415(b) of the FFPA (7 U.S.C. 1736g-2).

<sup>27</sup> §407(c)(4) of the FFPA (7 U.S.C. 1726b). Shelf-stable stockpiling and distribution was first added to FFPA by the Grain Standards and Warehouse Improvement Act of 2000 (P.L. 106-472; §310(a)).

<sup>28</sup> §407(c)(4) of the FFPA (7 U.S.C. 1736a). Pre-positioning was first added to FFPA by the Grain Standards and Warehouse Improvement Act of 2000 (P.L. 106-472; §310(b)).

USAID maintains that pre-positioning enables it to respond more rapidly to emergency food needs.

### ***USAID Guidelines for Title II Proposals***

USAID issues guidance that PVOs must follow when developing and implementing Title II programs.<sup>29</sup> For food emergencies, USAID responds based on a proposal from a PVO, an appeal from an IO, or a disaster declaration by the U.S. embassy in the affected country.<sup>30</sup> Similarly, for Title II funded non-emergency programs, eligible NGOs and IOs submit proposals to USAID based on Food for Peace guidance. Since IOs (e.g., WFP) are not subject to U.S. regulations, they receive food aid according to a special agreement established with the U.S. government. Once USAID approves a Title II project, the partnering institution orders commodities for delivery at the foreign location. USAID provides a list of eligible U.S. agricultural commodities.<sup>31</sup> Choosing from the list, and based on their local assessments of markets and needs, partners identify the types and amounts of commodities required and a schedule for delivery. USDA procures the requested commodities by issuing a tender to commodity suppliers and processors. All Title II commodities are purchased on the open market.<sup>32</sup> The implementing partner (working with USAID and subject to agricultural cargo preference requirements discussed later in this report) arranges shipment of the cargo from a U.S. port to the recipient country, again using a tender process. In emergencies, USAID can expedite the response by tapping into prepositioned food supplies of up to 100,000 tons—situated in warehouses at U.S. Gulf ports and at additional sites overseas.

### ***Food Quality***

The 2014 farm bill (§3003) amended current food aid law to place greater emphasis on improving the nutritional quality of food aid products.<sup>33</sup> This issue is discussed in more detail later in this report in the section entitled “Issues for Congress.”

## **Title III—In-Kind Donations to Recipient-Country Governments**

Title III of the FFPA—entitled “Food for Development”—provides for government-to-government grants of U.S. commodities to support non-emergency long-term economic development in least developed countries.<sup>34</sup> Under this program, implementing partners can monetize donated commodities in the recipient country and use the resulting revenue to support programs that promote economic development and food security, including development of agricultural markets, school feeding programs, nutrition programs, and infrastructure programs.

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<sup>29</sup> USAID, “Guidance,” <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/guidance>.

<sup>30</sup> USAID, “How Title II Food Aid Works,” <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/quick-facts/how-title-ii-food-aid-works>.

<sup>31</sup> Available at <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/resources/implementation-tools/commodity>.

<sup>32</sup> No USDA-owned stocks are available, because USDA’s CCC has not held any significant inventories since 2005.

<sup>33</sup> §202(h) of the FFPA (7 U.S.C. 1722(h)).

<sup>34</sup> §303 of the original act (P.L. 83-840) established Title III as a barter program exchanging U.S. agricultural commodities for strategic materials. Title III was reauthorized in 1977 as “Food for Development” by P.L. 95-88, §211, which replaced barter authority with debt forgiveness authority.

The U.S. government also pays for the costs of procurement, processing, and transportation under Title III. No funding request has been made for Title III activities since FY2002.

## **Title V—Farmer-to-Farmer Program**

Title IV of the Food for Peace Act of 1966 (P.L. 89-808) created the Farmer-to-Farmer program. However, the program was first funded by the 1985 farm bill (P.L. 99-198; §1107). Funding levels were doubled in the FFPA by the 1990 farm bill (P.L. 101-624; §1512) and reauthorized in subsequent farm bills, including the 2014 farm bill (§3014).<sup>35</sup> The 2014 farm bill assigned minimum funding for the program as the greater of \$15 million or 0.6% of the funds made available to FFPA programs for each year from FY2014 through FY2018. In addition, the 2014 farm bill added a requirement for a Government Accountability Office (GAO) report to review the program and provide recommendations to improve the monitoring and evaluation of the program.

The Farmer-to-Farmer program does not provide commodity food aid but instead provides technical assistance to farmers, farm organizations, and agribusinesses in developing and transitional countries. The program mobilizes the expertise of volunteers from U.S. farms, land grant universities, cooperatives, private agribusinesses, and nonprofit organizations to carry out short-term projects overseas.

## **Other Food Aid Programs**

### **Food for Progress<sup>36</sup>**

The 1985 farm bill (P.L. 99-198; §1110) authorized the Food for Progress program. USDA's FAS administers the program. USDA undertakes multi-year agreements with cooperating sponsors (i.e., eligible organizations include PVOs, cooperatives, IOs, and recipient-country governments). These agreements require monetization of donated U.S. commodities in support of certain developing countries and emerging democracies. Qualifying countries must have made commitments to agricultural policy reforms that incorporate free enterprise elements through changes in commodity pricing, marketing, input availability, distribution, and private sector involvement. Program activities focus on private sector development of agricultural infrastructure, such as improved production practices, marketing systems, farmer training, agro-processing, and agribusiness development.

Cooperating sponsors request commodities from USDA. In response, USDA's CCC purchases the requested commodities from the U.S. market and ships them to the recipient country using either appropriated Title I funds or CCC financing. Upon arrival, USDA transfers them to the implementing organizations for monetization. Since Congress has not appropriated any new Title I program funds since FY2006, the Food for Progress program now relies entirely on CCC financing. The Food for Progress program includes a requirement that not less than 400,000

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<sup>35</sup> The 2008 farm bill designated this program as the "John Ogonowski and Doug Bereuter Farmer-to-Farmer Program" in honor of one of the pilots killed September 11, 2001, who was also a participant in the program, and of former Representative Bereuter, a supporter of the program. The program is located in §501 of the FFPA (7 U.S.C. 1737).

<sup>36</sup> 7 U.S.C. 1736o. More information is available at <http://www.fas.usda.gov/programs/food-progress>.

metric tons (mt) of commodities shall be provided each fiscal year;<sup>37</sup> however, actual purchases have averaged closer to 277,300 mt since 2006. Because the commodity requirement is based on weight, the actual cost of the program will vary from year to year with commodity prices. The program is limited by statute to pay no more than \$40 million annually for freight costs,<sup>38</sup> which limits the amount of commodities that can be shipped, particularly in years with high shipping costs. In addition, up to \$15 million of program funds are available to assist the implementing partners to set up and run program activities. In FY2013, Food for Progress programs involving 160,120 mt of U.S. commodities valued at nearly \$150 million were targeted through various implementing partners in 10 developing countries.<sup>39</sup> For FY2014, USDA announced seven international Food for Progress projects valued at \$127.6 million.<sup>40</sup>

### **McGovern-Dole International Food for Education and Child Nutrition (IFECN)<sup>41</sup>**

The 2002 farm bill (P.L. 107-171, §3107) first authorized the McGovern-Dole IFECN program. USDA's FAS administers the program. Under the McGovern-Dole IFECN program, implementing partners use U.S. commodities and financial and technical assistance to carry out school feeding programs and maternal, infant, and child nutrition programs in foreign countries identified as having critical food needs. The 2014 farm bill (§3204) reauthorized the program through FY2018 with discretionary funding of "such sums as are necessary" to be determined by annual appropriations.

USDA provides the commodities used in the program through agreements with qualifying PVOs, cooperatives, IOs, and foreign governments. The implementing partners, in turn, use the commodities for direct feeding or, in limited situations, for local sale to generate proceeds to support school feeding and nutrition projects. Priority countries must demonstrate sufficient need for improving domestic nutrition, literacy, and food security. In FY2013, the program provided 90,840 mt of commodities (e.g., soybean oil, rice, potatoes, lentils, wheat, dark red kidney beans, soybean meal, and corn soy blend), valued at \$183.5 million, to an estimated 6.8 million beneficiaries in 11 developing countries in Asia, Africa, and Latin America.<sup>42</sup>

### **Local and Regional Procurement (LRP) Projects<sup>43</sup>**

Under an LRP program, the administering agency (either USDA or USAID) awards cash grants to eligible organizations—a PVO or cooperative that is registered with USAID or an IO—to carry

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<sup>37</sup> 7 U.S.C. 1736o(g).

<sup>38</sup> 7 U.S.C. 1736o(f)(3).

<sup>39</sup> Available at <http://www.fas.usda.gov/programs/food-progress/food-progress-funding-allocations-fy-2013>. For a list of active FFP projects, see <http://www.fas.usda.gov/programs/food-progress/active-food-progress-projects>.

<sup>40</sup> USDA, News Release No. 0181.14, August 19, 2014.

<sup>41</sup> 7 U.S.C. 1736o-1. This program is named in honor of former ambassador and former Senator George McGovern and former Senator Robert Dole for their efforts to encourage a global commitment to school feeding and child nutrition. Additional information is available at <http://www.fas.usda.gov/programs/mcgovern-dole-food-education-program>.

<sup>42</sup> USAID, "Appendix I: McGovern-Dole International Food for Education and Child Nutrition Program Grants Fiscal Year 2013," *U.S. International Food Assistance Report: Fiscal Year 2013*.

<sup>43</sup> The program is located in the U.S. Code at 7 U.S.C. 1726c. Additional information about the USDA's Local and Regional Procurement Project is available at <http://www.fas.usda.gov/excredits/FoodAid/LRP/LRP.asp>.

out field-based projects to purchase eligible commodities from markets close to the target population in response to food crises and disasters. Both USDA and USAID have funded LRP activity. The 2008 farm bill (P.L. 110-246, §3206) authorized USDA to develop a four-year (FY2009-FY2012) LRP Pilot Project with a mandatory authorization for \$60 million of CCC funds (i.e., not from FFPA appropriations).<sup>44</sup> In response to the success of the LRP pilot projects, the 2014 farm bill (P.L. 113-79; §3207) converted the expired pilot project into a permanent LRP program (LRPP) to be administered by USDA.<sup>45</sup> Congress authorized funding levels for LRPP at \$80 million annually for FY2014 through FY2018, but instead of mandatory CCC funding, the LRP program is now subject to annual appropriations. This budget sourcing has proven crucial since, in both FY2014 and FY2015, Congress made no appropriations for LRPP and, thus, it remains unused.

In 2008, in the Supplemental Appropriations Act (P.L. 110-252) Congress provided USAID with \$50 million for LRP activities in response to emergencies, including the global food crisis of 2008. This initial \$50 million of LRP funding was augmented by another \$75 million in International Disaster Account (IDA) funding for USAID LRP activities.<sup>46</sup> Then, in 2009, Congress provided \$75 million for USAID LRP activities in the Omnibus Appropriations Act (P.L. 111-8, Div. H). Since 2010, USAID has used EFSP funds to finance LRP and other cash-based assistance (**Table 3**).

The primary motive behind LRP is to expedite the provision of food aid to vulnerable populations affected by food crises and disasters. A secondary motive is to realize substantial economies by purchasing locally rather than trans-shipping commodities from the United States, thus allowing LRP funding to reach more people. Because cash transfers can occur electronically, LRP food acquisitions are not delayed by international shipping operations. Instead, potential limitations include the availability of field staff as well as regional market supplies and infrastructure.

