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IMPROVING THE EFFECTIVENESS OF PL 480 FOOD AND AGRICULTURAL COMMODITY ASSISTANCE

BY

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A. Programming Food and Agricultural Commodity Assistance

Each year, the United States Government (USG) provides between $1.5 and $2.0 billion in food and agricultural commodity assistance to roughly seventy countries under five principal programs.

The authorizing legislation for grant and concessional credit food and agricultural commodity assistance is The Agricultural Trade Development and Assistance Act (Public Law 480) of 1954 as amended. Additional authorities for donations of food from Commodity Credit Corporation (CCC) surplus stocks are contained in Section 416 of the Agricultural Act of 1949 as amended. Appropriations for both are contained in Department of Agriculture appropriations.

The five principal food and commodity assistance programs are:

Title I - Concessional loans to finance the purchase of surplus food and other agricultural commodities;

Title II - Grants of food through private voluntary Agencies and the World Food Program;

Title II, Section 206 - Grants of food to governments for resale to finance food distribution and development activities;

Title III - Concessional loans as under Title I but with loans forgiveness provisions if the sales proceeds are used to finance a jointly agreed development program; and,

Section 416 (of the Agricultural Act)- Grants of food commodities from surplus stocks of the Commodity Credit Corporation (CCC) for a variety of purposes including, "Food for Progress."

The PL 480 food and agricultural commodity assistance process begins with the USG fiscal year budget cycle which contains an illustrative budget by country, program and commodity to be programmed. The annual budget request as prepared jointly by USDA and The Agency for International Development (AID).

Section 416 donations may vary inter-annually with both the level of CCC surplus stocks of various commodities and world aggregate need. Countries currently receiving assistance under each program and the approximate value and tonnage of the foods or commodities are shown in Tables 2-5 at the end of this report.

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Since its enactment, over $50 billion of foods and commodities have been exported to over seventy countries.

The attribution of food aid to a given country and allocations from the reserve are, in principle, made on the basis of economic and nutritional need. In addition, foreign policy considerations, including a country's strategic importance, its balance of payments situation and its market development potential, are considered.

USDA, Foreign Agricultural Service (FAS) shares responsibility for the management of food aid with the AID, Bureau for Food and Voluntary Assistance (FVA). Also participating in allocation and management decisions are the Department of State, Economic Bureau (State/EB), the Department of Treasury and the Office of Management and Budget (OMB). Field management support is provided by an interagency country team comprised of USAID missions staff and the Embassy Agricultural Attaches and Economic Officers.

This paper provides a brief description of the major provisions of PL 480 as they relate to administration and programming of food and agricultural commodity assistance. The discussion has been divided into fourteen sub-sections displayed in the Table of Contents and in Table 1. An "X" in the columns under column headings for the five authorized programs in Table 1 indicates the relative importance of that item to effective programming under that authority.

Individual sub-sections describe activities required to provide the data and information needed to program food aid. Others describe in some detail special provisions of the Acts and related USG regulations. As it is USG policy to seek to bring about greater integration in the programming of PL 480 and development assistance programs, special attention is given to the identification of technical assistance and country team assistance which has or potentially could improve the effectiveness of the use either of the food itself or the proceeds from the sales of commodities.

Although public and Congressional support for development assistance funding is declining, support for food and commodity assistance remains strong because of large U.S. surpluses and low commodity prices. In addition, the number of chronically food-deficit persons and countries are increasing. While these conditions continue, there is a concurrent opportunity to make (more) effective use of the "abundant agricultural productivity of the United States to encourage economic development in the developing countries." The effective use of food aid is one of the greatest challenges facing the development community in the decade ahead.

B. Commodity Requirement Analysis

1. Food Need Analysis:

The base attribution of food aid to a given country and allocations from the reserve are, in principle, made on the basis of economic and nutritional need. In addition, foreign policy considerations, including a country's strategic importance, its balance of payments situation and its market development potential, are considered.

Figure 1. PL 480: Major Provisions by Program

Activity	Title I	Title III	Title II-206	Title II	Food for Progress
A. Programming Food Aid	X	X	X	X	X
B. Commodity Requirement Analyses					
1. Food Need Analysis	X	X	X	X	X
2. Early Warning Systems				X	
3. Crop Production Estimate	X	X	X	X	
4. Donor Coordination	X	X		X	
C. Self-help Requirements	X	X	X		
D. Use of Sales Proceeds		X	X		X
E. Sector Analyses/Policy	X	X	X		X
F. Title II/Section 416 Programs					
1. Private Vol. Agency WFPC			X	X	
2. Monetization			X	X	
3. Food for Progress					X
G. Monitoring and Evaluation	X	X	X	X	X
H. Financial Management		X	X		
I. Disincentive Analysis					
1. Storage/Stock Management	X	X	X	X	X
2. Production/Marketing	X	X	X		X
J. Consumption/Nutrition				X	
K. Food Technology				X	
L. Food for Work				X	
M. Training	X	X	X	X	X
N. Research and Technology					
1. Program Enhancement	X				
2. Food/Nutrition				X	
3. Applied Agriculture Research	X	X			
O. Section 108 Private Enterprise	X				

SOURCE: Don Ferguson
January 5, 1988

Within the U.S. Government, the USDA Economic Research Service (ERS) has lead agency responsibility for compiling data and information upon which the base allocation of food aid resources can be made. Because economic and demographic factors change relatively slowly, the volume of concessional commodities needed by most countries can be forecast several years into the future based on available data.

