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SOME PRINCIPLES

FOR

INCREASING THE DEVELOPMENT IMPACT OF FOOD AID

by

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EXECUTIVE SUMMARY

Food aid now contributes to development by creating or improving physical and human capital, largely through activities that accompany traditional MCH, School Feeding and Food for Work (FFW) food distribution. However, projects rarely institutionalize the maintenance and growth of capital resources or use food aid directly to establish capital funds. As a result, new development activities are seldom initiated after food distribution ends.

A quite different approach, using food as capital, offers a better way to multiply the development impact of food aid. Modifying eligibility requirements for receiving food to include paying club dues or depositing money in a credit union, for example, creates a fund that can become a permanent source of capital for productive activities. Increasing beneficiary payments for the food achieves the same result, if the incremental revenue is set aside for loans to beneficiaries. Using food aid to establish a community food bank or other in-kind fund also establishes a capital fund. These examples show that Title II programs can increase capital without monetization of the donated food.

Use of food as capital requires savings. Initiation of food distribution provides a substantial subsidy to income of most recipient families and makes it possible for them to save without reducing current consumption. Increasing the food ration in existing programs does the same. Special motivation and education activities are usually needed to assure that part of the increased real income is saved. If initial family income is too low, encouraging savings may have to be deterred, but this is less common than PVO's often assume.

Preserving and increasing capital also requires identification of private or community projects that will produce enough revenue to recover their costs and add to the capital fund. User charges, contributions and taxes help communities to maintain capital. When capital funds finance private productive activities, repayment of loans is essential to keep capital intact.

Although Title II Guidelines favor direct distribution, immediate consumption, and low payments for donated food, several current projects that use food as capital show that alternative approaches may be acceptable.

Using food as capital is no panacea. Nevertheless, PVO's that give the approach more serious consideration will find many useful alternatives for using food aid to help achieve their development goals.

Some Principles for Increasing the Development Impact of Food Aid

by James M. Pines

Food aid can be used to generate lasting and self-sustaining benefits for individual and community recipients. Current efforts to increase development benefits from PL 480 Title II programs usually involve modifying the activities that accompany traditional MCH, School Feeding, and Food for Work (FFW) distributions. Though very useful, resulting in improved health and nutrition and socially beneficial FFW-supported construction, these efforts simply apply good development planning to programs that happen to use donated food. They rarely change the way food itself is used or distributed, and involve little systematic effort to institutionalize the maintenance and growth of capital resources. There is even less attempt to use food aid directly to establish capital funds.

This approach to using food as capital combines the distribution of food to families or community groups, with services and conditions that encourage productive activities. Physical capital or improved human capital may result, but few projects include plans for preserving and increasing capital funds, to assure continued benefits _after_ food distribution ends.

The resulting impact of most current activities may be on the physical condition of beneficiaries ("improving human capital"), as in MCH programs that promote health and nutrition, or on their general welfare, illustrated by Food for Work (FFW) projects that generate new roads, irrigation facilities, and other physical capital or infrastructure in recipient communities.

Direct distribution of food accompanied by no other activities, though generally called "relief", helps keep people alive and thereby preserves human capital for later development activities. Since, even in many relief projects, most recipients can participate in _some_ complementary activities, increasing development impact of food aid typically requires programming these activities and the resources needed to execute them effectively, to increase capital _temporarily_.

Food aid can more effectively encourage the _permanent_ maintenance and expansion of capital, either by introducing different activities and conditions, or by using food directly to create a capital fund that serves the same purpose. For example, using food to establish a revolving fund for small income-generation activities may provide more benefits, in the long run, than giving food as wages to support building of a bridge. Income used to repay loans from the revolving fund can be used for more loans. Only if the bridge is linked to collection of tolls or taxes that recover its costs does it provide a permanent benefit. The revolving loan fund, or the bridge accompanied by cost recovery, are not always better than a traditional FFW activity, without cost recovery, but these and other alternatives merit consideration. Because of the failure to explore new ways to distribute food, agencies administering Title II programs may be missing opportunities to achieve even greater development impact. Many agencies contend that full monetization of food aid is needed to encourage better development activity. This is undoubtedly true, since money obtained from selling Title II food is more fungible than the food itself. Nevertheless, similar development benefits can be achieved even without direct monetization of most Title II food.