To the extent possible, LRP activities must both expedite the provision of food aid to affected populations and not significantly increase commodity costs for low-income consumers who procure commodities sourced from the same markets at which the eligible commodities are procured. In addition, USDA (and USAID) require from each eligible organization commitments designed to prevent or restrict (1) the resale or trans-shipment of any eligible commodity procured under this section to any country other than the recipient country; and (2) the use of the eligible commodity for any purpose other than food aid. USDA, in administering LRPP, may give preference in carrying out this program to eligible organizations that have, or are working toward, projects under the McGovern-Dole IFECN program. Under the 2014 farm bill, USDA must submit an annual report to Congress on the LRPP's implementation time frame; costs; and impact on local and regional producers, markets, and consumers.

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<sup>44</sup> The mandatory funding for the LRP pilot was year-specific: \$5 million in FY2009, \$25 million in FY2010, \$25 million in FY2011, and \$5 million in FY2012.

<sup>45</sup> The 2014 farm bill also required that USAID produce an annual report for Congress on LRPP's implementation time frame; costs; and impact on local and regional producers, markets, and consumers. Because LRPP is intended to complement existing food aid programs, especially the McGovern-Dole program, preference in carrying out LRPP can be given to eligible organizations that have, or are working toward, projects under the McGovern-Dole program.

<sup>46</sup> See footnote 10 in GAO-09-570, *LRP as Food Aid*, May 2009.

## The Bill Emerson Humanitarian Trust (BEHT)<sup>47</sup>

The Bill Emerson Humanitarian Trust (BEHT) is a reserve of U.S. commodities and/or cash authorized under the Africa: Seeds of Hope Act of 1998 (P.L. 105-385). BEHT is not a food aid program per se. It is a reserve of commodities (up to 4 mmt of grains—rice or wheat) or funds owned by the CCC for use in the FFPA programs to meet unanticipated humanitarian food aid needs in developing countries. BEHT replaced the Food Security Commodity Reserve established in the 1996 farm bill and its predecessor, the Food Security Wheat Reserve, originally authorized by the Agricultural Trade Act of 1980.<sup>48</sup> The 2014 farm bill reauthorized BEHT through FY2018. The program is administered under the authority of the Secretary of Agriculture. USDA's CCC may be reimbursed for the value of U.S. commodities released from BEHT from either FFPA appropriations or direct appropriations for reimbursement. The CCC may then use that reimbursement to replenish commodities released. Reimbursement to the CCC for ocean freight and related non-commodity costs occurs through the regular USDA appropriations process.

Since 1980, wheat has been the only commodity held in reserve. During 2008, USDA sold the remaining wheat in the trust (about 915,000 mt). Currently BEHT holds only cash (about \$311 million in FY2013). USDA can use the cash to finance activities or purchase commodities to meet emergency food needs when FFPA Title II funds are not available. The BEHT was last used in FY2010, when cash disbursements of \$8.1 million were made to five African countries.<sup>49</sup>

## Emergency Food Security Program (EFSP)

The Emergency Food Security Program (EFSP) is a cash-based food-aid program administered by USAID. It provides grants to eligible organizations for rapid response to the highest priority emergency food security needs. The Foreign Assistance Act of 1961, as amended (FAA; P.L. 87-195) authorizes, among other things, the provision of disaster assistance such as EFSP.<sup>50</sup> USAID initiated EFSP in FY2010 as a complement to FFPA Title II emergency in-kind food aid donations.<sup>51</sup> USAID uses funds from its International Disaster Assistance (IDA) account,<sup>52</sup> also authorized under the FAA, to finance EFSP activities.<sup>53</sup> According to GAO, from FY2010 through FY2014, USAID awarded EFSP grants totaling about \$991 million for cash-based food assistance, with the majority of this aid going to Syria.<sup>54</sup> Implementing partners include U.S. and

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<sup>47</sup> 7 U.S.C. 1736f-1. Bill Emerson, a Member of Congress from Missouri, was the ranking Member of the House Select Committee on Hunger. For more information on the BEHT, see <http://www.fas.usda.gov/programs/bill-emerson-humanitarian-trust>.

<sup>48</sup> CRS Report RS21234, *The Bill Emerson Humanitarian Trust: Background and Current Issues*.

<sup>49</sup> USAID, "USAID FY2010 International Food Assistance Report," available at <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/resources/united-states-international-food>.

<sup>50</sup> USAID, "USAID/Bureau for Democracy, Conflict, and Humanitarian Assistance/Office of Food for Peace Annual Program Statement (APS) for International Emergency Food Assistance," FFP-13-000001, May 6, 2013.

<sup>51</sup> USAID, "Fiscal Year 2012 Emergency Food Security Program Fact Sheet," available at <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/programs/emergency-programs>.

<sup>52</sup> The International Disaster Assistance (IDA) account funds programs authorized by Chapter 9 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. §491 *et seq.*), and receives appropriations pursuant to annual appropriations acts for Foreign Operations.

<sup>53</sup> USAID, "USAID/Bureau for Democracy, Conflict, and Humanitarian Assistance/Office of Food for Peace Annual Program Statement (APS) FFP-11-000001 for International Emergency Food Assistance," April 15, 2011.

<sup>54</sup> GAO, *International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval But Should Strengthen Financial Oversight*, GAO-15-328, March 2015; hereafter referred to as GAO-15-328, *International* (continued...)



foreign NGOs, cooperatives, and IOs. Of the \$991 million in total grant funding awarded through FY2014, the WFP was the implementing partner for \$622 million (63%), while NGOs and others were implementing partners for the remaining \$369 million (37%). See **Table 3** for EFSP outlays during FY2010-FY2013.

**Table 3. Emergency Food Security Program (EFSP) Activity, FY2010-FY2013**

	FY2010	FY2011	FY2012	FY2013
Program Value (\$ million)	\$244	\$232	\$374	\$577.6
Metric Tons of Food Delivered	278,870	191,616	177,346	275,194
Programs Funded	17	30	45	57
Countries Receiving Assistance	8	21	19	29
Beneficiaries Assisted (millions)	15.5	19.7	10.7	9.4
<b>EFSP Distribution Activity</b>		% of fiscal year program value		
Local and Regional Purchase (LRP)	NA	79%	44%	54%
Food Vouchers	NA	9%	14%	39%
Cash Transfers	NA	12%	42%	8%
<b>Cost per Metric Ton Delivered</b>		\$ per metric ton		
Local and Regional Purchase (LRP)	NA	\$956	\$928	\$1,133

**Source:** USAID Emergency Food Security Program Fact Sheets for FY2011, FY2012, and FY2013.

**Note:** USAID has not yet released its *International Food Assistance Report* for FY2014; however, GAO reports that in FY2014 cash and voucher programs (excluding LRP) spent about \$410 million to fund projects in 28 countries (including \$272.7 million in Syria); GAO-15-328, *International Cash-Based Food Assistance*, March 2015.

USAID uses EFSP primarily when U.S.-purchased, in-kind food aid cannot arrive fast enough to respond to an emergency or when other interventions may be more appropriate than U.S. in-kind food aid due to local market conditions. EFSP funds three kinds of emergency food security assistance: local and regional procurement, cash transfers, and food vouchers.<sup>55</sup>

**Local and Regional Procurement (LRP):** Implementing partners use EFSP funds to purchase food commodities within the disaster-affected country or from a nearby country for distribution to the disaster-affected population. LRP is most effective when adequate supplies of food are available regionally such that large-scale purchases will not significantly impact prices or commercial trade. The WFP uses LRP extensively in its operations.

**Cash Transfers:** Implementing partners distribute cash to disaster-affected people for use in purchasing essential food items to meet their food security needs. Cash transfers can take the form of a physical payment or an electronic transfer through mobile providers or debit cards from financial institutions. Cash transfers work well when the recipient population is widely spread out such that a feeding center would not work, when an acute food crisis requires immediate response, or when the recipient population is so indigent that most new income is spent on food.

(...continued)

*Cash-Based Food Assistance*, March 2015.

<sup>55</sup> USAID, “Types of Emergency Food Assistance,” <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/programs/emergency-programs/types-emergency>.

**Food Vouchers:** Local food vendors supply specific, essential food items to beneficiaries through paper or electronic food coupons. Vendors are then able to redeem the vouchers for payment from USAID. Food vouchers have proven to be an effective way to reach recipient populations that may reside in regions with high security risk due to civil strife or armed combat where there are specific security concerns associated with the transfer of either cash or in-kind commodities, or when there is a need to ensure that people receive a specific set of foods.

## **Common Features of U.S. International Food Aid Programs**

### **CCC Acquisition and Transportation of Commodities**

Commodities requested under a U.S. food assistance program may be furnished from the inventory of USDA's CCC, if available, or purchased in the U.S. domestic market. USDA's Farm Service Agency (FSA) serves as the buying agent for the CCC for all U.S. food aid programs. FSA issues separate tenders to both prospective sellers of food commodities and to providers of freight service for commodity delivery to overseas ports.<sup>56</sup> In emergencies, USAID can tap into up to 100,000 metric tons of food that it has prepositioned in warehouses at U.S. Gulf ports and additional sites overseas to expedite the response.

### **Reimbursement of Distribution Costs**

In addition to the purchase of U.S. commodities, USDA's CCC finances storage and distribution costs for commodities, including pre-positioned commodities, and transportation costs. Such costs include both ocean freight and overland transport when appropriate.<sup>57</sup> Once a shipment of food aid arrives in the recipient country, additional funding to move it to the final point of sale or use depends on the program and its administrator. USAID provides its implementing partners with support for administrative costs (other than commodity procurement and ocean shipping) from two potential sources: (1) internal transportation, shipping, and handling (ITSH) funds and (2) funding available through §202(e) of the FFPA. The 2014 farm bill (§3002) amended the FFPA both to expand the portion of Title II §202(e) funds allocated to foreign program support—specified as a range of “not less than 7.5% nor more than 20%” (up from an earlier range of 7.5% to 13%)—and to allow for greater flexibility in the nature of that support to include cash-based activity to enhance ongoing food distribution under certain conditions.<sup>58</sup>

### **Bellmon Requirements**

In accordance with an amendment included in the FFPA by the International Development and Food Assistance Act of 1977 (P.L. 95-88, §212)—referred to as the “Bellmon” requirements—use of U.S. commodities for food assistance is prohibited under two specific conditions:<sup>59</sup> (1) if the

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<sup>56</sup> USAID, “How Title II Food Aid Works,” at <http://www.usaid.gov>.

<sup>57</sup> FFPA (P.L. 83-480; §406), as amended through the 2014 farm bill (P.L. 113-79).

<sup>58</sup> §202(e) of the FFPA; (7 U.S.C. 1722(e)). This increased flexibility was the result of inclusion of the word “enhancing,” whereby the list of uses of the dedicated 7.5% to 20% range of funds includes “establishing and enhancing programs under this title.” This subtle change allows USAID to expand the use of §202(e) funds to include cash-based food assistance, when appropriate, in recipient countries where a Title II program is already operating.

<sup>59</sup> The amendment is named after its sponsor, former Senator Henry Bellmon.



recipient country does not have adequate storage facilities to prevent spoilage or waste of the donated commodities at the time of their arrival; or (2) if the distribution of U.S. commodities in the recipient country would result in substantial disincentive to or interference with domestic production or marketing of agricultural commodities in that country.<sup>60</sup> As a result of the Bellmon requirements, cooperating sponsors must conduct a Bellmon analysis to ensure that existing in-country conditions will not result in food aid monetization interfering with the agricultural economy of the recipient country.