ERS is required to prepare an annual report to Congress and issues quarterly updates of country situations.1/ Economic data used in estimating each country's needs include estimates of foreign exchange earnings and reserves and the overall balance of payments situation which determines a country's ability to import commodities commercially. For chronically or occasionally food deficit countries, information is also needed on domestic food production, food stocks, concessional food aid flows, and normal commercial purchases. To allow for weather and emergency-driven needs, roughly 10 percent of the authorization is held in reserve for allocation to countries experiencing temporary food shortages.

2. Earning-Warning Systems:

For many chronically or periodically food-deficient countries, timely, accurate data on economic conditions and food production and availability are lacking. Consequently, current estimates of food availability must often be made on partial information. The U.S. country team and international organizations are important sources of information on the current situation and outlook.

Remotely sensed information on current crop conditions and yield outlook are now routinely obtained from satelite imagery. The Department of Commerce National Oceanic and Atmospheric Administration (NOAA) and the Foreign Crop Assessment Division of FAS monitor climate and rainfall data and vegetative conditions as predictors of expected crop conditions worldwide. The overall world commodity situation and outlook is monitored by the USDA World Food Board (WFB).

For various reasons, USG agencies more carefully monitor crop conditions in the major grain-producing and consuming areas of the world than they do economically small developing countries. In addition, the construction of remotely-sensed crop yield and production estimates is more difficult for many low-income countries because of the poor quality of soil, land use and land use capability inventories, the unreliable and incomplete historical yield and crop hectarage data and the poor coverage of rainfall recording stations. However, currently available satellite imagery and interpretation systems, when combined with information on rainfall reported through the World Meteorological Network, do permit USG agencies to monitor and forecast probable food-grain production levels in most countries likely to suffer food shortages with fair to good accuracy (generally ± 10-20 percent of actual levels).

1/USDA/ERS. World Food Needs and Availabilities, Annual. August. Quarterly updates of countries where significant changes are occuring are published in November, February and May. A detailed discussion of the methodology used is included as an annex to the main report.

In point-of-fact, because of these systems, early regional and location-specific estimates of rainfall-related food shortages are often more quickly available to USG and international agencies than they are to country officials. In some recent cases, the prompt transmission of such Washington-based analyses to field missions are credited with triggering requests for aid which reduced hunger and malnutrition levels. As many drought-prone countries pose significant delivery problems, early requests for food aid and reasonable estimates of need are important to meeting humanitarian objectives.

However, estimates of crop conditions based on remotely sensed data and rainfall cannot be the sole basis for emergency food-need analyses. As a rule-of-thumb, every developing country should possess an early drought emergency warning system capable of forecasting actual crop production levels within +/- 10 percent of actual levels for each demographically important agro-ecological region of the country. An expected shortfall of 10 percent or greater in food needs should prompt action to begin the process of putting in place an emergency food aid program to prevent serious hunger and malnutrition from occurring. Each country requires a reasonable amount of ground-truth survey capability to pinpoint local shortages, to identify the numbers and categories of persons at risk who need supplemental feeding and to make estimates of stocks in on-farm storage.

3. Crop Production Estimates:

In addition to pre-harvest crop forecasting, most low-income countries should plan on installing functional data/information systems which would provide users with post-harvest yield and production estimates. Data as to the hectarage and yields over time permit tracking of production levels, farm productivity and the consumption of major food crops grown in that country. The base point for the annual stock-taking should normally be about 30 days following the major harvesting season.

Data and analysis requirements include: An area sampling frame (usually based upon defined soil/land resource units) and yields by crop by resource unit; consumption information by demographic and income group; estimates of on-farm commercial and public storage capacity and stock levels; and, current import-export data.

4. Donor Coordination:

Donor coordination is a critical component of food-aid administration. The principal formal vehicle for donor coordination is the World Food Council. USDA shares both data and methodology for estimating food aid needs with international organizations, including FAO, the World Food Program (WFP) and OECD. Because of the regular exchange of data between OECD, FAO and ERS, their respective estimates of emergency food aid needs by country are usually very similar.

A second area of potential international cooperation relates to carry-over stocks, which are set aside for release in years of unusual climatic conditions which drastically reduce world food availability. The U.S. Wheat Reserve is

A second area of potential international cooperation relates to carry-over stocks, which are set aside for release in years of unusual climatic conditions which drastically reduce world food availability. The U.S. Wheat Reserve is designed to meet this particular potential need. Additional wheat above that programmed under PL 480 was released from the wheat reserve under Section 416 authorities during the 1985-1986 African drought emergency.

5. Self-Help Requirements[2]

PL 480 requires that self-help measures be included in all Title I and III and Title II-206 agreements. To receive food assistance, recipient countries must be determined to improve their own agricultural production. It is also a requirement that sales proceeds be used to support the carrying out of measures.