This Report provides a framework for exploring development possibilities of innovative food aid uses, with little monetization. The general principles described, for using food as capital, should enable agencies administering Title II projects to identify new programming options among most constituencies targetted by food aid programs. These principles provide a theory that suggests promising new approaches and also explains the effectiveness of many current Title II activities.

General Principles of Developmental Use

1) The Meaning of Development Impact

Current food aid activities often have limited development impact, because they do not lead to permanent, self-sustaining outcomes independent of further food donations. Increasing development impact often means using food in ways that will enable food donations to specific communities or groups to be phased out by a fixed date. For example, if mothers in the community learn to feed infants properly enough to prevent severe malnutrition, there is little need for further rehabilitation feeding, though regular MCH distribution may continue. In this case, the problem addressed by the program has been resolved.

Continued Title II help may also become unnecessary. if the community or government becomes willing and able to continue the program with local resources. Family and community gardens that supply food to replace Title II donations illustrate this result. If families or communities achieve, maintain, and continue to increase income, the need for food aid declines.

In Food-for-Work, wage payments stop when donated food ends and there are often no more projects, though further aid might be useful and welcome. Development impact increases if the FFW program includes provisions for generating funds that can be used to replace the initial project, if necessary, and also to finance new construction.

Many activities now supported by Title II and Section 416 do use donated food to support income-generating activities. For example, Title II food is sometimes used to reduce the risks of innovation for families undertaking new activities such as cultivating gardens, planting trees, or adopting soil conservation practices. Food used to cushion the risks of productive activities like these does help families to grow more food and earn more money. These positive outcomes may even become permanent, if recipient families reserve enough money from sales to maintain their investment. However, few such projects use food to create the capital needed to enable new families to benefit after food distribution stops. Unless an independent capital fund has been accumulated, new development activity is unlikely and much impact already achieved may soon disappear.

Title II projects emphasize consumption of all donated food. Few explicitly seek to create an investment fund or capital, to be used for continuing food distribution or other benefits to recipient communities. PL 480 and related regulations contemplate immediate consumption of all donated food, and also discourage anything more than token payments from beneficiaries. This bias is unfortunate, because it discourages use of food aid to build more permanent capital, the key to long-term, self-sustaining development. Once consumed, in most current projects, the food is no longer available to benefit others. Despite this apparent consumption bias of Title II, there are still ample opportunities for using food aid in ways, consistent with the law, that lead to capital accumulation.

This Report seeks to clarify the differences between consumption and developmental investment, to identify questions relevant for designing capital-oriented, food-supported development projects, and to provide some models for capital-creating food aid uses.

2) Consumption vs. Investment

Many traditional MCH and FFW activities do create and improve human and physical capital. By increasing energy, at least temporarily, the food consumed may result in better learning, greater capacity to work, and, occasionally, in creation of more physical capital. However, most consumption of donated food is like an investment in which all the revenues received are spent for other purposes. It provides a temporary benefit, but leaves little behind. While the contributions to human and physical capital now achieved in consumption-oriented food programs are impressive and certainly far better than none. Outcomes that include new or increased capital funds, in communities or families, build self-sustaining development with greater permanent benefits.

If invested in activities that produce more revenues than they cost, the capital not only returns in full but may yield additional returns that can be consumed or added to the capital fund. Food aid resulting in a capital fund will, if invested and administered properly, produce a permanent stream of future food or income.

Investment requires foregoing immediate consumption in order to save, or borrowing the savings of others. Those savings are then used to create capital goods or finance activities that produce income. The same principles apply to both generation of private income and to public investments. The FFW-supported bridge produces money for reinvestment, if accompanied by user charges or related taxes that, when accumulated over the bridge's life, total more than original cost. While the community would enjoy having a new free bridge, it may also be helped to recognize the advantages of paying something to use it, thereby assuring adequate maintenance or replacement, and perhaps furnishing capital for other new construction. Understanding the tradeoff between consumption and investment is fundamental to using food more developmentally.