## **Publicity and Branding of U.S. Commodities**

By statute, recipients—whether governments or private entities—of U.S. commodities under the FFPA are expected to widely publicize, to the extent possible, that such commodities are being provided by the friendship of the American people.<sup>61</sup> In particular, commodities provided under FFPA Title II must be labelled on the package, bag, or container as being furnished “by the people of the United States of America.”<sup>62</sup>

## **Agricultural Cargo Preference (ACP)**

USAID offers tenders for international freight shipping providers in a competitive process, subject to U.S. agricultural cargo preference requirements. In accordance with permanent authority contained in the Cargo Preference Act of 1954 (P.L. 83-644) and §901 of the Merchant Marine Act of 1936 (both as amended), at least 50% of the gross tonnage of U.S. agricultural commodities financed under U.S. food aid programs must ship via privately owned, registered U.S.-flag commercial vessels.

## **Bumpers Amendment**

In November 1985, an amendment (offered by then-Senator Dale Bumpers) included in a supplemental appropriations act (P.L. 99-349, § 209)<sup>63</sup> prohibited the use of U.S. foreign assistance funds for any activities—including any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training—that would encourage the export of agricultural commodities from developing countries that might compete with U.S. agricultural products in international markets. Exceptions to the so-called Bumpers Amendment include food-security activities, research activities that directly benefit U.S. producers, activities in acutely indigent countries, and activities in a country that the President determines is recovering from widespread conflict, a humanitarian crisis, or a complex emergency.

The Bumpers Amendment was preceded by USAID Policy Determination 71 in 1978, which required review by USAID “at the earliest possible stage” of any development project that would involve sugar, palm oil, or citrus for export. Following enactment of the Bumpers Amendment,

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<sup>60</sup> §406(d) of the FFPA (7 U.S.C. 1736(d)).

<sup>61</sup> §403(f) of the FFPA (7 U.S.C. 1733(f)).

<sup>62</sup> §202(g) of the FFPA (7 U.S.C. 1722(g)).

<sup>63</sup> In effect, the Bumpers Amendment originally was in force for FY1985. However, the amendment has been renewed in each year’s annual State Department and Foreign Operations Appropriations Acts (most recently as the FY2015 Omnibus, H.R. 83, P.L. 113-235, §7025).

USAID issued Policy Determinations 15 (September 13, 1986), which states that “it is USAID policy to avoid supporting the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities to third countries and have a significant impact on U.S. exporters.”

## Issues for Congress

The following sections present some of the arguments both in favor of and against in-kind food aid as compared with cash-based food assistance and a suite of related issues—including agricultural cargo preference, monetization of non-emergency food aid, food aid quality, and how food aid fits within international trade agreements.

### In-Kind Food Aid Versus Cash-Based Food Assistance

Donors can provide international food assistance in two primary forms: in-kind, as commodities purchased in the donor country and shipped to a foreign country, or as cash transferred directly to the foreign country and used to acquire food or provide access to food for a target population.

Despite the growth in recent years of cash-based assistance under USAID’s EFSP and some initial LRP activity by USDA, the United States remains one of the few countries<sup>64</sup> that continue to rely primarily on in-kind transfers of domestically purchased commodities as the basis for international food assistance (referred to as “food aid tying”). FFPA Titles I, II, and III programs, the Food for Progress program, and the McGovern-Dole IFECN programs, involve such tied in-kind food aid, usually for monetization, but occasionally for direct food distribution programs. Such in-kind food shipments represented 92% of the value of U.S. food aid during FY2006 to FY2013. Only the Title V Farmer-to-Farmer and the cash-based EFSP programs do not involve in-kind food assistance.

As an alternative to in-kind food aid, the United States and other international donors have used three primary types of cash-based food assistance programs to help food-needy populations acquire access to food supplies: (1) local and regional procurement (LRP), (2) food vouchers, and (3) direct cash transfers.<sup>65</sup>

### What Is the Issue?

Since the 1960s, both the international development and U.S. agricultural communities, as well as academics, policymakers, and others have debated whether U.S. international food aid should be provided in the form of in-kind, U.S.-purchased commodities or more directly in the form of cash-based assistance. In the past decade several studies and GAO reports have provided evidence of economic inefficiencies and potential market distortions associated with in-kind food aid compared with cash-based assistance.<sup>66</sup>

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<sup>64</sup> The other major country that relies on in-kind food transfers is Japan, which uses international food donations to dispose of mandatory rice import commitments agreed to under the WTO’s Uruguay Round Agreement.

<sup>65</sup> These were described earlier in this report in the section entitled “Emergency Food Security Program (EFSP).”

<sup>66</sup> The studies and GAO reports are identified and discussed in the following sections of this report.

Several questions have emerged from this debate, including the following: Is in-kind food aid the best or most appropriate form of humanitarian assistance in time of emergencies? Are there situations where cash-based assistance is preferable? Is there an optimal balance between in-kind and cash-based assistance? If so, is the current allocation representative of that balance? Similarly, in an era of tight budgets, what is a reasonable balance between emergency and non-emergency international aid?

## Background on Cash-Based Food Assistance

Cash-based food assistance is not a new concept. From 2001 to 2008, through programs funded under the authority of the Foreign Assistance Act, the U.S. government provided approximately \$220 million in cash contributions to the WFP to purchase foreign-grown commodities. WFP has seen its cash and voucher programs significantly increase since 2010, growing from \$139 million to \$1.37 billion in 2014—with the largest increases occurring between 2012 and 2014, owing primarily to the civil war in Syria.

The December 2004 Indian Ocean tsunami helped shift thinking in favor of cash-based food assistance. The highly visible disaster required rapid, large-scale assistance to populations that eat mainly rice—a commodity with scant domestic surpluses from North Atlantic food aid donors—and maintained access to commercial food distribution systems.<sup>67</sup> Cash donations allowed the international community to establish cash and food voucher distribution and LRP of food aid. The success of the 2004 cash-based emergency response reinforced Europe’s commitment to cash-based food assistance and expedited a similar shift in Canada’s international food aid policy.

Most other major donor countries—including Australia, Canada, and the European Union and its member countries—have switched away from in-kind donations to cash-based forms of aid targeted primarily to emergency response rather than non-emergency development programs. Several other major donor countries, such as Saudi Arabia, Norway, and Switzerland, have always relied on cash-based assistance. Some PVOs, think tanks, academics, U.N. organizations, and U.S. trade partners advocate for following the lead of other major donor countries and switching over to a cash-based system of food assistance.

In recent years, the United States has joined other major donors in increasingly providing food assistance in the form of cash or vouchers.<sup>68</sup> The 2008 farm bill (§3206) authorized USDA to develop a four-year (FY2009-FY2012) LRP pilot project with a mandatory authorization for \$60 million of CCC funds. Subsequent evaluations of the pilot project indicated that LRP could both lower the costs and improve the timeliness of providing food aid in most emergency situations.<sup>69</sup> Evaluations of U.S. and other LRP projects recommended that such procurement should be accompanied by careful assessment and monitoring to address concerns about food quality, local market disruption, and assuredness of supply. In response to the success of the LRP pilot projects,

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<sup>67</sup> Erin Lentz, S. Passarelli, and C. Barrett, “The Timeliness and Cost-Effectiveness of the Local and Regional Procurement of Food Aid,” *World Development* (2013), vol. 49, pp. 9-18; hereafter referred to as Lentz *et al.*, “Timeliness and Cost-Effectiveness of LRP,” *World Development* (2013).

<sup>68</sup> GAO-15-328, *International Cash-Based Food Assistance*, March 2015.

<sup>69</sup> J. L. Fisher, “USDA Local and Regional Procurement Pilot Project: Updates and Next Steps,” presentation to the LRP Learning Alliance Lessons Learned Workshop, September 19-22, 2011, Nairobi, Kenya; Lentz *et al.*, “Timeliness and Cost-Effectiveness of LRP,” *World Development* (2013); Erin C. Lentz, C. B. Barrett, and M. I. Gómez, “The Impacts of Local and Regional Procurement of US Food Aid: Learning Alliance Synthesis Report,” *A Multidimensional Analysis of Local and Regional Procurement of US Food Aid*, January 2012.

the 2014 farm bill (§3207) converted the expired pilot project into a permanent LRP program to be administered by USDA<sup>70</sup> with authorized funding levels of \$80 million annually for FY2014 through FY2018. However, the LRP program is now subject to annual appropriations and remains unfunded and unused through FY2015. In addition to the LRP program, the 2014 farm bill (§3002) also amended current food aid law to allow for greater flexibility in the use of FFPA 202(e) funds. This flexibility includes cash-based assistance in recipient countries where a Title II program is already operating.<sup>71</sup> Prior to the 2014 farm bill, none of FFPA Title II appropriations could be used to purchase foreign-grown food.<sup>72</sup> In addition to LRP, since 2010 USAID has used EFSP to provide food assistance as both cash and vouchers (**Table 3**).

## Proponents' Views on Cash-Based Food Assistance

Proponents of cash-based food assistance argue that, because cash transfers can occur electronically, food acquisitions are not delayed by international shipping operations. In addition, they contend that the increased flexibility of cash-based assistance allows U.S. aid to reach situations that would otherwise be difficult to access with in-kind food aid. According to USAID, flexible cash-based interventions have proven critical to effectively respond to complex and logistically challenging emergencies—such as the humanitarian crises in Syria, because of the ongoing civil war there, and in the Philippines, because of the aftermath of Typhoon Haiyan.<sup>73</sup>

Accordingly, they contend that cash-based food assistance offers several potential advantages over transoceanic in-kind food aid, including the following.<sup>74</sup>

- **Timeliness:** In-kind food shipments take an average of 4 to 6 months to reach their recipient destination; LRP food reaches beneficiaries in 1 to 2 months; food vouchers and cash transfers can occur in less than a month.<sup>75</sup> Research has shown that cash-based food security assistance can get food to people in critical need 11 to 14 weeks faster than commodity shipments from the United States.<sup>76</sup>
- **Less costly:** By avoiding expensive ocean shipping (subject to cargo preference requirements), a larger share of each taxpayer dollar can reach the intended recipient country, thus allowing a larger number of beneficiaries to be reached.

Both USDA and USAID in various budget requests have proposed that some portion of Title II funds be made available to purchase commodities in areas near the emergency so as to lower the

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<sup>70</sup> The 2014 farm bill also required that USAID produce an annual report for Congress on LRPP's implementation time frame; costs; and impact on local and regional producers, markets, and consumers. Because LRPP is intended to complement existing food aid programs, especially the McGovern-Dole program, preference in carrying out LRPP can be given to eligible organizations that have, or are working toward, projects under the McGovern-Dole program.

<sup>71</sup> USAID, *Food for Peace Information Bulletin 14-01*, "Eligible Uses of Section 202(e), ITSH, Community Funding, and Monetization," May 8, 2014.

<sup>72</sup> Prior to the 2014 farm bill, Section 202(e) of the FFPA was used to fund certain Title II program activities—establishing new programs and paying for administration, management, personnel, and internal transportation costs.

<sup>73</sup> GAO-15-328, *International Cash-Based Food Assistance*, March 2015.

<sup>74</sup> See USAID's Food Aid Reform website for more discussion of the advantages of cash-based assistance at <http://www.usaid.gov/foodaidreform>.

<sup>75</sup> GAO, *Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, But Many Challenges May Constrain Its Implementation*, GAO-09-570, May 2009; referred to as GAO-09-570, *LRP as Food Aid*, May 2009.

<sup>76</sup> Based on a comparison of LRP and in-kind food delivered in the same country in Lentz *et al.*, "Timeliness and Cost-Effectiveness of LRP," *World Development* (2013).

time and cost of delivery. Because freight and other transportation costs must be paid out of Title II appropriations, they limit the amount of funds available for actually purchasing commodities. In addition, ocean freight rates vary from year to year, making it difficult for USDA and USAID to plan their annual programming.

