

## AFRICA BUREAU FOOD AID POLICY AND PROGRAMMING GUIDANCE

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Africa Bureau  
Office of Development Resources  
Agriculture and Rural Development Division

July 21, 1982

## AFRICA BUREAU FOOD AID POLICY AND PROGRAMMING GUIDANCE

### I. Introduction

This statement on the development potential of food aid resources for Africa is intended primarily as general PL 480 policy and programming guidance for use by field missions and the Bureau.

PL 480 legislation embodies several objectives in meeting world food needs, among them the economic and social development of PL 480 recipient countries. However, this development perspective is invariably tempered by the U.S. Government inter-agency food allocation process where other, occasionally conflicting, PL 480 objectives may weigh in more heavily, depending on the proposed title of PL 480 and the country in question. Within AID, the Africa Bureau nonetheless remains committed to fostering development as the principal objective of its assistance through PL 480 food aid resources.

There are two principal uses of food aid for development purposes. First is the direct use of the food commodity itself, directly targeted to the poor or needy as a means to combat hunger and malnutrition and improve human capital. Second is the sale of food aid commodities to augment effective public revenues which can be channelled into priority development activities, particularly in food and agricultural sectors, or general budgetary support. These two uses need not be mutually exclusive.

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This paper presumes a basic familiarity on the part of the reader with the different titles of PL 480 and AID documentation pertaining to food aid. The reader should refer to AID Handbook 9<sup>1/</sup> for step by step instructions for the management of PL 480 programs, to the Agency paper, "Food Aid and Development,"<sup>2/</sup> for a more analytical exposition of food assistance development opportunities and to "A.I.D. Food and Agricultural Development Assistance"<sup>3/</sup> for an exposition of the Agency's agricultural policy. This paper incorporates the basic precepts from the Administrator's message to the field<sup>4/</sup> concerning the integration of PL 480 resources into USAID country development

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1/ AID, Handbook 9: Food for Peace (Public Law 480, Titles I, II, and III), (January 19, 1981).

2/ AID Bureau for Program and Policy Coordination, "Food Aid and Development: A Policy Discussion Paper," (July 1981).

3/ AID Bureau for Program and Policy Coordination, "A.I.D. Food and Agricultural Development Assistance," (May 1982).

4/ State 29573 of January 27, 1982.

strategies and his message<sup>5/</sup> on programming of PL 480 local currency generations. This paper also informally incorporates issues and concepts discussed at the African Food Aid and Development Conference held in Abidjan in August 1981.

## PART ONE: POLICY STATEMENT

### II. Africa Bureau Food Aid Programming Principles

Food aid represents a sizeable resource for investment in African development. In recent years, the dollar value of PL 480 food aid has been equivalent to more than half the combined value of DA and ESF allocations to Africa. While progress has been made, much more can be done to tap the potential of food aid as an investment resource.

The problem of food availabilities in Africa is especially acute. Sub-Saharan Africa was the only region worldwide to experience a steady decline in per capita food production during the past decade. Problems of inadequate food production are compounded by poorly functioning food distribution systems and household consumption practices. Yet, emergency or humanitarian food aid provides only short-term relief and, if left unintegrated into the recipient country's development agenda, risks aggravating the fundamental problem.

Thus, there is a particular imperative in Africa to make optimal use of food aid resources to improve the basic food security of recipient countries. Accordingly, the Africa Bureau food aid policy is based on the following set of interlinked principles:

- a. The PL 480 allocation process for non-emergency purposes requires systematic and continuing analysis of the food sector as well as development needs and prospective returns to investment.
- b. PL 480 assistance must be used in a way which enhances its development impact while minimizing possible disincentive effects on the recipient country food sector and avoiding budgetary dependency.
- c. To the maximum extent practicable, food aid should be integrated with other forms of development assistance to achieve AID country program objectives.
- d. Wherever possible, PL 480 resources should be programmed on multi-year basis to aid medium-term planning.

Taken as a whole, these principles point to the essence of the Africa Bureau's food aid policy: to use PL 480 food aid resources to achieve maximum development impact in food-deficit countries. As a corollary, the Africa

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<sup>5/</sup> State 187442 of July 7, 1982.

Bureau is committed to utilizing PL 480 resources to address the underlying causes of the need for food aid. Two basic criteria will guide the Bureau's priorities for application of food aid resources: where the need is greatest and where the likely impact on economic and social development is most favorable.