Section 109 (a) of PL 480 requires that before entering into agreements with developing countries for the sale of United States agricultural commodities on whatever terms, the President shall consider the extent to which the recipient country is undertaking, wherever practicable, self-help measures to increase per capita production and improve the means for storage and distribution of agricultural commodities, including:

(1) devoting land resources to the production of needed food rather than to the production of nonfood crops - especially nonfood crops in world surplus;

(2) development of the agricultural chemical, farm machinery and equipment, transportation and other necessary industries through private enterprises;

(3) training and instructing farmers in agricultural methods and techniques, and reducing illiteracy among the rual poor;

(4) constructing adequate storage facilities;

(5) improving marketing and distribution systems;

(6) creating a favorable environment for private enterprise and investment, both domestic and foreign, and utilizing available technical know-how;

(7) establishing and maintaining Government policies to insure adequate incentives to producers;

(8) establishing and expanding institutions for adaptive agricultural research;

2/The discussion contained in the following sections follows closely and often paraphrases negotiating instructions for PL 480 agreements and other guidance approved by the Development Coordinating Committee. They in turn cite specific sections of the authorizing legislation.

(9) allocating for these purposes sufficient national budgetary and foreign exchange resources (including those supplied by bilateral, multilateral and consortium aid programs) and local currency resources (resulting from loans or grants to recipient governments of the proceeds of local currency sales);

(10) carrying out voluntary programs to control population growth;

(11) carrying out programs to improve the health of the rural poor, including the immunization of children; and

(12) promoting the conservation and study of biological diversity.

The self-help measures which the recipient country agrees to undertake are to be described: (a) to the maximum extent feasible, in specific and measurable terms, and (b) in a manner which ensures that the needy people in the recipient country will be the major beneficiaries of the self-help measures pursuant to each agreement.

Section 109 (d) (2) requires that self-help measures identified in the agreement should represent an expanded effort undertaken by the importing country that would not have been implemented in the absence of the agreement or amendment. The intention is that self-help measures should not be ones that would have taken place regardless of PL 480; but they may include measures previously considered and favored by the recipient government but which require the impetus of a PL 480 agreement to be implemented.

In principle, self-help measures and benchmarks are to be drawn from the recipient country's own development or program plans and are to be identified and drafted in collaboration with the relevant government officials responsible for their implementation.

After agreements are negotiated, appropriate steps are to be taken to determine whether the self-help provisions of each agreement and amendment entered into are being carried out. Under current interpretation, it must be possible, after a given period, such as a year, to determine the extent to which the self-help measures have or have not been carried out.

The agreement requires that the recipient government provide a detailed year-end report as to progress made in carrying out the self-help measures and the uses of sales proceeds. Determination as to whether economic development and self-help measures are being fully carried out is made through the reporting process and through more frequent discussion or consultations on progress which take place during the year between recipient government and mission personnel.

In negotiations with recipient government as to self-help measures, the Country Team must seek specific commitments or targets as a means to measure the extent to which economic development and self-help measures have been carried out. Specific and measurable targets by which to measure progress can include physical progress, financial measures, policy changes, price announcements, deadlines for completing research studies, funding or completing projects, signing contracts or implementing policy changes, and the like.

It it is expected that targets for the self-help measures will be set so that achieving them will not be automatic, but will require special effort. The

specific benchmarks or targets need not be included in the agreement itself, but can be put in an attached memorandum of understanding signed at the same time as the agreement. The Agreement or side memorandum should also contain goals for expenditures of sales proceeds for projects related to self-help measures and other developmental purposes.

In summary, concessional loan and grant programs which include provisions to sell the commodities through commercial channels provide the recipient government with a source of revenue which must be used to carry out a set of self-help measures. Many recipient government programs and projects to be successfully implemented require foreign exchange to purchase items such as fertilizer and equipment which are not produced in country. The loans or grants reduce the country's short term need to use scarce foreign exchange for food or other agricultural commodities.

Because of poor implementation capability, many low-income countries require complementary donor financed technical assistance and institution building programs to most effectively use the proceeds to promote longer term food security.

D. Use of Commodities and Sales Proceeds

Section 106 of PL 480 stipulates that the proceeds from the sale of the commodities in the recipient country are to be used for such economic development purposes as are agreed upon in the sales agreement or any amendments thereto. In negotiating such amendments with recipient countries, the United States must emphasize the uses of such proceeds shall be for purposes which directly improve the lives of the poorest of their people and their capacity to participate in the development of their countries.

Section 404(a) which relates to all PL 480 programs stipulates that:

To the maximum extent possible, either the commodities themselves shall be used to improve the economic and nutritional status of the poor through effective and sustainble programs, or any proceeds generated from the sales of agricultural commodities shall be used to promote policies and programs that benefit the poor.

In what is known as the additionality condition, sales proceeds must not be used as a substitute for or to replace financial and management support for already authorized and budgeted program activities. However, it is USG policy that this provision not be interpreted to mean that sales proceeds must be programmed for new projects or project activities. To the contrary, recipient governments are to be encouraged to use the additional revenue to improve the effectiveness and coverage of existing programs or previously approved projects where these meet the qualifications noted above.