In a 2009 study, GAO concluded that between 2001 and 2008, food aid obtained by the U.N.'s WFP using LRP substantially reduced costs and improved timeliness of delivery, relative to similar food aid that USAID purchased and shipped from the United States to the same countries.<sup>77</sup> LRP was less costly in sub-Saharan Africa (SSA) and Asia by 34% and 29%, respectively, and reduced aid delivery time by over 100 days for many countries in Sub-Saharan Africa. In FY2006, USAID estimated that almost half of its food aid allocations went to paying the cost of transportation (ocean transport and internal shipping costs).<sup>78</sup> Other studies have found savings in cash-based assistance—LRP for bulk commodities can save over 50% compared with in-kind food aid (LRP for processed commodities may be less effective).<sup>79</sup>

- **Less disruptive to local agricultural producers and markets:** In-kind food aid—particularly when monetized—can encourage black market activity and cause price distortions and volatility in local markets with harmful effects on agricultural producers in recipient countries.<sup>80</sup> In a 2001 report, GAO found that USAID's average cost recovery per taxpayer dollar expended on monetized in-kind food aid was 76%, while USDA's was 58%.<sup>81</sup>
- **Less disruptive to global commercial markets:** In-kind food aid—whether monetized or distributed directly—can impede or displace commercial exports depending on the extent of distribution leakages or the economic viability of food aid recipients.<sup>82</sup> In-kind food aid has engendered international concerns from key trade partners that the United States is using international food donations as part of a domestic supply-management, price-support strategy, interfering with commercial market activity and potentially violating international trade agreements.<sup>83</sup>
- **Support local market channels and food preferences:** Whether LRP, food voucher, or cash transfer—procuring food locally can bolster local marketing channels, support farmers, and better comply with local food preferences.
- **Flexibility**—Food vouchers and cash transfers can be used when: a rapid response is needed, people are physically spread out or highly mobile, or there

<sup>77</sup> GAO-09-570, *LRP as Food Aid*, May 2009.

<sup>78</sup> USAID FY2006 Congressional Budget Justification.

<sup>79</sup> Elizabeth R. Bageant, C. Barrett, and E. Lentz, "Food Aid and Agricultural Cargo Preference," *Applied Economic Perspectives and Policy* (2010), vol. 32(4), pp. 624-641; hereafter referred to as Bageant *et al.*, "Agricultural Cargo Preference," *AEPP* (2010); and GAO, *Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs*, GAO-94-215, September 29, 1994.

<sup>80</sup> Organization for Economic Cooperation and Development (OECD), *The Development Effectiveness of Food Aid: Does Tying Matter?* (2005).

<sup>81</sup> GAO, *Funding Development Projects Through the Purchase, Shipment, and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Impacts*, GAO-11-636, June 2011; hereafter GAO-11-636, *Monetization*, June 2011.

<sup>82</sup> Gaus and Steets "Global Food Assistance Architecture" (2012), pp. 11-29.

<sup>83</sup> *Ibid.*

are security concerns about moving in-kind food or making cash transfers into the affected region.

## Concerns About Cash-Based Food Assistance

Cash-based food assistance has its potential hazards.<sup>84</sup> If LRP acquisitions occur in a food-deficit region or a region where commercial markets are not well developed, they could induce inflationary pressures and distort trader behavior. In addition, in cases of particularly acute food needs, local foods may not have adequate nutritional quality for therapeutic treatment and rehabilitation activities, particularly for highly vulnerable recipients such as children and lactating or pregnant mothers. In such cases, fortified or specialized foods may be preferable and require importation. Further, LRP and cash-based assistance are limited by the availability of trained field staff as well as regional market supplies and infrastructure. In poorly controlled settings, recipients of cash transfers and food vouchers may use them for non-food items.

Congressional and other critics of cash-based assistance also maintain that allowing non-U.S. commodities to be purchased with U.S. funds would result in undermining the coalition of commodity groups, PVOs, and shippers that support Title II in-kind donations, and thus lead to reductions in overall U.S. food aid funding.<sup>85</sup> Other concerns related to LRP are that buying commodities locally or regionally could result in local or regional price spikes. The price spikes might make it difficult for people living in the affected areas to buy the supplies they need. Other concerns include that local or regional procurement cannot guarantee the reliability and quality of food supplies used for LRP-based programs.<sup>86</sup>

## Agricultural Cargo Preference (ACP)

Ocean transport of all U.S. government-impelled cargoes—including food aid shipments—is permanently authorized by the Cargo Preference Act of 1954 (P.L. 83-644).<sup>87</sup> This act requires that at least 50% of the volume of U.S. agricultural commodities financed under U.S. food aid programs ship on U.S.-flag vessels.

### What Is the Issue?

The debate surrounding agricultural cargo preference (ACP) is related to concerns about the costs added to U.S. food aid delivery by complying with ACP (costs which are paid by the CCC out of annual food aid appropriations) versus maintaining a viable U.S. merchant fleet with military-readiness capability. Excess shipping costs are incurred because freight rates on U.S.-flag vessels are generally higher than on foreign commercial ships due to taxes, as well as safety, health, and

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<sup>84</sup> Erin C. Lentz, C. Barrett, M. Gomez, D. Maxwell, “On the Choice and Impacts of Innovative International Food Assistance Instruments,” *World Development*, vol. 49 (September 2013), pp. 1-8.

<sup>85</sup> Abbott, “Food Aid and the 2007 Farm Bill,” EC-750-Purdue Extension (2007); and H.Rept. 109-255 on H.R. 2744, the FY2006 Agriculture Appropriations Act, which states, “The conferees further admonish the Executive Branch to refrain from proposals which place at risk a carefully balanced coalition of interests which have served the interests of international food assistance programs well for more than fifty years.” The George W. Bush Administration had proposed moving \$300 million of Title II funding to USAID’s International Disaster and Famine Assistance account to support cash-based emergency assistance activities, USDA, FY2006 Budget Summary.

<sup>86</sup> See footnote 10 in GAO-09-570, *LRP as Food Aid*, May 2009.

<sup>87</sup> 46 U.S.C. 55305.



environmental regulations, and higher labor costs associated with a requirement that at least 75% of crew members be U.S. citizens while the remaining crew must be resident aliens.

## Background on ACP

The Cargo Preference Act of 1954 (P.L. 83-644) mandated that at least 50% of U.S. food aid must ship on U.S. registered vessels. Qualifying ships must be privately owned, U.S.-flagged commercial vessels that have been registered in the United States for at least three years and employ a crew of at least 75% U.S. citizens while the remaining crew must be resident aliens. The Department of Transportation's Maritime Administration (MARAD) monitors and enforces ACP compliance.<sup>88</sup>

An amendment to the act in the 1985 farm bill (P.L. 99-198; §1142) increased the cargo preference share to 75% and required that MARAD reimburse the CCC for

1. the "excess" ocean freight costs on U.S.-flag vessels—referred to as the ocean freight differential (OFD)—incurred by complying with the additional 25% cargo preference requirement, and
2. any excessive shipping costs incurred during periodic spikes in transport prices when the cost of shipping exceeds 20% of the value of the commodities shipped—called the Twenty Percent Excess Freight (TPEF). Excess costs are incurred because freight rates on U.S.-flag vessels are generally higher than on foreign commercial ships.

In 2012, the cargo preference share was reduced from 75% to 50% in the surface transportation reauthorization act (MAP-21, P.L. 112-141). The 2012 Act also eliminated the reimbursement requirement for OFD. The Congressional Budget Office (CBO) estimated that repeal of this provision would save \$108 million annually or \$540 million over the period FY2013-FY2017.<sup>89</sup> In 2013, the Bipartisan Budget Act of 2013 (P.L. 113-67, §602) repealed the requirement that MARAD reimburse USDA for TPEF associated with the transportation of food aid shipments on U.S.-flag vessels. Again enacted as a cost-saving measure, the repeal, according to CBO estimates, would save about \$75 million annually or \$356 million over the period 2014-2018.<sup>90</sup> However, the effect was to reduce funds available for purchasing food for use in FFPA programs.

A provision in the 113<sup>th</sup> Congress's Coast Guard and Maritime Transportation Act of 2014 (H.R. 4005, §318) would have repealed the reduction in the cargo preference requirement contained in MAP-21, and reinstated the provision requiring that 75% of U.S. food aid be shipped on U.S.-flag vessels. The bill passed the House on a voice vote, but no action was taken by the Senate during the 113<sup>th</sup> Congress.

## Views on ACP

According to MARAD, cargo preference laws are intended<sup>91</sup>

<sup>88</sup> For a description of the ACP selection process, see Bageant *et al.*, "Agricultural Cargo Preference," *AEPP* (2010).

<sup>89</sup> CBO, cost estimate for MAP-21, H.R. 4348, June 29, 2012.

<sup>90</sup> CBO, cost estimate, Bipartisan Budget Act of 2013, December 20, 2013.

<sup>91</sup> U.S. DOT, MARAD, "Cargo Preference," May 21, 2014, at <http://www.marad.dot.gov/> (continued...)

to provide a revenue base that will retain and encourage a privately owned and operated U.S.-flag merchant marine because the U.S.-flag merchant marine is a vital resource providing: essential sealift capability in wartime or other national emergencies; a cadre of skilled seafarers available in time of national emergencies; and to protect U.S. ocean commerce from total foreign domination and control.

USA Maritime—an organization that represents shipper and maritime unions—also argued that the cargo preference mandated for U.S. food aid exports contributes to the maintenance and retention of a strong merchant marine and that the combination of handling, processing, and transporting U.S. international food aid from the farm to foreign ports supports substantial economic activity.<sup>92</sup>

Critics argue that, according to published research, ACP increases the costs of shipping U.S. commodities to other countries. These costs—which come directly out of Title II appropriations—potentially reduce the volume of food aid provided. In addition, they contend that preference requirements potentially delay arrival of food aid compared with an open, competitive bidding process in the absence of ACP.<sup>93</sup>

An analysis in 2010 found that cargo preference requirements did not succeed in meeting the law’s objectives of maintaining a U.S. merchant marine and that eliminating cargo preference could enable an increase in food aid commodities provided.<sup>94</sup>

A 1994 GAO report found that shipments of food aid on U.S.-flag vessels did little to meet the law’s objective of helping to maintain a U.S. merchant marine, while adversely affected operations of the food aid programs, chiefly by raising the cost of ocean transportation and reducing the volume of commodities that can be shipped.<sup>95</sup>

## Monetization

Monetization is the act of selling U.S.-donated food aid commodities—purchased in the United States and shipped primarily on U.S.-flag vessels—in the local or regional markets of a recipient country.<sup>96</sup> The sales are generally undertaken by implementing partners—i.e., qualifying PVOs and cooperatives, many of which are U.S.-based NGOs, or an IO or recipient-country government (when eligible). Monetization is used by implementing partners under the FFPA Title II, Food for Progress, and McGovern-Dole IFECN programs and accounts for approximately 60% of non-

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(...continued)

ships\_shipping\_landing\_page/cargo\_preference/Cargo\_Preference\_Landing\_Page.htm.

<sup>92</sup> Promar International, *Impacts on the U.S. Economy of Shipping International Food Aid*, a report prepared for USA Maritime, June 2010.

<sup>93</sup> USAID, “Cargo Preference,” <http://www.usaid.gov/foodaidreform/cargo-preference>; and C. B. Barrett and D. G. Maxwell, “So Who Benefits? The Iron Triangle,” in *Food Aid After Fifty Years* (New York: Routledge, 2005), pp. 87-106.