FFW sometimes leads to construction for which user charges may be inappropriate, though the work increases incomes generally. For example, with some roads and terraces, costs can be recovered through taxes or contributions to the community from the incremental income. Cost recovery becomes especially important in the common case of FFW activities where workers build capital projects that benefit others. Unless the project includes some way for the workers to share in the long-term income stream flowing from the completed construction, their modest wages yield them little continuing development benefit.

The same point underlies investment in human capital, which is often expected eventually to increase earning power. The future income stream created by the investment becomes a source of tax revenues and private capital. But because the revenues are delayed until adulthood, they can rarely be linked directly to food-assisted capital generation. Using food for training, another way of improving human capital, offers a better opportunity for cost recovery, because income increases come earlier.

3) Food Aid as Income Subsidy

A community decision to save and invest food or money complicates program administration, but also accelerates long-term development. Food aid programs, by providing substantial subsidies to family income, make it possible for recipients and their communities to accumulate capital, without being forced to reduce their current consumption. Poor consumers who do not receive additional food can save only by consuming less. Linking initiation of food distribution, or increase of current rations, to new savings improves impact of food aid and eases the task of income-oriented programs.

Since food for work is generally given to very poor, seasonally or permanently unemployed, workers, it often adds substantially to family income. MCH distributions provide similar subsidies and School Feeding, though amounts are usually smaller, does the same. If the worker and family were surviving for the whole year previously, they now do better with the added real income.

There will be many situations where the survival level has been so precarious that any thought of savings and capital accumulation seems absurd. But this is not <u>always</u> the case. PVO s should routinely explore initial income levels and the percentage increase yielded by the subsidy. The wage and duration of the work will determine the size of the subsidy. By estimating a minimum annual family income above which saving is possible and acceptable, the PVO and the community can make more informed decisions about the wisdom of trying to accumulate capital.

Though rough at best, such estimates force attention to the distinction between relief and development. The family with little potential for borrowing or saving, and investing, no matter how self-reliant, receives relief. One that can postpone some consumption temporarily, to use savings productively, has moved to the path of development.

Very poor families are often forced to borrow for survival. Though introducing the notion of saving may seem cruel, it is less so when accompanied by supplementary food and combined with the possibility of creating a credit union or other capital fund that can eliminate the exorbitant interest payments they are probably making already..

With information about family incomes, an acceptable initial minimum income level, and the proposed food aid subsidy, planners can estimate possible savings. For example, if $1,000 is the minimum acceptable yearly income for a family of four, and most families have about $900 before food distribution begins, an annual distribution of $135 worth of food (a 15 percent subsidy) allows savings of $35 per year and still permits continued consumption at the agreed minimum acceptable level. Though the savings may seem small, revolving loan fund projects often lend similar amounts.

The foregoing illustrates a method and approach for assessing the feasibility and desirability of using food as capital. It does not dictate any particular decision , but provides a useful tool for decision-making. Clearly, if poor people have other access to capital for income-generating activities, a separate revolving loan fund project for example, use of food aid as capital may be less important. Even without such access, if they start from too low an income base, total consumption of the food aid subsidy may still be desirable. Nevertheless, there will be cases in which availability of a food distribution program makes saving possible and desirable.

4) Income and Substitution Effects

Planning to use food aid as capital also requires reviewing consumption patterns. It is well established that, in most cases, the net incremental impact of supplementary food distribution on family food consumption will be less than the value of the food received. Even if the family consumes all of the subsidy, food purchases are likely to decline, with savings used to buy other items for consumption. Careful review of information may even suggest that part of the increased real income will, without further action, be saved. Examination will also reveal the "competition" of other products that makes encouragement of savings more difficult. If families seem likely to use increased income to pay school fees, for example, this creates a different context for program decisions than if they are going to buy beer. The programmer need make no judgment about what beneficiaries _should_ do. Sharing analysis of consumption patterns with communities can help _them_ make better decisions.