The legislation and regulations require that greatest emphasis be placed on using proceeds to carry out programs of agricultural development, rural development, nutrition and population planning, in accordance with the country's agricultural development plan which:

(1) Is designed to increase the access of the poor in the recipient country to an adequate, nutritious and stable food supply;

(2) Provides for such objectives as:

(a) Making farm production equipment and facilities available to farmers,

(b) credit on reasonable terms and conditions for small farmers, and

(c) farm extension and technical information services designed to improve the marketing, storage, transportation and distribution system for agricultural commodities and to develop the physical and institutional infrastructure suppporting the small farmer;

(3) Provides for participation by the poor, insofar as possible, in the foregoing at the regional and local levels; and

(4) Is designed to reach the largest practicable number of farmers in the recipient country (7 USC 1706).

E. Sector Analysis and Policy Reform

PL 480 contains many provisions designed to encourage and enable recipient countries to effectively use either the commodities or the sales proceeds. Specific provisions reviewed above include:

(a) self-help measures which commit the recipient government to specific and additional actions (Title I/III and Title II, Section 106), and

(b) use provisions which require that either the commodities themselves or the proceeds be used to achieve the objectives of the agreement within the context of that country's agricultural development plan.

The intent of the legislation and associated regulations is that neither the individuals benefiting from the food distributions nor the countries should become dependent upon the U.S. food and commodity assistance but should as soon as practical achieve "food self-reliance." Food self-reliance is broadly interpreted to mean the individual's and/or the country's future ability either to produce or to purchase commercially the agricultural commodities they require for an adequate nutritional status or for artisanal and industrial uses.

U.S. country missions in recipient countries report and recent program evaluations confirm that the PL 480 program development and negotiation process can be a particularly effective "policy dialogue" tool. Agreements are normally negotiated and amended annually adding additional resources. Agreements must be based on written proposals and the recipient organization (Title II) or the recipient government (Title I/III) must provide reports as to progress in achieving objectives and the use of the fiscal resources.

To receive debt forgiveness under Title III and to be eligible for Title II-206 grants, recipient countries must formulate, (with the assistance of the U.S. Government (if requested), a multi-year proposal which incudes a detailed plan for the intended uses of the commodities or the funds generated from the sale of such commodities on an annual basis. The proposal shall also specify the magnitude of the problems to be affected by the efforts and shall present targets in quantified terms and description of the relationships among the various (agricultural sector) projects, activities and programs to be supported. It must also include a statement of how the assistance under such programs will be integrated into and complement that country's overall development plans and other forms of bilateral and multilateral development assistance.

Although Title I agreements are limited to one year and the level of funding is not assured, the process has been used to facilitate complex, mid- to longer term policy and program adjustments.

As one example, the USAID mission in Tunisia in collaboration with a consultant/advisor and ministry of agriculture officials, drafted a long term soil productivity improvement plan which was reviewed and updated annually. The plan called for the government to reduce fertilizer subsidies and to phase out direct government sales of fertilizer and other agricultural inputs. These were linked to improved programs of applied research, soil testing and extension financed in part by sales proceeds. The program is credited with both reducing foreign exchange expenditures for fertilizer while taking steps to maintain soil productivity and fertility.

The key elements of this program were:

(a) The use by USAID of consultant/advisors on an annual temporary duty basis who because intimately familiar with both the technical problems and the institutional setting;

(b) the collaborative drafting of technical and policy plans of action with benchmarks and a time frame which were updated annually;

(c) the drafting of self-help measures jointly with ministry of agriculture officials who were responsible for their implementation; and,

(d) a government agreement to allocate the sales proceeds to supplement ministry of agriculture fiscal resources.3/

When a process such as the one described is followed, the (potential) disincentive effects of the importation of a food commodity on recipient country production and marketing can be minimized. (See Section I)

USAID missions, which are encouraged to undertake periodic country assessments may, as part of the analysis, document the need for food and agricultural commodity assistance, the linkages with U.S. and other donor economic and financial assistance, and the country's own development program. It should identify the most suitable timing for commodity deliveries, the level of food

3/RONCO Assosciates, 1986. Negotiating and Programming Food Aid: A Review of Successes. Final Report on Results of Five Evaluation Case Studies.

assistance which can be effectively used to meet nutritional needs, and the country's potential as a new or expanded market for United States agricultural commodities.

F. Title II and Section 416 Programs

The principal mode of programming PL 480 Title II resources is through grants to private voluntary agencies who in turn arrange for the distribution to needy persons. Other modes include U.S. contributions to the United Nations World Food Program and grants to governments either for direct distribution or for sales under Title II, Section 206. A special case of Section 416 programming is Food for Progress. These modes are outlined briefly below.

1. Private Voluntary Agency and World Food Programs:

Private voluntary agencies and other non-governmental organizations participate as sponsors in the programming and distribution of supplemental foods, complete foods, food grains, processed milled flours and surplus dairy products. Each sponsor must develop a program document that identifies needs, beneficiaries and the type of food to be provided. They are also responsible for making all local arrangements and monitoring end uses.

On average, roughly 80 percent of Title II resources are used in continuing programs of supplemental feeding targeted to nutritionally at risk persons, and 20 percent for "emergency programs." Emergency programs vary greatly in size depend upon events such as the 1983-1985 African drought. All "proposals" are reviewed and approved by a Title II interagency working group.

The WFP program deals directly with governments and government agencies responsible for supplemental feeding and emergency feeding programs. A significant share of WFP resources are used in Food for Work type projects under which beneficiaries receive food as opposed to wages for work on a variety of improvement projects. WFP projects are reviewed and approved by the "World Food Council." The council which meets semi-annually, is comprised of major food donors (including the U.S.) and representatives of recipient countries.