<sup>94</sup> Bageant *et al.*, “Agricultural Cargo Preference,” *AEPP* (2010); and GAO, *Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs*, GAO-94-215, September 29, 1994.

<sup>95</sup> GAO, *Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs*, GAO-94-215, September 1994.

<sup>96</sup> For a description of the monetization process and related issues see GAO-11-636, *Monetization*, June 2011; or USAID, “Shaping the Future of Monetization: An Evaluation of the P.L. 480 Title II Monetization Program,” prepared by Mendez England and Associates for USAID, March 29, 1996.



emergency food aid.<sup>97</sup> Over time, many of the participating PVOs have become dependent on monetized funds as one of their major sources of development finance.<sup>98</sup>

Implementing partners use the funds generated by monetization to transport, store, distribute, and otherwise enhance the effectiveness of the use of such Title II agricultural commodities; implement income-generating, community development, health, nutrition, cooperative development, agricultural, and other developmental activities; or be invested and any interest earned on such investment used for the aforementioned development projects. There are two types of monetization: (1) large-volume sales and (2) small-scale, timed sales referred to as targeted monetization. However, nearly all monetization of U.S. international food assistance is of large-volume sales. Targeted monetization is more costly to undertake, in terms of both personnel and infrastructure.

### **What Is the Issue?**

Monetization is perceived by many as being an economically inefficient cash transfer. Fast cash (i.e., direct cash transfers to fund the development programs of implementing partners) is being replaced with slow cash that loses value along the transfer process—where in-kind commodities are first purchased in the United States, then shipped subject to cargo preference requirements to an implementing partner located in a recipient country, and sold in local markets to generate cash which is then used to operate food-security-related programs. Current law requires that at least 15% of FFPA Title II non-emergency in-kind food aid be available for monetization to generate development funds.

### **Background on Monetization<sup>99</sup>**

The 1985 farm bill (P.L. 99-198, §1104) first authorized monetization by PVOs and cooperatives for use in funding their development activities.<sup>100</sup> Furthermore, the 1985 farm bill required such monetization for at least 5% of the total amount of commodities distributed under Title II non-emergency programs in any fiscal year. The currency generated by these sales could then finance internal transportation, storage, or distribution of commodities under FFPA programs. The 1985 farm bill (§1110) also authorized a new program—Food for Progress—administered by USDA and financed entirely by monetized food aid by implementing partners, i.e., PVOs, cooperatives, IOs, and recipient-country governments.

In 1988, the list of authorized uses of FFPA Title II monetization funds was expanded to incorporate funding of food-security-related development projects.<sup>101</sup> The 1990 farm bill (P.L. 101-624, §1512) increased the FFPA Title II monetization requirement to not less than 10% of Title II, non-emergency funds. The 1996 farm bill (P.L. 104-127, §208) required that PVOs and

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<sup>97</sup> Christopher B. Barrett and Erin Lentz, “U.S. Monetization Policy: Recommendations for Improvement,” *Policy Development Study Series* (2009), Chicago: Chicago Council on Global Affairs.

<sup>98</sup> *Ibid.*, p. 10.

<sup>99</sup> The U.S. Code citation concerning monetization is at [7 U.S.C. 1723(b)].

<sup>100</sup> A more general form of monetization related to the sale of U.S. food aid by recipient governments and IOs has been going on since the origins of large-scale U.S. food aid donations under the Section 416(b) and Title II programs. However, the term “monetization” has come to refer almost exclusively to foreign-market sales of U.S. in-kind food aid by PVOs and cooperatives to fund their foreign-country development activities.

<sup>101</sup> GAO-11-636, *Monetization*, June 2011; and Bageant *et al.*, “Agricultural Cargo Preference,” *AEPP* (2010).

cooperatives be permitted to monetize at least 15% of Title II, non-emergency funding. The 2002 farm bill (P.L. 107-171) extended monetization to include the McGovern-Dole IFECN program in-kind food aid shipments.

The 1977 farm bill (P.L. 95-88), included the Bellmon Amendment (§212) to the FFPA (as described in the preceding section of this report). As a result, both USAID and USDA must ensure that monetization transactions do not entail substantial disincentives to, or interfere with, domestic production or marketing in the recipient country—referred to as Bellmon analysis.

Initially, the U.S. government used CCC-owned commodities to meet its food aid and monetization quantities. However, the Food for Peace Act of 1966 (P.L. 89-808) authorized the use of purchased commodities in the program in addition to surplus commodities. Then, as the availability of CCC-held stocks diminished, the government could switch to purchasing commodities from the U.S. commercial market and shipping them abroad, subject to cargo preference requirements, to generate cash. Due to the obvious inefficiencies in using monetization to convert taxpayer dollars into development funding, USAID sought to achieve an average cost recovery of 80%.<sup>102</sup> However, the 2002 farm bill (§3009) eliminated USAID's cost recovery goal and, instead, required that USAID and USDA achieve a "reasonable market price" for monetization sales—the term "reasonable market price" has never been clearly defined.

## Views on Monetization

Critics of monetization contend that the practice of converting U.S. taxpayer dollars into commodities, shipping them to foreign markets subject to stringent cargo preference requirements, then converting the commodities back to cash in local currency is an inefficient use of resources that may also have adverse market impacts in recipient countries.<sup>103</sup> Studies have found monetization to be a highly economically inefficient of providing development support because the "cost recovery"<sup>104</sup> of an original taxpayer dollar is less than one due to the shipping and transaction costs needed to move the commodities to foreign markets. According to GAO, research comparing in-kind with cash-based food assistance found that switching to a cash-based approach can generate savings of 25% to 50% depending on the situation—i.e., bulk versus high-valued commodities and the distance to be shipped.<sup>105</sup>

Critics of monetization argue that it is an inefficient way to meet the objectives of relieving emergency food needs or fostering economic and agricultural development in receiving countries. Unlike targeted food distribution, which is given directly to food-needy persons who are often unable to participate in commercial markets, monetization involves selling U.S. commodities in commercial markets. Thus, critics charge that it has a greater potential to distort markets by both

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<sup>102</sup> A 100% cost recovery goal was used for the free alongside ship price on its monetization transactions.

<sup>103</sup> OXFAM America and American Jewish World Service, "Saving Money and Lives: The Human Side of U.S. Food Aid Reform," undated, [http://ajws.org/reversehunger/docs/0312\\_saving\\_money\\_and\\_lives.pdf](http://ajws.org/reversehunger/docs/0312_saving_money_and_lives.pdf); and Barrett and Maxwell (2005), *Food Aid After Fifty Years*, pp. 133-138.

<sup>104</sup> Cost recovery is defined as the ratio between the proceeds an implementing partner generates through monetization and the cost the U.S. government incurs to procure and ship (including associated transport and marketing costs) the commodities to recipient countries for monetization.

<sup>105</sup> In a 2011 report, GAO found that USAID's average cost recovery per taxpayer dollar expended on monetized in-kind food aid was 76%, while USDA's was 58%; GAO-11-636, *Monetization*, June 2011.

depressing commodity prices and increasing their volatility.<sup>106</sup> Low prices can encourage black market activity and discourage local agricultural producers from expanding their production, thus reinforcing a dependency on the imported food assistance. Furthermore, monetized food aid can impede or displace commercial activity from U.S. trading partners or other commercial exporters that might vie for a share of that recipient country's market. Finally, if monetization only occurs episodically and in large batches, it can inject substantial price volatility into the marketplace, thus discouraging investment in the agricultural sector and making it difficult for households to plan their budgets.<sup>107</sup>

Despite legislation that imposes assessments of the potential impact of food aid on local markets—referred to as usual marketing requirements (UMRs) undertaken by USDA and Bellmon analyses undertaken by USAID<sup>108</sup>—GAO reports that USAID and USDA cannot ensure that monetization does not cause adverse market impacts because they monetize at high volumes, conduct weak market assessments, and do not conduct post-monetization evaluations.<sup>109</sup>

In contrast, advocates argue that monetization can be an effective tool to meet long-term development needs of chronically food-insecure people in many developing countries.<sup>110</sup> Several PVOs, potentially affected by a decrease in monetization, organized themselves as the Alliance for Global Food Security (referred to as the Alliance). The Alliance currently represents 11 PVOs<sup>111</sup> (and the Congressional Hunger Caucus<sup>112</sup>) involved in implementing FFPA non-emergency. The Alliance contends that monetization can lead to benefits beyond those created via direct program funding. These benefits include addressing credit, hard currency, small volume, and other constraints to buying on the international market. They assert this creates business opportunities and increases the availability of the commodity in the recipient country.<sup>113</sup> However, to achieve such results, the monetization must be in small volumes and specifically targeted to avoid market distortions. Under such conditions, monetization may help develop the capacity of smaller traders to participate in markets, increase competition, and potentially combat price volatility.<sup>114</sup> A survey of U.S. and other food aid programs over a 50-year period identifies few examples of targeted monetization, as opposed to open market sales to generate cash.<sup>115</sup>

In summer 2006, CARE International (a large U.S.-based NGO), which had supported monetization in the past, announced that it would transition away from the practice of monetization and refuse food commodity donations worth tens of millions of dollars starting in

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<sup>106</sup> For examples of the distorting market effects of monetization, see Barrett and Lentz “U.S. Monetization Policy,” (2009), Chicago Council on Global Affairs, p. 8; and GAO-11-636, *Monetization*, June 2011.

<sup>107</sup> *Ibid.*

<sup>108</sup> UMR analyses are undertaken to ensure that U.S. food aid commodities will not affect world commodity prices and/or disrupt commercial trade; Bellmon analyses are used to determine if U.S. food aid shipments will interfere with recipient country production or marketing and if there is adequate storage available in the recipient country.

<sup>109</sup> GAO-11-636, *Monetization*, June 2011.

<sup>110</sup> Alliance for Global Food Security (AGFS), “What Is Monetization?” November 30, 2012, <http://foodaid.org/wp-content/uploads/2012/11/What-is-Monetization2.pdf>.

<sup>111</sup> The Alliance for Global Food Security organizations are listed at <http://foodaid.org/about/>.

<sup>112</sup> A caucus that advocates for U.S. food aid policies.

<sup>113</sup> Alliance for Global Food Security, “What Is Monetization?” November 30, 2012; and Informa Economics, “The Value of Food Aid Monetization: Benefits, Risks and Best Practices,” study prepared for Alliance, November 2012.

<sup>114</sup> A. Abdulai, C. B. Barrett, and J. Hoddinott, “Does Food Aid Really Have Disincentive Effects? New Evidence from Sub-Saharan Africa,” *World Development*, vol. 33, no. 10 (2005), pp. 1689–1704.

<sup>115</sup> Barrett and Maxwell (2005), *Food Aid After Fifty Years*.

2009.<sup>116</sup> According to CARE, monetization is management-intensive, costly, fraught with legal and financial risks, and economically inefficient; when monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitably causes commercial displacement. As such, it can be harmful to traders and local farmers, undermine the development of local markets, and be detrimental to longer-term food security objectives.

Another NGO, Catholic Relief Services, has taken a similar position with respect to monetization, but continues to use it.<sup>117</sup> It sells commodities only when it has determined that no alternative methods of funding exist and that the sale will have no negative impacts on local markets and local production. Catholic Relief Services says that its policy is to seek to replace monetization with cash funding to cover program costs.