5) _Encouraging Saving_

Title II programs generally require certain behavior as a condition for receiving food. In FFW projects, for example, everybody understands that one must work or there will be no food payment. Mothers participating in MCH projects, all over the world, have their babies weighed and sit through various education activities. While many might do so without food distribution, all know that these things must be done or they will receive no food. The use of Title II food as "incentive," widely acknowledged and accepted, means that food aid influences conduct. It makes more likely certain behaviors that people initially cannot afford or have little desire to start.

Saving and investing are the behaviors that must be increased, to maximize development impact of Title II activities. Because these behaviors can be shown to produce improved welfare in the long run, they are sometimes easy to bring about. On the other hand, the well-known and understandable short time horizon of many poor people discourages saving and increases the difficulties of influencing behavior. The appropriateness and feasibility of using donated food to increase saving and investment depend on the context of each Title II project, but should be considered. Identifying the specific incentives and activities likely to produce the desired result will present new challenges to food aid programmers.

Using Title II to build capital requires recognizing and accepting that family food consumption will not increase by the full value of the food distributed. It also means, if charging more for donated food and setting the increased revenues aside as capital are not acceptable, that recipients will have to save in other ways that do not formally increase their payments for food.

In Indonesia, for example, MCH program participation requires payment of dues to a mothers' group, with part of the revenue used as capital for small income-generation projects. A recent evaluation suggested that the MCH program be linked to formation of credit unions, with receipt of food conditioned on regular deposits. Special education activities will be required to assure that deposits continue after food aid stops, but this initial linking of food and saving accelerates the building of strong credit unions.

Kenya and Senegal projects, now being planned, propose to lend food to beneficiaries, with repayment and interest in kind creating a permanent "food bank" that will finance cultivation, storage and other productive activities. Any objection that regulations require near-free distribution to individual families and prohibit demands for repayment, may be accommodated by giving the food away on condition that recipients contribute to a "community capital fund." This can then be used to buy food.

Because the Kenya target area has a long tradition of free labor for community benefit, planners rejected conventional use of food as wages. Their proposal to use donated food as a "community reward," by putting it into a food bank, a) preserves integrity of the tradition, b) builds community solidarity, and c) creates an important resource for self-sustaining development.

Obviously, the value of the food bank or related capital fund depends on the amount of food contributed and the duration of food distribution. Five years of contributions equalling twenty percent of annual food value received, for example, will build a fund equal to that assembled in two years of fifty percent contributions.

Physical accumulation of a food reserve as capital, though more costly than putting money in the bank, provides protection against inflation and food shortages. Lending food, instead of giving it away, also allows a given reserve to help many more families. During emergencies, the food bank can easily be converted, with donor help, into a grant fund for maintaining consumption.

These illustrations reflect the conceptual framework for planning more developmental uses of food aid. If traditional FFW, MCH, and School Feeding distribution practices must be preserved, savings will have to be generated by modifying the eligibility conditions for receiving food. New school feeding projects, for example, can insist that parent groups collect dues. If this seems inadvisable, they may be asked to plant gardens and contribute part of output or net proceeds, an approach already common. Once the general principle of using food as an incentive for capital accumulation is accepted, the challenge is to design conditions, consistent with community interests, traditions, and capacity, that can implement this approach.

Where poor families and landless laborers are accustomed to borrowing at high interest, and repaying, they often understand quickly the advantages of using food aid to provide themselves with access to lower-cost capital. If the possibilities for using savings are attractive enough, food aid may influence behavior more easily. But motivating recipients to postpone consumption is more difficult, when the use of savings is to produce income instead of buying (e.g.) radios and television sets.

While money capital is more versatile, a food bank or other source of in-kind capital meets most needs of low-income beneficiaries. The street vendor who gets Title II food, for example, can buy more stock to sell, because less money is needed to maintain family food consumption. The farm family that receives food as an inducement to terrace land, plant trees, or begin cultivating a resettlement area, eats the working capital while waiting for the return on investment.

6) Lending vs. Giving

Using food as capital achieves more development impact if the local organization lends it instead of giving it away. The revolving fund principle applies to food aid as to other community development projects, and implies two separate programming steps:

a) Including eligibility conditions for receiving food that yield a capital fund, and

b) Organizing and managing the capital fund to assure that repayments maintain the fund and cover operating expenses, including losses from bad debts.