### III. Africa Bureau Food Aid Development Objectives

The Africa Bureau's Food Aid Policy and Programming Guidance stems from its broader food sector policy. The recently approved Food Sector Assistance Strategy<sup>6/</sup> identifies as major development objectives expanded agricultural production, more effective host government support institutions for the food sector, and increased farmer participation in the development process. Food aid is expected to play a decisive role in pursuit of these objectives. This can be accomplished by marshalling food aid resources to help bring about necessary policy reforms, institutional development and development of human capital in recipient countries.

#### A. Policy Reform

Many food aid recipient countries pursue policies inimical to agricultural development and long-term food security. Food aid can cushion the temporary disruptive effects of reforming or adjusting these policies. Assurances of timely food supplies during the transition period or food sales revenues to help finance the costs of reform can strengthen the government's political resolve to undertake the necessary reform measures.

Missions should use the occasion of PL 480 negotiations to influence policy reform. Policy influence is best understood as a continuum, encompassing, among others, the concepts of dialogue and leverage. Policy dialogue refers to the continuous dialogue between USAIDs and recipient governments for the purpose of enhancing the development impact of PL 480 and other programs. The objective of dialogue is to encourage self-initiated improvements in recipient country policies. Through dialogue, the recipient country comes to view the policy advice as genuinely in the interests of its own economic progress.

If governments are not swayed by logical dialogue, however, it may become necessary to use food aid, together with other forms of assistance, as a lever for policy reform. Through policy leverage, the recipient country agrees to enact a certain policy because of threats of damage or promises of gain, and not because it concurs with the USAID's view of the desirability of the recommended policy. To find that food aid carries a strong potential leverage in a particular country does not necessarily require that it be used as such. Experience suggests that policy influence is maximized by providing the recipient government with complete information on our options for

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6/ Africa Bureau Food Sector Assistance Strategy, AFR/DR/ARD (October 1981).

leverage and the consequences of its use, but actually abstaining from using it.

Use of policy leverage requires extreme care so that it doesn't become counterproductive. However, if policy leverage becomes unavoidable, it should be used with maximum determination and clarity of purpose. For example, Missions might suggest an increase of food aid levels (within the country's legitimate needs) to induce policy reform. Alternatively, failure of recipient countries to adopt or adjust policies which foster food security could be grounds for reducing food aid levels.

Our influence on policy varies from country to country. To assess the extent to which PL 480 resources can reasonably be expected to provide policy influence, USAIDs should consider the following factors: (a) the country's ability to finance food imports on commercial terms; (b) the importance of food aid relative to domestic consumption requirements; (c) the importance of PL 480 food aid relative to total food aid; (d) the absolute as well as relative importance of local currencies generated from the sale of food aid to the recipient's development budget; (e) other non-food forms of donor assistance, and, (f) the relative importance of the U.S. bilateral assistance program. Naturally, the overall tenor of our bilateral relations will likely predispose a given country's receptivity to PL 480 initiated policy reform.

Food for Development proposals (Title II, Section 206 and Title III) offer a particularly good opportunity of bringing about policy reforms. In one country, a Section 206 proposal elicited food price policy reforms during the design stage. In another, agreement on agricultural price restructuring and market deregulation was achieved as a result of a concerted multi-donor effort in which PL 480 assistance is expected to play a critical role. In yet a third country, a major IMF agreement (calling for a currency devaluation, restructuring of the development plan, and institution of an austerity budget) probably would not have been reached without the anticipation of substantial Title III local currencies to pursue key agricultural and rural development projects. PL 480 food assistance in these latter two examples was linked to the undertaking of recommended policy reforms by the recipient country.

#### B. Institutional Development

Institutions and institutional arrangements are critical in determining the course of national development. Depending on the objectives to be addressed, food aid can be used in support of a wide variety of formal and informal institutions. Food aid in the form of food-for-work programs or revenues from the sale of food commodities can be used to develop supporting agricultural infrastructure such as improved transport, water distribution, or crop storage facilities. Food aid sales proceeds can help finance the strengthening of operational units within recipient governments in such key areas as extension programs, agricultural credit institutions, cereals marketing boards, crop data collection and analysis capabilities and food technologies institutes. Changes in fundamental institutional arrangements such as modifications of land use systems can also be supported through PL 480 programs.

In certain cases, the commodities themselves serve a market price or supply stabilization function or increase milling efficiencies where there is a shortage of commodity inputs. Food aid can be used directly to alter income distribution patterns in accordance with government policy while still permitting the market to perform its resource allocating function.