## **Food Aid Quality**

Historically, most U.S. food aid has been delivered in the form of general rations composed of unfortified grains and legumes (wheat, corn, sorghum, rice, soybeans, peas, lentils, and vegetable oils). Estimates are that about 25% of the volume of U.S. food aid is in the form of fortified blended foods (FBFs).<sup>118</sup> Advances in food and nutritional sciences in recent years, including the development of improved product formulations and new products, have enhanced the capacity of food aid providers to deliver more nutritious foods to target groups, such as children, lactating mothers, and HIV-positive individuals. In addition to FBF formulations, new products such as ready-to-use therapeutic foods, including lipid-based products, have been developed.<sup>119</sup>

## **What Is the Issue?**

Two studies—a GAO report and a study by Tufts University—released in 2011 raised concerns about the nutritional quality and safety of U.S. food aid programs.<sup>120</sup> These studies pointed to reduced food aid budgets, high and volatile food prices, and frequent and protracted humanitarian emergencies as factors underlying a need for greater attention to the nutritional content of U.S. food aid.<sup>121</sup>

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<sup>116</sup> CARE USA, *White Paper on Food Aid Policy*, June 6, 2006.

<sup>117</sup> Catholic Relief Services, *The International U.S. Food Aid Program*, <http://crs.org/public-policy/pl-480-title-ii.cfm>.

<sup>118</sup> FBFs are foods that are complementary to typical rations of grains and legumes. They contain both calories and proteins and are fortified with essential micronutrients. FBFs are usually pre-cooked and are designed for use in programs where older infants and young children are being fed. For information on FBFs, see World Food Program, “Food Quality & Safety in WFP: Extrusion Cooking for Fortified Blended Foods (FBFs),” <http://foodqualityandsafety.wfp.org/extrusion-cooking-for-fortified-blended-foods>.

<sup>119</sup> Therapeutic foods are foods designed for specific, usually nutritional, therapeutic purposes as a form of dietary supplement. Therapeutic foods are used for emergency feeding of malnourished children or to supplement the diets of persons with special nutritional requirements, such as the elderly or HIV patients. Lipid-based products, like peanut butter-based Plumpy’Nut or Plumpy’Doz, are ready-to-use-therapeutic foods used widely in child feeding programs.

<sup>120</sup> GAO, *International Food Assistance: Better Nutrition and Quality Control Can Further Improve U.S. Food Aid*, GAO-11-491, May 2011; and Patrick Webb *et al.*, *Improving the Nutritional Quality of U.S. Food Aid: Recommendations for Changes to Products and Programs*, report to USAID, prepared by Tufts University, Friedman School of Nutrition and Policy, 2011, at <http://nutrition.tufts.edu/documents/ImprovingtheNutritionalQuality.pdf>.

<sup>121</sup> In addition to nutritional aspects of food aid, food aid quality also includes food safety; sensory aspects such as taste, smell, and texture; and convenience, such as ease of cooking.

GAO's 2011 report noted two significant challenges in delivering more nutritional products to food aid recipients. First, specialized food products are generally more expensive than food rations used in general distribution feeding programs. According to GAO, a typical ration consisting of rice, cornmeal, wheat, or sorghum could range in cost from \$0.02 per day for a 6-month-old child to \$0.09 per day for a two-year-old child. A daily ration of FBFs could cost between \$0.06 and \$0.12 per day, depending on the size of the ration. Within a fixed budget, providing more expensive specialized products would reduce the number of people fed. Second, U.S. food aid agencies poorly target the specialized food aid products provided. In this connection, GAO noted that USAID provides implementing partners with limited guidance on how to target more nutritious foods to ensure they reach intended recipients. As a result, GAO recommended that USAID and USDA issue guidance to implementing partners on addressing nutritional deficiencies, especially during protracted emergencies, and evaluate the performance and cost effectiveness of specialized food products.

The Tufts report suggested, among other recommendations, that USAID should adopt new specifications for FBFs and explore the use of new products such as new lipid-based products. In addition, it should provide new program guidance to implementing partners and convene an interagency food aid committee to provide technical guidance about specialized products and to interface with industry and implementing partners.

### **The 2014 Farm Bill Makes Several Adjustments**

In response to these studies, the 2014 farm bill (§3003) requires that USAID use Title II funds to assess types and quality of agricultural commodities donated as food aid; adjust products and formulation as necessary to meet nutrient needs of target populations; test prototypes; adopt new specifications or improve existing specifications for micronutrient food aid products, based on the latest development in food and nutrition science; develop new program guidance for eligible organizations to facilitate improved matching of products to purposes; develop improved guidance on how to address nutritional efficiencies among long-term recipients of food aid; and evaluate the performance and cost-effectiveness of new or modified food products and program approaches to meet nutritional needs of vulnerable groups.<sup>122</sup>

The managers' joint statement to the 2014 farm bill<sup>123</sup> maintains that they expect USAID to set verifiable goals and to maximize strong public-private partnerships with food manufacturers and other stakeholders to more quickly address the deficiencies highlighted in the GAO 2011 report by using currently available studies on food aid quality and nutrition. Also, the managers encouraged USAID to establish multi-year approaches to the procurement of high-value products. Managers expected longer-term procurement to encourage investment of specialized equipment needed to deliver critical products in a timely and cost-effective manner. In recognition of the importance associated with close collaboration between USDA and USAID on approving new products, the managers stated that they expect both agencies to adopt clear guidelines to facilitate the swift adoption of new products in order to quickly capture the benefits of the research and testing undertaken in this area.

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<sup>122</sup> §3003 of the 2014 farm bill amends §202(h) of the FFPA [7 U.S.C. 1722(h)].

<sup>123</sup> Available at <http://docs.house.gov/billsthisweek/20140127/CRPT-113hrpt-HR2642-SOM.pdf>.

## International Trade Agreements

### What Is the Issue?

The United States continues to rely primarily on domestically sourced, in-kind food donations, whereas most other major donors have shifted away from in-kind to cash-based donations. The substantial volume of in-kind food aid donated by the U.S. government each year has engendered international concerns from key trade partners—in particular, the European Union (EU) and members of the Cairns group<sup>124</sup>—that the United States uses international food donations as part of a domestic supply-management, price-support policy.<sup>125</sup> The concern is that by purchasing commodities from the domestic market, the U.S. government is potentially supporting domestic prices; and by donating large volumes of U.S. commodities in foreign markets, the U.S. government is potentially implementing an implicit export subsidy program to capture those markets.<sup>126</sup> In short, other export nations have become skeptical of U.S. in-kind food aid and contend that it interferes with commercial market activity and potentially violates international trade agreements.

### History of International Trade Agreements Governing Food Aid

In the 1950s, the United States, Canada, and Europe donated or sold their agricultural surpluses at subsidized prices to developing countries. Beyond the rationale of supporting food-short countries, food aid in this form acted as a de facto export subsidy for donor countries. This implicit export subsidy became a highly critical issue among competing food exporting nations.<sup>127</sup> In response, the food-exporting countries (later joined by food-importing nations) gradually contributed to an international structure to harmonize food aid with international trade. This structure included the Consultative Subcommittee on Surplus Disposal (CSSD)—a subcommittee in the U.N. Food and Agricultural Organization (FAO), the U.N.'s WFP, the international Food Aid Convention (FAC), and multilateral trade negotiations that resulted in the creation of the World Trade Organization (WTO) and its set of legal texts governing international trade.

### *The FAO's Consultative Subcommittee on Surplus Disposal (CSSD)*

CSSD was created within the FAO in 1954 to define and monitor uses of surplus disposal as food aid. It arose largely due to fears expressed by Canada, Australia, and other grain exporters that the United States would use food aid as a pretext for dumping large government-held agricultural surpluses. The CSSD established the first international code of conduct safeguarding the interests of commercial exporters as well as that of agricultural producers in the recipient countries—the

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<sup>124</sup> The Cairns Group is a coalition of 19 agricultural exporting countries that account for over 25% of the world's agricultural exports. Members of the group are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Uruguay. For more information, see <http://www.cairnsgroup.org>.

<sup>125</sup> This was a recurring theme in the discussions of the Doha Round of multilateral trade negotiations under the auspices of the World Trade Organization (WTO) and resulted in an entire Annex L dedicated to placing restrictions on the nature and use of international food aid being included in the WTO 2008 draft modalities: [https://www.wto.org/english/tratop\\_e/agric\\_e/chair\\_texts08\\_e.htm](https://www.wto.org/english/tratop_e/agric_e/chair_texts08_e.htm).

<sup>126</sup> Gaus and Steets "Global Food Assistance Architecture" (2012), pp. 11-29.

<sup>127</sup> Ibid.



Principles of Surplus Disposal and Guiding Lines for Dealing with Agricultural Surpluses. The concept of “usual marketing requirement (UMR),” based on average commercial imports of the previous five-year period, was created to ensure that food aid was “additional to,” rather than replacement of, commercial trade. However, the CSSD’s UMR recommendations and safeguards were non-binding and lacked enforcement provisions, thus limiting their effectiveness.<sup>128</sup>

### ***The U.N.’s World Food Program (WFP)***

WFP was created in 1961 to convert the United States’ bilateral food aid into a multilateral asset—thus, its principal activity is food distribution. It is governed by an executive board through which the United States plays a leadership role; the executive director of the WFP is traditionally an American.<sup>129</sup> The WFP has established a permanent international infrastructure (with a staff of about 11,500) for distribution of both in-kind and cash-based food assistance.

### ***The Food Aid Convention (FAC)***

In 1967, the major food aid donors created the FAC. It was a legally binding agreement that defined minimum tonnage commitments of food aid to be supplied by each signatory. The FAC designed these food aid quotas to ensure that such aid was both predictable and timely for response to international food crises and that such food transfers followed the FAO’s Principles of Surplus Disposal. The FAC is date-specific and must be renegotiated and renewed periodically. The FAC of 1986 included a provision that prohibited the explicit use of food aid as an export subsidy. Although the FAC is a treaty whose signatories have legal obligations, it lacks enforcement provisions.

### ***The 1994 Uruguay Round Agreement on Agriculture (AoA)***

The Agreement on Agriculture of the WTO was the outcome of multilateral trade negotiations that culminated in the successful Uruguay Round in 1994. The agreement spells out the rules governing both domestic support to the agricultural sector as well as for market access and export competition. Under Article 10, “Prevention of Circumvention of Export Subsidy Commitments,” of the agreement,

4. Members donors of international food aid shall ensure:
  - (a) that the provision of international food aid is not tied directly or indirectly to commercial exports of agricultural products to recipient countries;
  - (b) that international food aid transactions, including bilateral food aid which is monetized, shall be carried out in accordance with the FAO “Principles of Surplus Disposal and Consultative Obligations”, including, where appropriate, the system of Usual Marketing Requirements (UMRs); and
  - (c) that such aid shall be provided to the extent possible in fully grant form or on terms no less concessional than those provided for in Article IV of the Food Aid Convention 1986.

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<sup>128</sup> Ibid.

<sup>129</sup> For more information, see <http://www.wfp.org/>.

## ***The WTO's Doha Round Negotiations***

The Doha Round of multilateral trade negotiations began in 2000 in an effort to build on the achievements made in the three pillars of agricultural trade by the Uruguay Round—i.e., limitations on domestic support, expanded market access, and stringent controls on various non-competitive forms of export competition. Food aid became one of the key contested issues. The United States was inclined to preserve its full range of tied food aid programs, whereas the EU and other European donors proposed to move entirely to untied food aid. In particular, the EU indicated a willingness to eliminate its own direct subsidies for agricultural exports on the condition that all forms of export subsidies, both explicit and implicit, are disciplined as well.<sup>130</sup>

The Ministerial Declaration made in Hong Kong on December 18, 2005, stated:

On food aid ... we will ensure elimination of commercial displacement. To this end, we will agree to effective disciplines on in-kind food aid, monetization, and re-exports so that there can be no loop-hole for continuing export subsidization.