2. Sales (Monetization) of Food Aid:

Although most Title II resources are directly distributed to needy persons, the regulations allow cash sales or monetization of part or all of the grant items for special purposes. These include (a) monetization partially to finance the in country transshipment, storage and handling costs of foods (b) sales to finance development activities described elsewhere in this report. Proceeds from sales may not be used to fund PVO employee salaries or benefits.

While the price of food commodities has declined over the past decade, the trend of other program costs especially those associated with transportation has risen sharply. Program sponsors state that they can no longer raise adequate funds without some monetization. Proceeds may also be used to finance nutrition and self-help activities where these promote food self-reliance.

A special case of full monetization is the market sale of items such as dairy products with proceeds used to finance the development of an indigenous dairy industry.

3. Food for Progress:

Food for Progress is a new program authorized in the 1985 Farm Bill. It allows the President to provide grant food aid to countries to encourage agriculture policy reform. Commodities may be financed either under Section 416 or PL 480 Title I authorities. Grants may not replace other forms of food aid and should be additional to planned aid under PL 480 authorities.

The underlying concept is that countries undertaking significant agricultural policy reforms may experience temporary reductions in food production. To receive a Food for Progress multi-year grant, the recipient country may have already initiated reforms or be in the process of carrying them out. Continuing progress in their implementation or the adoption of additional reforms has been interpreted to be necessary for second and subsequent year shipments under this authority.

To implement a Food-for-Progress program, the U.S. country team must identify and negotiate policy reform measures and monitor progress. Self-help measures as such or specific commitments as to uses of proceeds are not required.

In part because planned assistance under this authority may not replace other programs, only two small multi-year agreements have been negotiated as of this date.

G. Monitoring and Evaluation:

PL 480 and Section 416 programs are the subject of variety of mandated, periodic and special reviews and evaluations. These may be carried out by the country mission or by teams comprised of participating agency staff or consultant/ specialists.

The legislation requires annual evaluations of all Title III, Section 206 and Food for Progress Agreements. These are to be carried out jointly with the recipient government. If a recipient government is found not to be in substantial compliance with all terms and conditions, than the agreements is to be suspended until deficient areas are corrected, and may be terminated.

Washington Agencies normally require that required evaluations are carried out and reviewed prior to granting authority to USAID to negotiate program amendments or follow on agreements.

As with other programs, special evaluations or assessments may be scheduled by AID to examine various aspects of program effectiveness or to take a more indepth look at a given country program. The scope-of-work and the source of funding varies by program.

All program/project sponsors and recipient governments are required to provide annual or more frequent reports summarizing results against planned or projected goals and objectives. A review of these reports is a standard part of decisions to renew or extend agreements. These are summarized in an annual report to Congress by USDA/FAS.4/

4/USDA,Foreign Agricultural Service, 1986. Food for Peace, Annual Report to Congress (Annual).

H. Financial Management of Sales Proceeds:

Commodities provided under Title I, Title III, Title II-206 agreements are marketed by the recipient government through commercial marketing channels.

Ideally, the recipient governments will be able to market commodities at a price level which would be equal to the combined CCC unit price plus all shipping, handling and storage costs, or at the prevailing domestic price for like or similar commodities, whichever is higher.

Should the recipient market the commodities at a unit price less than the "full landed cost;" it is expected to make up the difference from other revenue sources. The intent of these provisions is to guard against the recipient using the concessional program to subsidize food prices, unfairly competing with commercial suppliers or local farmers, and to assure the highest practical value of proceeds are available for development purposes.

It should be emphasized that the Title I legislation does not require the recipient government to deposit the sales proceeds in a special account established for that purpose. It does require that the government advise the USG as to the levels of allocations to specific uses up to the local currency equivalent of CCC disbursals. However, a majority of Title I agreements now require recipient governments to establish special accounts and may require co-authorizaton of sub-allocations to specific uses. Such provisions were seen by some missions as necessary to assure that all proceeds were realized by the government and used for developmental purposes.

On the other hand Title III and Section 206 agreements do require full accounting of sales proceeds. A sufficient audit track must be established in order that the mission comptroller is able to certify that the proceeds have been used in accordance with the Agreement. The outstanding credit is reduced by the amount so certified (currency use offset).

Two of the three active Title III agreements (Bolivia and Haiti) required the recipient government to establish special governmental units charged with the programming and financial management of the sales proceeds. In both cases sales proceeds are allocated to finance these units. In the third, (Bangladesh) the GOB attributes sales proceeds to specific projects contained in the national Five-Year Plan.

The detailed documentation required for the initiation and management of Title III and Title II-206 agreements is believed to have discouraged some USAID missions from proposing such agreements on behalf of otherwise eligible countries and simplified requirements are under review.

Programming of Title III and Section 206 could be simplified if more countries were to be assisted to prepare strategic sector plans which would faciitate allocation of sales proceeds to improve the quality and coverage of selected on-going public sector programs or projects.

As substantial amounts of funds are involved and disbursals must be made against specific vouchers or similar documents the financial management burden of Title III programs can be enormous for both recipient countries and the country team. Most PL 480 recipient governments require assistance in financial management of sales proceeds and public services more generally.