In family-oriented projects, the second step helps families use the money in ways that maintain capital intact. If all the chickens are eaten, for example, there will be no more. With more careful management, and limiting of immediate consumption, there can be more chickens or more income permanently. With high-risk innovation, it may seem fair to start by giving food to reduce risks. But this should only be done with clear understanding that, if the investment turns out well, the innovator will thereafter be expected to borrow for any additional capital needs.

These ideas will come as no surprise to PVO's that collaborate in credit union, revolving loan fund, income generation, and similar activities. What many seem to have missed is the great potential offered by Title II programs as a way to accelerate and increase accumulation of capital funds. Though loan funds and credit unions frequently expand capital by borrowing money, few do so by using Title II to "borrow" food, though doing so requires no repayment. While full monetization might be more convenient, integration of food aid into existing economic development work, for example, can be accomplished with little increase in administrative complexity and without jeopardizing the self-help approaches of the projects. If, as seems likely, regulations are reinterpreted or modified to make direct (e.g.) monthly distribution to individual families unnecessary, so that donated food can be added directly to stock of a community cooperative food store, for example, the administrative burden of Title II activities will diminish further. There are many ways to assure that donated food achieves the dual goals of building permanent capital and increasing consumption by poor people, without distributing it in traditional fashion.

The Peru "comedores familiares" (family dining rooms) Title II project illustrates the already greater flexibility of food use. Groups of 10-30 urban families organize to cook communally. Each family then buys the meals it consumes, but the program lowers the family food cost burden by volume purchases, reduced waste, fuel savings, and freeing mothers for paid work. Infusions of Title II food to groups, rather than to individual families, have provided working capital and helped the groups become self-sustaining. Because family meal payments cover recurring costs and depreciation, the low-cost collective arrangements soon become self-supporting, when Title II accelerates the process by easing initial capital purchases.

In Morocco, Title II food goes to training schools, where meals for the students are prepared with the donated food and ingredients bought with school funds. Used in this way, food aid is reducing the schools' cost of feeding the trainees. The resulting savings, while not programmed explicitly, could be used to buy more capital equipment that can contribute to increased trainee earnings. If the schools can sell products made by the trainees, a common activity in projects unrelated to food, and recover costs, Title II food will have generated productive, self-perpetuating investment.

In Zaire, Title II food is being given, temporarily, to a private firm for use in a processed weaning food. These food donations allow the company to sell at a lower price. They also reduce the company's need to save or borrow for the investment that would have been required to build sales. The higher sales reduce unit cost and price enough to allow the lower price to be maintained, without continued food donations. The food will be consumed by the target group at lower cost. Simultaneously, the company has been given an incentive to manufacture the weaning food, by reaching higher sales with a lower investment.

These projects illustrate ways in which food aid can be converted into a much more effective development resource. Donated food becomes a source of permanent development impact when a) food is viewed as capital, and b) Title II Guidelines are interpreted to permit the linking of food distribution with organizational arrangements that assure expansion of capital.

7) <u>Private vs. Community Capital</u>

There are two basic models for using food to build capital. In the family-oriented model, savings result from individual decisions to accept the conditions required to receive food. The more community-oriented approach gives food in bulk to a community organization. The decisions to accept and use the food as capital are then made by the community.

Program efforts to influence savings behavior by requiring (e.g.) club dues or credit union deposits as a condition for receiving food limit individual free choice no more than other stipulations, such as planting trees or attending nutrition education classes. Although the savings requirement resembles monetization, since the food is exchanged for money payments, this "indirect monetization" differs sharply from the sale of donated food on the open market.

Commercial sales, the typical monetization method, benefit rich more than poor by lowering prices to all. Revenues go to the government or, when PVO's monetize commodities, to these agencies. By contrast, when Title II is used to support accumulation of capital for recipients' benefit, without monetization, proceeds are returned to the purchasers themselves. They retain ownership of their funds (e.g. dues, deposits), and perhaps earn interest, though not all can borrow simultaneously to generate further income.