The Doha Round was never completed; however, negotiators produced a working text that may serve as a guide for future trade rules.<sup>131</sup> With respect to food aid, the Doha texts propose additional rigor to defining and proscribing international food aid as detailed in Annex L to the draft modalities with a strong emphasis on moving to untied cash-based food aid.

## **Current Status**

The United States has always been a leader in both global agricultural trade and international trade negotiations to establish a transparent and unified set of standards to govern international commerce. The United States openly declares its commitment to international trade and the international set of rules governing that trade in the Food for Peace Act (§3(c)) where it declares its intent to:<sup>132</sup>

- (C) ensure, to the maximum extent practicable, that options for providing food aid for emergency and non-emergency needs shall not be subject to limitation, including in-kind commodities, provisions of funds for agricultural commodity procurement, and monetization of commodities, on the condition that the provision of those commodities or funds—
  - (i) is based on assessments of need and intended to benefit the food security of, or otherwise assist, recipients, and
  - (ii) is provided in a manner that avoids disincentives to local agricultural production and marketing and with minimal potential for disruption of commercial markets, and
- (2) the United States should increase its contribution of bona fide food assistance to developing countries consistent with the Agreement on Agriculture.

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<sup>130</sup> Abbott, "Food Aid and the 2007 Farm Bill," EC-750-Purdue Extension (2007), p. 2.

<sup>131</sup> Referred to as the "6 December 2008 Revised Draft Modalities," the texts are available at [https://www.wto.org/english/tratop\\_e/agric\\_e/chair\\_texts08\\_e.htm](https://www.wto.org/english/tratop_e/agric_e/chair_texts08_e.htm).

<sup>132</sup> 7 U.S.C. 1691a.



## Administrative and Legislative Proposals

The FFPA Title II program has been embroiled in a long-running debate between successive Administrations and Congress over how Title II funds may be used. Both the George W. Bush and Obama Administrations have sought greater flexibility in their use of Title II funds. Both Administrations claimed that this flexibility would allow them to direct food to international points of crisis more quickly and at lower cost (primarily as cash-based food assistance), thus helping to better respond to international emergencies while meeting U.S. foreign policy goals.<sup>133</sup>

In contrast, Congress<sup>134</sup> has favored using Title II funds to purchase U.S. commodities, ship them on U.S.-flag vessels to foreign countries with food deficiencies, and then monetize the commodities by selling them in recipient country markets for local currency, which is subsequently used to fund food security and development activities.<sup>135</sup>

### What Is the Issue?

FFPA Programs are under the authority of the House and Senate Agriculture Committees which re-authorize FFPA programs in periodic farm bills. Proponents for change in U.S. food aid policy have expressed concerns that the Agriculture Committees are too close to U.S. commodity groups, food processors, and maritime interests, all of whom have a vested interest in the status quo.<sup>136</sup> Recognizing this, most proposals for change have attempted to move FFPA program authority away from the Agriculture committees and to the House Foreign Affairs Committee and Senate Foreign Relations Committee, which have authority over U.S. foreign relations as well as most forms of international economic assistance and disaster response activities.

Both the previous and current Administrations (in their annual budget requests) have proposed changes to the structure and intent of U.S. international food assistance, especially involving FFPA Title II resources. The 2014 farm bill made some modest changes to international food aid programs. However, it did not adopt the larger Obama Administration FY2014 proposals (described below). In addition to Administration proposals, some Members of Congress have introduced bills in both the House (H.R. 1983) and Senate (S. 2421) in the 113<sup>th</sup> Congress and the Senate (S. 525) in the 114<sup>th</sup> Congress that propose alterations to U.S. food aid programs—including shifting select food aid authorities away from the Agriculture committees and their episodic farm bills and into the Foreign Assistance Act, as well as the elimination of the requirements related to U.S.-only procurement of commodities, cargo preference, and monetization.

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<sup>133</sup> See USAID's Food Aid Reform website for more discussion of the advantages of cash-based assistance at <http://www.usaid.gov/foodaidreform>.

<sup>134</sup> However, Members in both the House and Senate have proposed food aid legislation as described in the following pages.

<sup>135</sup> As discussed earlier in this report in the section entitled "Monetization."

<sup>136</sup> OXFAM America and American Jewish World Service, "Saving Money and Lives: The Human Side of U.S. Food Aid Reform," undated; and Barrett and Maxwell (2005), *Food Aid After Fifty Years*, pp. 133-138.

## The Administration's 2007 Farm Bill Proposal

In 2007, the Bush Administration proposed that Congress provide authorization in the farm bill to use up to 25% of annual Title II funds (approximately \$300 million) to procure food from selected developing countries near the site of a crisis.<sup>137</sup> The Administration justified this proposal on the grounds that the U.S. response to food emergencies would be more efficient and cost-effective if commodities could be procured locally. The Administration's farm bill proposal cited instances in which the U.S. food aid response to emergencies would have been enhanced with this kind of authority, particularly for Iraq in 2003, the Asian tsunami in 2004, southern and West Africa in 2005, and East Africa in 2006. The Administration noted that "U.S. grown food will continue to play the primary role and will be the first choice in meeting global needs." Local and regional purchases would be made only where the speed of the arrival of food aid is essential, according to USDA. These proposals did not advance in Congress.

## The Administration's FY2014 Budget Request

In its FY2014 budget request, made in advance of the 2014 farm bill, the Obama Administration proposed changes to the structure and intent of U.S. international food assistance, especially involving FFPA Title II resources. These changes included (1) shifting funds from the FFPA, as authorized by the farm bill, to three USAID accounts—International Disaster Assistance (IDA), Development Assistance (DA), and Emergency Food Assistance Contingency Fund (EFAC), described below—authorized in foreign assistance legislation,<sup>138</sup> (2) eliminating the monetization procedure; (3) providing greater flexibility to procure commodities in local and regional markets overseas; and (4) reducing the volume of commodities subject to cargo preference legislation.

The Administration proposed to replace funding previously requested for FFPA Title II, estimated at \$1.47 billion annually, with an equivalent amount divided among the three USAID foreign assistance accounts as follows:<sup>139</sup>

- **Shift \$1.1 billion to IDA for emergency food response.** This shift would have augmented IDA's Emergency Food Security Program for cash-based food security assistance. The total available for IDA emergency food security assistance after such a shift would be \$1.4 billion.
- **Shift \$250 million to DA for a Community Development and Resilience Fund (CDRF).** The CDRF would address chronic food insecurity in areas of recurrent crises such as in the Horn of Africa or the West African Sahel. The CDRF also would receive \$80 million of DA from USAID's Bureau of Food Security, which administers the Feed the Future program. Total funding for this program after such a shift would be \$330 million.

<sup>137</sup> USDA, "USDA 2007 Farm Bill Proposals" (April 2007), proposed widespread changes to U.S. farm legislation in order to better comply with WTO rules as well as with the consensus building toward proposed domestic policy reforms in the Doha Round of international trade negotiations.

<sup>138</sup> Authorized under the Foreign Assistance Act of 1961, as amended, and subject to appropriations by the House and Senate State, Foreign Operations, and Related Programs appropriations subcommittee (**Table 4**).

<sup>139</sup> USAID, "The Future of Food Assistance: U.S. Food Aid Reform," fact sheet on the President's FY2014 budget request, 2013 (available from CRS on request).

- **Shift \$75 million to EFAC.** The newly created EFAC would serve as a fund to provide emergency food assistance for unexpected and urgent food needs.

According to USAID, the type of food assistance intervention—in-kind versus cash-based food assistance—depends on overall program goals, cost, and several factors related to the affected region. These factors include food insecurity causes, the severity of the food crisis, timeliness of response, the functioning of markets, security conditions, and local diet preferences.<sup>140</sup> USAID argued that the proposed shifts would result in gains of flexibility, timeliness, and efficiency in the provision of emergency food aid. These gains would allow U.S. international food assistance to reach at least 2 to 4 million more people each year with equivalent funding.<sup>141</sup> Rather than a commodity-only response, USAID would be able to select from a menu of options that could include local or regional procurement in countries or regions where food aid emergencies are occurring and other forms of cash-based assistance, like food vouchers or cash transfers. CDRF would continue to engage PVOs as implementing partners of non-emergency development programs. In addition, USAID argued that the \$330 million in the CDRF would be the equivalent of the non-emergency funding guarantee in the FFPA because of cost savings associated with the end of monetization.

According to USAID, the food aid reform proposal would guarantee that in FY2014 no less than 55% of the requested \$1.4 billion for emergency food assistance would be used for procurement, transport, and related costs of U.S. commodities.<sup>142</sup> Going forward, USAID said that U.S. commodities would continue to make up a significant portion of purchases, especially for many processed foods and bulk commodity procurements, which might not be available elsewhere in the world. Further, inflation concerns or food price volatility may make U.S. commodities a more feasible option in certain situations. In addition, \$25 million of “efficiency savings”<sup>143</sup> would be devoted to an increase for the Maritime Security Program (MSP), administered by MARAD, thus serving as a partial offset for reduced U.S. food aid shipments. Increasing the direct subsidies to the maritime sector with additional MSP funding was intended to help retain militarily useful U.S.-flag vessels and facilitate the retention of mariners in the workforce.

## Criticisms of the FY2014 Administration Proposal

Critics of the Administration’s food aid proposal included the Alliance for Global Food Security and the U.S. maritime sector. In early 2013, prior to the release of the Administration’s FY2014 proposal, a group of 70 organizations—representing maritime interests, commodity groups, and the Alliance—who support the current food aid program wrote the President a letter urging continuation of the FFPA and other U.S. food aid programs in their current form based on in-kind shipments and monetization.<sup>144</sup> Then, in response to the Administration FY2014 budget request,

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<sup>140</sup> USAID, “Food for Peace Criteria for Response,” <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/programs/emergency-programs/food-peace>.

<sup>141</sup> Based on savings associated with the difference between the cost per beneficiary of Title II in-kind monetized food aid and IDA emergency food assistance using data from the 2010-2012 period; USAID, “Food Aid Reform: Behind the Numbers,” [http://www.usaid.gov/sites/default/files/documents/1869/FoodAidReform\\_BehindtheNumbers.pdf](http://www.usaid.gov/sites/default/files/documents/1869/FoodAidReform_BehindtheNumbers.pdf).

<sup>142</sup> USAID, “The Future of Food Assistance: U.S. Food Aid Reform,” fact sheet on the President’s FY2014 budget request, 2013 (available from CRS on request).

<sup>143</sup> Efficiency savings come from increased cash-based assistance and less in-kind food aid, obtained by transferring FFPA funds to the three USAID accounts (IDA, DA, and EFAC) authorized in foreign assistance legislation.

<sup>144</sup> Letter to the President from advocacy groups in support of current food aid programs, February 21, 2013.

the Alliance sent another letter recommending the continuation of the current in-kind food aid procurement system and monetization.<sup>145</sup> However, the Alliance said it agreed with the use of IDA funds (including increased funding “as needed”) for LRP or cash-based assistance pending arrival of either pre-positioned FFPA commodities or deliveries of commodities from the United States. The Alliance maintains that monetization provides benefits other than the cash generated to finance PVO projects.<sup>146</sup> Those include increased economic activity that helps alleviate credit, hard currency, or small-volume constraints that limit procurement of sufficient food supplies on international markets. The Alliance recommended using USAID’s Development Assistance (DA) funds to support FFPA Title II development programs where monetization is not feasible or appropriate.