### C. Human Capital Development

Investment in human capital, as well as physical infrastructure, is essential to economic and social development, particularly over the long run. Human capital is the sum of those qualities that enable people to make productive contributions to the economy.<sup>7/</sup>

As a resource transfer in kind, food aid has unique characteristics to build human capital. The most immediate method is direct distribution of food aid commodities to target groups -- the poor or most needy -- in order to improve nutritional intake and health status. Another method is the use of food aid sales proceeds to support investments in social programs which contribute to human capital development such as local health centers, clean water supplies or better diets. Other target areas for building human capital include schooling and job training. School feeding programs can encourage greater attendance while reducing the cost to poor families of providing an education for their children.

These forms of human capital development are mutually reinforcing. For example, better health status improves the capacity of a person to learn. A trained person with an increased life expectancy has a longer period in which to be productive. Steady improvements in a country's human resource base make subsequent economic growth easier by lowering the cost at which additional human capital can be supplied. In short, both the social and private rates of return to investment are increased over the long term.

## PART TWO: PROGRAMMING GUIDANCE

The Africa Bureau has set out to develop the analytical base necessary for implementing its food aid programs. First, it has completed two complementary analyses to develop a methodology for allocating and programming PL 480 resources to achieve maximum development impact. Second, the Bureau has undertaken country food and agriculture sector assessments which, inter alia, identify opportunities where food aid can be put to best use.

### IV. Allocation and Programming Analyses

In order to better support its PL 480 annual budget request, the Africa Bureau first conducted an in-depth analysis of some 40 Sub-Saharan

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<sup>7/</sup> This section is largely taken from G. Edward Schuh, "Food Aid and Human Capital Formation" in Nelson, Gordon O., et al., Food Aid and Development (New York: Agricultural Development Council, Inc.), 1981, pp. 49-60.

countries,<sup>8/</sup> developing a methodology for allocation of PL 480 food aid based on development criteria. This analysis used the criteria of food need (relative size of the food gap and per capita income) and effectiveness of use of food aid resources (financial policy performance, management of the food and agricultural sectors and commitment towards equitable growth) to establish priorities. Eligibility by category (titles) of food aid was determined by four criteria: government management capability; transport sector capacity; commodity storage capacity; and institutional strength of the government organization implementing the food assistance program. The result of this analysis was an ordering of African countries indicating their food aid priority and recommending the level of concessionality of terms (title of PL 480).

The second analysis<sup>9/</sup> refined the food needs criteria based on two variables, domestic food production burden (measured in terms of GNP necessary to produce the amount of food to satisfy minimum nutrition requirements) and food import burden (measured in terms of GNP necessary to pay for the amount of food which would have to be imported to meet the minimum nutrition requirement). This second analysis proposed an alternate method for establishing the category (title) of PL 480 assistance for which each recipient country would be eligible.

Due to the importance of each country's food aid ranking, the Africa Bureau will re-examine and adjust its food assistance country priorities and PL 480 allocation criteria on an on-going basis. Just as important, it will collaborate with the Bureau for Food for Peace and Voluntary Assistance and other bureaus in strengthening allocation criteria for Agency-wide application.

#### V. Sector Assessments

Consistent with its Food Sector Strategy, the Africa Bureau encourages USAIDs to undertake sector assessments or to develop the analytical framework to formulate their agricultural assistance strategies. Sectoral assessments should also examine the broad range of food security issues, including the possible use of food aid. Two specific issues require major attention -- food security and disincentive effects.

Assessment of food security primarily focuses on the alternative means of meeting a country's food requirements. Food security should not be confused with food self-sufficiency, i.e., domestic production of all food requirements. Sector assessments should examine all production and trade alternatives within the context of comparative advantage. This assessment

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<sup>8/</sup> Russell, Paul, et al., Food for Development in Sub-Saharan Africa, AFR/DR/ARD (March 1980).

<sup>9/</sup> Hogan, Edward B., Food for Development Priorities in Sub-Saharan Africa, AFR/DR/ARD (May 1981).

should identify and analyze food supply and demand components, the present and future composition of food demand, including, to the degree possible, estimates of cross-elasticities of demand and alternative agricultural production patterns, either to meet consumption demands directly or to finance food imports on a commercial basis.

While the nature and extent of the potential disincentive effects of food aid cannot be determined precisely, there is general agreement that food aid can adversely affect food production and marketing in the recipient country. One important potential disincentive effect is the negative impact on farm prices and demand for domestic crops. For example, the sale of food aid commodities is considered likely to have a disincentive effect on production if it displaces demand for locally produced foods or exerts downward pressure on prices. The choice of institution or mechanism to distribute PL 480 food is particularly relevant in avoiding this possible disincentive effect. Food aid should be allocated in such a way that overall demand for the commodity is augmented as supply is increased, leaving prices relatively unchanged. For example, food aid can be directly targeted to benefit primarily the poor or nutritionally vulnerable through supplemental feeding programs. Another method that has been used successfully is distribution of food aid through differentiated or segregated markets, such as the "fair price shops" in Asia, where the food is sold to low income people at less than market prices. In both cases, the net increase in food supply due to food aid is matched by increased consumption and leakage of food aid commodities into open markets is minimized.