I. Disincentive Analysis (The Bellmon Determination)

1. Storage/Stock Management:

Section 401 (b) (The Bellmon Admendment) contains the following prohibition and analysis requirement designed to prevent excess programming of food aid:

> "No agricultural commodity may be financed or otherwise made available under the authority of this Act except upon a determination by the Secretary of Agriculture that (a) adequate storage facilities are available in the recipient country at the time of exportation of the commodity to prevent the spoilage or waste of the commodity, and (b) the distribution of the commodity in the recipient country will not result in a substantial disincentive to or interference with domestic production or marketing in that country."

To comply with this amendment, USDA/FAS certifies to Congress that precautions have been taken to comply with this Congressional mandate. A separate certification is prepared for each agreement and amendment regardless of its size. The certification statement drawn from program proposals and other data submitted by the field missions, describes port, transportation and processing facilities and other arrangements made to assure that the items will be appropriately used and not wasted.

2. Production and Marketing:

The disincentive certification is commonly based on the tonnage of the items provided in relation to recipient country production of these and similar foods or commodities. Critics of food and agricultural commodity assistance often contend that the free distribution of Title II food and the cash sales of Title I commodities will depress the sales price received by farmers, processors and food sellers thereby reducing production and marketing incentives. It is also argued that the continuing availability of grant or concessional assistance could enable a recipient to continue, without reform, public policies which could be delaying the achievement of "food self reliance."

Offsetting these (potential) disincentives are the numerous positive benefits of such food and commodities assistance. Title II food targeted for distribution to the needy may be largely net addition to consumption which will enable recipients to regain (or achieve) a productive role in society (human resource development).

Title I/III sales proceeds which provide the recipient government with additional revenues can be used to improve services to small farms and rural residents with the goal of equitable, broad-based production expansion at reduced cost per unit of output. Consequently, a negative Bellman determination could normally be based on a descriptive analysis of the pattern of actions (policy modifications, budgeting allocations, research in progress, etc.) which demonstrate a national commitment to agricultural sector development and/or which improve national food security. The latter could include (where appropriate) export diversification and other steps which improve a country's future ability to meet commodity import needs through commercial channels.

A further criterion would be a pattern of well-focused self-help measures, linked to the recipient country's food sector development strategy which, if carried out, will improve the quality and coverage of services to limited resource family farms and rural residents and result in an expansion of agricultural sector production and productivity on a sustainable basis.

A third criterion would be that all commodities monetized should be marketed at full economic cost (which includes storage, distribution, packaging and processing) except under exceptional circumstances.

A fourth criterion would be that the uses of sales proceeds be those which will create future income (and production) streams which will both enable the country to meet future interest and capital repayments and move toward food self-sufficiency.

It is a supportable generalization that the volume of grant and concessional credit food aid to most countries is small in relation to total consumption. It is also true that when food aid allocations are targeted to meet an identified need and care is taken in the scheduling of shipments, disincentives to production or marketing can be minimized. Further, after needed food commodity supplies have been met, non-food items such as cotton, tallow or feed grains may be programmed if appropriate.

J. Consumption and Nutritional Status

In the allocation of PL 480 resources between countries, a primary consideration is the average per capita food (calorie) energy availability in each country. As an initial point of departure, FAO guidelines as to minimum average caloric (energy) needs are considered-which take into consideration age/sex ratios and typical energy expenditure levels. Energy rich foods, generally basic surplus food grains which are inexpensive, easy to transport and distribute are most often programmed.

Over the past three decades since PL 480 was enacted, many former recipient nations have "graduated" from the program in that they are now able to buy the agricultural commodities they need through commercial channels. In the past decade several additional countries, which at one time received large grant or concessional PL 480 food programs, have achieved the status of food grain self-sufficiency and occasionally export either wheat or rice.

However, PL 480 and international agreements prohibits grant and or concessional sales of a commodity to any country which exports that specific commodity, products made from that commodity or similar commodities.

It is an unfortunate fact that many countries that are self-sufficient in the production of basic food grains have pockets of poverty and very large numbers of low-income malnourished individuals. In some situations grants of Title II complete foods or food supplements are continued.

Title II grants may yet be approved provided they are targeted to "nutritionally at risk groups such as infants, post-weaning children, pregnant and lactating women and, where appropriate, school and institutional feeding programs. Commodities or foods programmed include protein rich corn/soy milks (CSM) beans and pulses and certain energy rich foods such as vegetable oils. In-country blending of nutritional supplements with locally available grains may be desirable (See Section K).

An administratively simple and low-cost method of estimating the caloric adequacy of diets and the nutritional status of most categories within the population is through consumption surveys. Once the basic data is available, programs to assist at-risk groups through various forms of supplemental feeding can be designed and targeted to those needing such assistance.

As countries achieve "self-sufficiency" in a given commodity, Title I/III programming typically has been redirected to other commodities in demand in commercial market channels such as vegetable oils, cotton, soybeans, feed grains and tallow. Wood products are under consideration for Title I/III programming. The sales proceeds must still be allocated by the recipient government to programs which improve agricultural sector productivity and attack the basic causes of rural poverty.