In the more community-oriented model where food is not directly distributed to beneficiaries, the food itself becomes capital by being given to a community organization in quantity, to form a capital fund. The food finances FFW and other development projects that "pay their way," thereby maintaining capital intact. The organization may sell the food initially to a target group at less than market prices. While this policy diminishes the capital fund, it conforms more closely to the legislative intent that donated food be consumed immediately. Since a larger price subsidy increases the time needed for the capital fund to reach a specified level, planners must consider the trade-offs among size of distributions, consumption and investment.

Many different variations and combinations of the two models will occur to PVO and community planners. Choices depend, first, on development priorities and then on the project context. This Report is <u>not</u> an advocacy document for the use of Title II food as capital. Doing so is <u>not</u> inherently better than other uses. However, the possibilities for building permanent capital in this way remain relatively unexplored and merit serious consideration as a means for achieving development goals.

<u>The Questions to Ask</u>

The design of development projects, especially those with heavy community participation, depends on the social, political, economic, and cultural contexts of the project area. The analytic framework for Title II projects that use food as capital, though it includes considerations relevant to any project involving investment and cost recovery, reflects some variables distinctive to food use. In deciding <u>whether</u> to use food as capital, and <u>how</u> to do so, questions such as the following are useful:

1) Are the levels of family income and food consumption among the target group high enough to make some saving of resources a reasonable option ?

2) Are target group families accustomed to borrowing and repaying loans and, if so, for what purposes and at what interest rates?

3) Are there individuals or groups willing to sacrifice

present consumption for future income ?

4) What percentage of family income does value of the proposed food distribution represent ?

5) In the absence of efforts to use food as capital, how would the proposed increase in real income be spent ?

6) Is the community likely to contribute food for distribution to the most needy and vulnerable, if local sources can eventually substitute for donated food ?

7) If the donated food is not distributed directly for immediate consumption by poor people, is there an alternative that can build capital and still assure adequate food consumption by the poor ?

8) What method of food distribution would be most effective for generating family or community capital ?

9) What are the felt needs for public improvements, for which people might be willing to pay user charges covering costs, that can be built as FFW projects ?

10) If there are other possible FFW projects that do not benefit the community directly, how can revenue be generated from them and shared with it ?

11) Can profitable agricultural and other income-producing opportunities be identified ?

12) Is there a community organization that can be helped to sell or distribute food, administer a loan fund, and collect taxes or user charges for infrastructure improvement ?

13) Is replacement of donated food by community production or income feasible within a reasonable time ?

14) Where new productive activities are to be encouraged,

are the risks to recipients great enough to justify initial giving of food before introducing more rigorous requirements (e.g., borrowing)?

15) If food or money is to be borrowed, how will repayment be assured ?

16) If family income increases through productive activity, is part of the increase likely to be used for the common good or for improving welfare of the most needy ?

17) Are there existing development activities in which integration of food aid can increase impact ?

These questions emphasize that developmental uses of food can be more complicated to plan and administer than conventional Title II activities. They are critical for PVO s concerned to move along the continuum from relief to self-sustaining development efforts. The answers provide an information base for planning with community groups, identifying training and technical assistance needs, and determining ways to get the highest development return from Title II food.

Many projects will continue to make food available in traditional ways, such as monthly packages or in schools, while enhancing development impact by adding new eligibility conditions and complementary program activities. Others can test the limits of Title II Guidelines by proposing new ways of using donated food. The food bank, the self-supporting community dining facility, the community food store, and food donations to private or community food processing operations illustrate novel approaches already receiving favorable consideration. Because these approaches eventually increase income and demand for food. they will not diminish incentives for local production. Use of food as capital may even increase production incentives, if it leads to greater stocking of food.

The use of food as capital is an important development approach for achieving community self-sufficiency, however defined. It is also the only way most developing country governments are likely to replace donated food in public programs, as increased local incomes generate higher tax revenues. Developmental use of food aid poses little threat to continuation of Title II programs. Although it can free many communities from dependence on donated food, national food self-sufficiency rests on many factors beyond influence of PL 480.