A second important potential disincentive effect is the possibility that recipient governments will initiate or continue policies counterproductive to agricultural development. Analysis of this issue should make the distinction between faulty policies which create food shortages leading to food aid and faulty policies which stem from food aid itself. In either case, however, the absence of corrective policy measures risks institutionalizing the country's dependence on food aid and exacerbating structural deficiencies.

Related to this is the complex issue of budgetary support provided by food aid sales. This issue should be examined in the context of the structure and severity of budgetary pressures on the government and the constraints preventing measures to improve public finances. Due caution needs to be exercised so that food aid does not create a budgetary dependence on food aid generated revenues or delay adoption of a reasonable tax system or other necessary fiscal measures.

## VI. Integration of Food Aid with Other Development Resources

The coherence within a USAID's country strategy, as required by CDSS guidance, applies equally to food aid. Development of a country program strategy can suggest opportunities for integrating food aid resources with non-food assistance. In a similar manner, this integration will require the active participation of other mission staff in addition to the food aid officer.

Analysis of the USAID project portfolio as well as other donor activities will identify situations where an appropriate application of food aid resources, including local currency sales proceeds, can serve a crucial supporting function within a project. Priority activities for PL 480 funding in the food and agricultural sector include farming systems research, adaptive crop research and development, soils and water conservation, commodity storage facilities and farmer cooperatives. Food aid can also be appropriately integrated into projects developing health care delivery systems, nutrition education programs, any variety of education and training activities and physical infrastructure, including, as appropriate, food-for-work activities. Project use of food aid sales proceeds should be programmed in advance.

The integration of PL 480 with other development resources necessarily requires the skills and full cooperation of Mission personnel who heretofore may not have been associated with food aid programming. The agriculture, program, and economic offices, among others in the Mission, have their own respective contributions in this process. The Bureau urges all Mission staff to become acquainted with the development potentials and constraints unique to food aid.

## VII. Title by Title Guidance

The Africa Bureau places priority on those food aid programs explicitly based on multi-year development objectives, particularly Title II Section 206 and Title III Food for Development programs. However, this does not diminish the appropriateness of other categories of food aid, all of which present viable opportunities to enhance their developmental impact.

### A. Title I Programs

Title I authorizes the sale of PL 480 commodities for credit on low interest, extended repayment terms. Self-help measures, use of local currency sales proceeds, policy dialogue, and integration with other forms of non-food assistance are intended to enhance the development impact of Title I.

Historically, many Title I programs have fallen short of their development potential because of the imprecise purposes to be served. In most instances, Title I allocation decisions are influenced by foreign policy considerations more so than developmental commitment or performance on the part of the recipient country. It is Africa Bureau policy, however, to justify Title I programs on their development merits. The task, then, for the USAIDs and the Bureau is to secure a maximum development impact for each Title I program.

Accordingly, USAIDs are instructed to design Title I programs in keeping with their overall program objectives as approved in the Country Development Strategy Statement. This should entail a full description of the nature and magnitude of the food need and, through specific and measurable self-help measures and use of sales proceeds, how Title I resources will be

incorporated into the recipient government's development plans to augment food availabilities. Operational means to increase the effective use of Title I resources include (a) the conceptual multi-year programming of Title I for development purposes as encouraged by Section 413 of PL 480; (b) the deposit of commodity sales revenues in special accounts and their disbursement for discrete development related projects with verifiable benchmarks for annual evaluation; and (c) consecutive year food allocation levels contingent upon satisfactory performance (original level with a lower fall-back level).

These efforts will require a commensurate degree of closer involvement by the USAIDs in programming Title I in project/program preparation and evaluation, technical assistance and dollar support.

#### B. Title II Direct Distribution Programs

Title II grant commodities have been traditionally channeled into direct food distribution programs through maternal-child health (MCH) centers, school feeding programs and food-for-work projects, all of which are administered by U.S. registered private voluntary organizations (PVOs) or by the World Food Program. The immediate objective of Title II programs is to combat hunger and malnutrition by targeting food aid to the most needy and nutritionally at-risk groups.

While recognizing the largely humanitarian role of Title II, the Africa Bureau values Title II programs foremost for their potential development impact. On this basis, the optimal rationale for direct distribution programs may be considered as investment in human capital development.