K. Food Technology

For use here, food technology is defined as the processing, fortification, packaging and marketing of foods. The food or nutritional supplements may be used in programs designed to expand both energy-enhancing and diet-enhancing consumption. An objective should be to encourage the private sector in each country to produce nutritionally balanced foods for use in public food distribution to the needy and for possible commercial sales.

Assistance in identifying the most cost-effective product components and processing, packaging and distributing these foods is needed in many countries.

Nutrition education targeted to the malnourished designed to encourge them to consume food supplements or to feed them in proper amounts to their children may be needed.

L. Food-for-Work

A feature of many PVO and World Food Program (WFP) food assistance projects is the use of food as a wage good. Food-for-work is most applicable where there is seasonal unemployment among small farm-owner families and landless laborers during the dry seasons. It has been used effectively where the activities

involve a significant degree of community self-help to improve rural infrastructure and land resources and where needed resources, such as engineering plans, supplies, equipment and organizational skills are provided as part of the PVO or government program. As food aid is to be targeted on a priority basis to the most needy and to be provided in a context which improves food security, food-for-work is a valuable part of many national food assistance programs.5/

Under some Title II projects, the agreement with the sponsoring agency provides for the monetization (sale) of a fraction of the commodities provided on the condition that the proceeds be used to finance transportation or the project support costs. In a few instances, recipient countries have agreed to expend Title I/III or Title II-206 proceeds for these purposes. Where the self-help activity clearly contributes to food security, such integration of Title I/III and Title II programs could be encouraged.

M. Training

Training opportunities are of two broad types: (a) training of public and private voluntary organization staff who are responsible for managing food and sales proceeds, and (b) training of the recipients of the food and the direct beneficiaries of the self-help measures.

The on-going management and enhancement of food aid programs requires individuals with a wide range of technical, planning, accounting and management skills. It is recommended that an inventory of training needs be compiled, to enable developing countries' private and public organizations more effectively to use food aid in conjunction with national agricultural sector development project/program implementation.

A basic objective of the food-aid management is that the recipients not become dependent on the program. Wherever practical, the distribution of the food is accompanied by educational programs on nutrition and self-help which enable the individuals (and the community) to assume the responsibility for their own food supplies. Training materials targeted to each category of beneficiary, to help them to balance diets and to find productive employment, are needed.

N. Research and Technology Development

The following are illustrative areas of research and research administration which would be expected to enhance the nutritional, developmental and market development impact of PL 480 programs.

1. Program Enhancement

(a) Market development. "Packaging" the commodities in a manner most likely to lead to additional commercial sales of the same or similar commodities and products.

5/ Under an agreement financed jointly by AID and USDA/FS, the Forest Service is providing technical guidance to food-for-work projects which include reforestation, agro-forestry and social forestry.

(b) Cost reduction. Adjustments in program management related to the shipment and storage of commodities and foods which would reduce the ocean freight and delivery to the point-of-utilization.

2. Food and Nutrition

(a) Determination of nutritional status of target groups and cost-effective ways to supplement diets.

(b) milling and blending of commodities and blended foods to improve their marketability and nutritional content in a cost-effective manner.

3. Applied Agricultural Research

(a) Management of research authorized under Section 104 of PL 480 using surplus local currency receipts.

(b) Planning, management and dissemination of applied agricultural research financed with sale proceeds by recipient country agencies.

(c) Establishment and operation of endowment accounts and research/extension institutes financed by sales proceeds or U.S.-owned foreign currencies.

As the population of developing countries continues to grown at historically unprecedented rates, the countries typically must double food, fiber and fuel production every 25-30 years simply to maintain consumption levels. Clearly, support for agricultural research and extension should be a priority use of sales proceeds by all PL 480 recipient countries.

O. Section 108 Loan Funds and Private Enterprise Development

PL 480 was amended under the Food Security Act of 1985 (The Farm Bill) to reauthorize sales for local currencies under Title I. PL 480 Title I concessional sales agreements may now contain provisions that the recipient government may reimburse the USG in whole or in part in the local currency. The agreement stipulates that the USG will in turn deposit the sales proceeds in interest-bearing accounts in Intermediate Financial Institutions (IFI). The IFI in turn relend the monies to private-sector borrowers for agriculturally-related private enterprise.

The USG policy underlying this change was that developing countries should rely more completely on the private sector and less on direct public sector production and marketing of agricultural inputs and agricultural products. Up-to-5 percent of the proceeds may be used for technical assistance. The experience with USAID assisted credit programs suggests several categories of technical assistance may be needed to complement the Section 108 credit programs. These include:

(a) Assistance to mutually owned IFI incorporated by borrowers or cooperative groups;

(b) Assistance to expand the number and services of locally-owned investment advisory services;

(c) Assistance to firms established to conduct market surveys;

(d) Assistance to investor services identifying joint venture agribusiness investors; and

(e) Public sector extension services aiding farmers to prepare farm management plans and loan applications.