As mentioned earlier, USA Maritime also opposed transforming the current food aid programs from a commodity-based to a cash-based program. It argued that the proposed food aid changes would jeopardize future funding by losing its current support network of farmers, international relief and development organizations, ports, and inland and ocean transporters.<sup>147</sup>

### **Jurisdictional Issues Associated with International Food Aid Proposals**

The Administration’s FY2014 food aid proposal raised issues of congressional committee and subcommittee jurisdiction over food aid appropriations and authorizing legislation (**Table 4**). In the Senate, food aid authorizing legislation currently is with the Agriculture, Nutrition, and Forestry Committee, while appropriations jurisdiction is with the Agriculture Appropriations Subcommittee. In the House, jurisdiction over authorizing legislation currently is with the Agriculture Committee, periodically shared with the Foreign Affairs Committee. Appropriations are the purview of the Agriculture Appropriations Subcommittee. Shifting food aid funding to programs authorized in foreign assistance legislation (e.g., IDA and DA) as proposed by the Administration suggested that responsibility for food aid appropriations might shift to the Foreign Operations Appropriations Subcommittees in both chambers. Similarly, authorizing legislation might become the responsibility of House Foreign Affairs Committee and Senate Foreign Relations Committee.

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<sup>145</sup> Alliance for Global Food Security, “Briefing Paper: Recommended Components of a Food Aid Reform Package,” April 10, 2013.

<sup>146</sup> Informa Economics, *The Value of Food Aid Monetization: Benefits, Risks and Best Practices*, prepared for the Alliance for Global Food Security, November 2012.

<sup>147</sup> USA Maritime, “Statement of USA Maritime on Proposed Changes to the Food for Peace Program (PL-480),” April 24, 2013.

**Table 4. Current Congressional Jurisdiction over Statutes and Agencies (USDA and USAID) for U.S. International Food Aid Programs**

<b>Authorizing Legislation and Oversight</b>		
	<b>House Committees</b>	<b>Senate Committees</b>
USDA	Agriculture	Agriculture, Nutrition, and Forestry
USAID	Foreign Affairs	Foreign Relations
<b>Appropriations</b>		
	<b>House and Senate Appropriations Subcommittees</b>	
USDA	Agriculture, Rural Development, Food and Drug Administration, and Related Agencies	
USAID	State, Foreign Operations, and Related Programs	

**Source:** Compiled by CRS.

## The Administration’s FY2015 Budget Request

Although the 2014 farm bill made some modest changes to U.S. international food assistance, it did not adopt the Administration’s broader FY2014 proposals.<sup>148</sup> In a revised version of its international food aid proposals, the President’s FY2015 budget requested that up to 25% of total Title II funding be available for cash-based interventions.<sup>149</sup> USAID claimed that the cost savings and improved timeliness associated with such a shift in use of Title II funds from shipping U.S. commodities on U.S.-flag vessels to cash-based assistance would allow USAID to reach an additional 2 million people.<sup>150</sup> As under its FY2014 budget request, the Administration again proposed that \$25 million of the “efficiency savings” obtained from the transfer of FFPA funds be devoted to an annual increase of the Maritime Security Program (MSP), administered by MARAD, thus serving as a partial offset for reduced shipping related to smaller U.S. food aid shipments. Congress did not include the Administration’s proposals in its FY2015 appropriations.

## The Administration’s FY2016 Budget Request

In its FY2016 budget request, the Administration repeated the proposed changes to U.S. international food aid made in its FY2015 budget request—i.e., allow up to 25% of total Title II funding to be available for cash-based interventions and increase annual MSP funds by \$25 million as a partial offset for reduced shipping related to smaller U.S. food aid shipments.

## Legislative Proposals in the 113<sup>th</sup> Congress

Members introduced two bills to change U.S. international food aid programs during the 113<sup>th</sup> Congress (H.R. 1983 and S. 2421), although no action was taken on either. The Senate food aid bill has been reintroduced in a modified form in the 114<sup>th</sup> Congress as S. 525.

<sup>148</sup> CRS Report R43076, *The 2014 Farm Bill (P.L. 113-79): Summary and Side-by-Side*.

<sup>149</sup> Out of a FY2015 and FY2016 budget request of \$1.4 billion for Title II, a 25% share would be \$350 million.

<sup>150</sup> USAID, “Food Aid Reform: Behind the Numbers,” <http://www.usaid.gov/foodaidreform/behind-the-numbers>.

### **H.R. 1983—“Reform U.S. Food Aid (Food for Peace)”**

In May 2013, Representative Royce, Chairman of the House Foreign Affairs Committee, and then-Ranking Member Bass, introduced a bill (H.R. 1983) that would have altered U.S. food aid programs by eliminating monetization and the U.S.-only commodity purchase requirement. It would have transferred the Title II non-emergency program authority away from farm legislation and USDA, and to the Foreign Assistance Act, where it might allow USAID greater flexibility in responding to foreign emergency situations through local and regional purchase of food in a food-crisis area.<sup>151</sup> In addition, H.R. 1983 would have exempted FFPA Title II food assistance from cargo preference requirements. The 113<sup>th</sup> Congress took no action on H.R. 1983.

### **S. 2421—“Reform U.S. Food Aid (Food for Peace)”**

In June 2014, then-Ranking Member Corker and Senator Coons from the Foreign Relations Committee introduced a bill, S. 2421, that also proposed eliminating monetization, cargo preference requirements (as they relate to FFPA food assistance), and the U.S.-only commodity purchase requirement. It would have transferred the Title II program authority away from farm legislation and USDA, and to the Foreign Assistance Act.<sup>152</sup> S. 2421 also proposed retaining the funding allocation for non-emergency assistance to between 20% to 30% of FFPA funds, but not less than \$375 million for any fiscal year. Finally, S. 2421 included a “Sense of Congress” provision recognizing the “critical” role the Merchant Marines play in maintaining U.S. defense capability. The 113<sup>th</sup> Congress took no action on S. 2421.

## **Legislative Proposals in the 114<sup>th</sup> Congress**

### **S. 525—“Food for Peace Reform Act of 2015”**

In February 2015, Chairman Corker and Senator Coons re-introduced their food-aid bill in the new 114<sup>th</sup> Congress as S. 525. Similar to their 2014 reform bill (S. 2421), S. 525 proposes eliminating monetization, cargo preference requirements, and the U.S.-only commodity purchase requirement but only for FFPA Title II program activity. S. 525 does not address Titles I, III, and V of the FFPA, as well as the Food for Progress program, the McGovern-Dole IFECN program, the LRP projects, and EFSP. As such, the current requirement for agricultural cargo preference, as well as current practices of reliance on in-kind commodity transfers with subsequent monetization, would remain relevant for these food aid programs.

Instead, S. 525 would allow FFPA Title II funds to be used for both in-kind and cash-based assistance—whichever is deemed by USAID as the preferred option for the given situation. To accomplish this, the bill would transfer the Title II program authority away from farm legislation and USDA, to the Foreign Assistance Act and USAID.<sup>153</sup> Finally, S. 525 proposes lowering the authorized annual appropriations level for Title II programs by \$100,000 to \$2.4 billion per fiscal

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<sup>151</sup> See <http://foreignaffairs.house.gov/press-release/chairman-royce-subcommittee-ranking-member-bass-move-reform-us-food-aid-delivery-help>.

<sup>152</sup> See <http://www.foreign.senate.gov/press/ranking/release/corker-coons-introduce-food-for-peace-reform-act-of-2014>.

<sup>153</sup> See <http://www.coons.senate.gov/newsroom/releases/release/senator-coons-reintroduces-bipartisan-bill-to-reform-and-modernize-americas-food-aid-program>.



year to reflect the efficiencies that would be gained from the increased flexibility in use of Title II funds.

The Senators estimate that their proposed changes would supplement existing funds by as much as \$440 million annually through greater efficiencies in delivering aid. As a result, U.S. food assistance could potentially reach an additional 8 to 12 million more people than under current programs. S. 525 also proposes retaining the allocation for non-emergency assistance of between 20% to 30% of FFPA Title II funds, but not less than \$375 million for any fiscal year. Finally, S. 525 includes a “Sense of Congress” provision that recognizes the “critical” role the Merchant Marines play in maintaining U.S. defense capability.

With respect to the cargo preference requirement change, S. 525 would allow USAID the flexibility to ship any U.S.-sourced commodities under FFPA Title II on vessels that are the most suitable to the task—i.e., readily available and most cost-effective—irrespective of the vessel’s registry.

## Appendix. International Food Assistance Funding

**Table A-I. International Food Assistance Program Levels, FY2006-FY2016**  
(\$ millions)

Program	Actual Outlays								Enacted		Req- uests
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>FFPA (Title I)</b>	50	0	0	0	0	0	0	0	0	0	0
<b>FFPA (Title II)</b>	1,839	1,870	2,351	2,552	1,933	1,660	1,610	1,355	1,466	1,466	1,400
<b>FFPA (Title III)<sup>a</sup></b>	0	0	0	0	0	0	0	0	0	0	0
<b>Food for Progress</b>	73	17	13	22	20	28	0	0	0	0	0
<b>McGovern-Dole IFECN</b>	86	99	99	168	174	206	192	184	185	192	192
<b>FFPA (Title V) Farmer-to-Farmer</b>	10	10	10	13	13	13	10	10	na	na	na
<b>LRP<sup>b</sup></b>	—	—	0	5	24	23	0	0	0	0	20
<b>EFSP<sup>c</sup></b>	—	—	—	—	244	232	374	578	na	na	na
<b>Discretionary</b>	<b>2,058</b>	<b>1,996</b>	<b>2,473</b>	<b>2,760</b>	<b>2,407</b>	<b>2,161</b>	<b>2,186</b>	<b>2,126</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Section 416(b)</b>	0	20	0	0	0	0	0	0	0	0	0
<b>Food for Progress<sup>d</sup></b>	147	113	153	216	146	162	246	150	137 <sup>d</sup>	135 <sup>d</sup>	135 <sup>d</sup>
<b>BEHT</b>	0	0	266	6	8	0	0	0	50	na	na
<b>Mandatory</b>	<b>147</b>	<b>133</b>	<b>419</b>	<b>221</b>	<b>155</b>	<b>162</b>	<b>246</b>	<b>150</b>	<b>187</b>	<b>na</b>	<b>na</b>
<b>TOTAL</b>	<b>2,205</b>	<b>2,082</b>	<b>2,892</b>	<b>2,981</b>	<b>2,561</b>	<b>2,324</b>	<b>2,431</b>	<b>2,275</b>	<b>na</b>	<b>na</b>	<b>na</b>

**Source:** “Actual Outlays” are from U.S. International Food Assistance Report, Annual, at <http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/resources/united-states-international-food>; “Enacted” amounts are from USDA, *Annual Budget Summary*, various years; and “Requests” are from the Office of Management and Budget, “USDA Budget Summary and Annual Performance Plan,” FY2016, p. 31.

**Note:** na = not available.

- There has been no activity in FFPA Title III, Food for Development, since FY2002.
- The Local and Regional Procurement (LRP) program began as a pilot program during the 2008 farm bill (FY2008-FY2012) with mandatory funding of \$60 million. In the 2014 farm bill, it became a permanent program but subject to annual appropriations.
- EFSP is using International Disaster Assistance (IDA) funds under existing authority of the Foreign Assistance Act of 1961, as reported in USAID Reports to Congress, “Use of IDA Funds for LRP, Cash, and Food Vouchers under the EFSP,” for FY2010 through FY2013.
- The Food for Progress activity shown in this table is exclusively CCC-financed operations with mandatory funding available; outlays for 2014 are estimates; outlays for 2015 and 2016 are forecasts.

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