Title II programs should be simultaneously structured by USAID and the cooperating sponsors to meet development as well as humanitarian objectives. This development impact is strengthened when integrated with other donor and recipient resources. For example, small scale rural development activities underway in several African countries are jointly supported by Title II resources, USAID technical assistance, PVO management and volunteer labor from the food recipients themselves. PVOs sometimes have a certain expertise and advantage over AID in administering the typically small-scale Title II projects. Furthermore, community level Title II projects may call attention to and prompt necessary recipient government adjustment of its food and agricultural policies. To foster development through Title II resources requires much closer coordination than heretofore between the USAID and PVO in joint programming matters.

#### C. Title II, Section 206 Food for Development

Under provisions of Section 206 of Title II, recipient countries may call PL 480 grant commodities and apply the local currency sales proceeds to projects in the agricultural and rural sectors which directly address the causes of the need for food assistance. Given its highly concessional nature, Section 206 food aid is normally targeted to the relatively least developed countries, many of which have relatively large food deficits and have evolved into chronic "emergency" food aid recipients.

The food assistance needs of many of these countries actually reflect a structural production deficit rather than a chronic food "emergency". Thus, Section 206 assistance appears particularly applicable to support the transition from emergency food aid to more regular food aid programmed for development purposes on a multi-year basis. In short, if emergency food aid requirements extend beyond one or two years, Missions should assist their host governments to plan and prepare Section 206 proposals which are intended to support food sector development activities. Section 206 Food for Development programs should be designed to alleviate constraints to improved food security.

#### D. Title III Food for Development

Title III is a multi-year Title I agreement, amended to authorize conversion of the Title I loan to a grant basis upon disbursement of PL 480 sales proceeds to finance agreed upon development activities over a multi-year period.

The two food aid priority analyses discussed earlier recommend certain African countries as Title III Food for Development candidates. USAIDs are requested to seek preliminary program concurrence from AID/W prior to proceeding to a full design effort. Title III program design follows the Africa Bureau Procedures for the Review and Approval of Projects (Management Notices 80-22 and 80-22A) before submission to the interagency Food Aid Subcommittee.

The Africa Bureau requires that Title III proposals contain sectoral analyses which identify constraints to increased food production and distribution and propose how Title III resources will aid in alleviating these constraints. Thorough analysis can suggest areas of policy reform for Title III to address. Ongoing Title III programs in both Sudan and Senegal, for example, are designed to support sectoral or overall economic policy reforms.

Similarly, in both the ongoing and proposed Title III programs, a considerable portion of the project portfolio is directly related to a bilateral USAID project or a project supported in part by other donors. Smooth integration of Title III resources with other forms of assistance requires adroit timing so that both sources of finance proceed simultaneously and not delay the other. Once approved, Title III programs require a substantial commitment from Mission staff in terms of project monitoring and evaluation.

#### E. Title II Emergency Food Aid

Lastly, Title II emergency food aid is based on humanitarian objectives to meet the immediate feeding requirements of people adversely affected by natural disaster or civil strife. By definition, emergency food aid is not programmed in advance and the exigency of distributing food gives secondary consideration to less immediate development concerns. Yet, opportunities often present themselves to use food aid in support of self-help relief and rehabilitation activities or projects aimed at decreasing the need for future emergency aid. Depending on the nature and magnitude of the food emergency, USAIDs should encourage the recipient country to put emergency food or its sales proceeds to sound development use.

### VIII. USAID Initiatives

Clearly, the strength of this food aid for development guidance is only as effective as the USAIDs who implement it. While the Africa Bureau can offer technical staff assistance for the design or evaluation of food aid programs, the Bureau must necessarily rely on its individual USAIDs to take the initiative in food aid programming and day to day oversight responsibilities. Commitment of Mission staff is required not only to supervise, monitor and evaluate but, perhaps more importantly, to participate with recipient governments in planning food aid programs, including measures to influence policies.

Sector analyses and guidance leading to the Country Development Strategy Statement (CDSS) are the starting point for an effective food aid strategy formulation. A country-level food aid strategy should provide a short-, intermediate-, and long-term framework for development options using PL 480 resources. The country strategy must prescribe selective phasing of food aid programs, highlighting those areas on which the recipient country can take specific action and which the development community, in concert with other food donors, can promote.

Once a PL 480 strategy is fully formulated, it should serve as a guide to the optimum utilization of food assistance, contributing to the development of the recipient's agricultural and rural sectors on the basis of sound economic principles.

Drafted AFR/DR/ARD, EBHogan/PSteffen:4/30/82

Redrafted:AFR/DR/ARD, PSteffen:7/14/82