Table 2

PL 480 Title I Country Allocation, FY 1985 - FY 1988
($ millions)

Country	1985	1986	1987	1988
Bangladesh	94.5	82.0	67.0	60.0
Bolivia	20.0	20.0	20.0	20.0
Costa Rica	21.4	20.0	16.0	15.0
Dominican Republic	40.5	30.0	30.0	20.0
Ecuador	15.0	5.0	-	-
Egypt	225.0	213.0	185.0	180.0
El Salvador	49.0	44.0	30.4	35.0
Ghana	5.9	6.0	8.0	6.0
Guatemala	19.7	19.0	18.9	18.0
Guinea	6.0	6.0	8.0	3.0
Guyana	-	3.0	6.0	4.0
Haiti	15.0	15.0	10.0	18.0
Honduras	15.0	15.0	12.0	12.0
Indonesia	40.0	30.0	37.4	10.0
Jamaica	40.0	35.0	37.8	30.0
Kenya	10.0	10.0	8.0	5.0
Liberia	6.0	11.0	10.0	10.0
Madagascar	11.0	8.0	8.0	5.0
Maldives	1.5	0.7	0.5	0.0
Mauritius	-	-	-	-
Morocco	55.0	40.0	50.0	40.0
Mozambique	17.0	11.4	-	-
Pakistan	59.0	50.0	50.0	80.0
Peru	25.0	20.0	20.0	10.0
Philippines	40.0	35.0	-	0.0
Senegal	-	9.5	10.0	5.0
Sierra Leone	4.0	8.0	8.0	4.0
Somalia	20.0	16.5	10.0	5.0
Sri Lanka	26.0	33.0	24.0	16.0
Sudan	64.0	45.0	55.0	40.0
Tunisia	5.0	15.0	25.0	5.0
Yemen	12.0	10.0	15.0	5.0
Zaire	20.0	20.0	16.0	13.0
Zambia	10.0	10.0	0.4	10.0
Zimbabwe	8.0	-	-	0.0
Gross Commodity Cost	1001.0	896.6	796.4	684.0
Ocean Freight	119.8	110.7	112.8	97.7
Unallocated Reserve	-	-	0.0	85.6
Initial Payment	-21.2	-28.5	-16.8	-15.3
Total Program	1099.6	978.8	928.9	852.0
Millions of Metric Ton	5.6	5.9	5.2	5.4

Source: USDA/FAS. Data for FY 1988 are estimates.

Table 3

PL 480 Title I Country Allocation, FY 1987 - FY 1988
($ millions)

Title II	1987	1988
Country Allocation	245.5	210.1
WFP Pledge	66.3	70.0
Farmer-to-Farm	0.5	0.5
Stock Adjustment	(49.2)	(19.7)
Subminimum Adjustment	0.0	0.0
Ocean Freight	180.6	196.3
Reserve	108.9	77.9
Total	552.6	535.1
Latin America		
Bolivia	10.4	8.5
Dominican Republic	1.6	1.3
Ecuador	0.5	0.4
El Salvador	1.3	5.9
Guatemala	3.6	5.9
Haiti	6.0	7.8
Honduras	2.8	2.7
Jamaica	0.5	0.0
Peru	8.4	8.2
Subtotal	35.1	40.7
Africa		
Benin	1.0	1.3
Burkina	4.9	5.5
Cape Verde	2.2	1.4
Chad	0.7	0.5
Ethiopia	2.8	3.4
Gambia	2.4	2.0
Ghana	5.6	5.9
Guinea	0.0	0.0
Guinea-Bissau	0.7	0.8
Kenya	1.3	2.5
Lesotho	3.0	2.8
Liberia	0.0	0.0
Madagascar	1.3	1.4
Mali	0.2	2.5
Mauritnia	3.1	4.7
Mozambique	0.0	1.6
Rwanda	2.8	3.4
Senegal	2.7	3.0
Seychelles	0.1	0.1
Sierra Leone	0.9	0.7
Somalia	8.9	0.0
Sudan	0.3	2.5
Tanzania	5.7	1.2
T[illegible]	1.8	2.1
[illegible]a	0.0	0.0
Zaire	6.4	0.1
Subtotal	58.8	49.4

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Table 3 (Continued)

Title II Country Allocations

Country	1987	1988
Bangladesh	13.5	13.9
Egypt	5.3	4.0
India	80.2	84.0
Indonesia	4.5	3.5
Morocco	8.6	3.5
Philippines	38.5	10.6
Sri Lanka	1.0	0.5
Tunisia	0.0	0.0
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Subtotal	151.6	120.0

SOURCE: USDA/FAS. Data for FY 1988 are estimates.

Table 4

PL 480 Title I: Value, Tonnage and Average Price of Commodities Exported
FY 1987 and FY 1988 (Estimate)

	FY 1987		FY 1988		FY 1987	FY 1988
	$Million	Thousand Metric Tons	$Million	Thousand Metric Tons	(Price Per Ton ($)	
Wheat/Wheat Flour	537	4615	507.5	4209	116.36	120.57
Rice	75.7	421	54.2	293	179.81	184.98
Feed Grains	29.4	383	34.8	411	76.76	84.67
Vegetable Oil	151.4	388	147.8	401	390.21	368.58
Tallow	15.1	47	19.3	55	321.28	350.91
Cotton	23.6	14	10.1	6	1685.71	1683.33
Total Commodities	832.2	5868	773.7	5375		
Ocean Freight	112.5		93.8			
Initial Payments	-16.8		-15.5			
Farmer-to-Farmer	1		-			
Total Program	928.9		852			

SOURCE: USDA/FAS. FY 1988 data are estimates.