

# **Market Assistance Program (MAP)**

## **Field Manual**

**for USAID P.L. 480 Title II Programs**

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## **SECTION 1: INTRODUCTION**

### **1.1. PURPOSE**

The Market Assistance Program Field Manual outlines policies, operational procedures, and a conceptual framework to guide Title II Cooperating Sponsors (CSs) including non-governmental organizations (NGOs) and international organizations (IOs), as well as USAID field missions, in the effective design, implementation, management and evaluation of P.L. 480 Title II-supported Market Assistance Programs (MAPs).

### **1.2. AUTHORITY**

This manual is intended as a guidance tool, and does not represent official USAID Food for Peace (FFP) policy or regulation. Market Assistance Programs, like all Title II food aid programs, must be implemented in accordance with USAID Regulation 11 (22 CFR Part 211), and in the event of any inconsistencies, Regulation 11 takes priority. This manual is a living document that can be revised as necessary, based on the additional experience and lessons learned from new MAPs.

## **SECTION 2: BACKGROUND AND CONCEPTUAL FRAMEWORK**

### **2.1. BACKGROUND**

In response to a dramatic failure in the staple food markets of Zimbabwe, USAID and a consortium of CSs known as C-SAFE jointly developed the Market Assistance Program (MAP) in 2003. This program has targeted food assistance to food insecure households in urban areas through “self-targeted” sales in low-income neighborhoods.

While the term “market assistance program” may be new, the idea of providing food aid through targeted sales is not new, neither in theory nor practice.<sup>1</sup> Nevertheless, the amount of experience in implementing MAPs is limited, and there is considerable risk of inappropriate program design or ineffective implementation. Of particular concern is the need to ensure that MAPs effectively target the most food insecure households, so as to avoid misallocation of scarce food aid resources. Therefore, in order to encourage best practices in the design and implementation of current and future MAPs, FFP has developed this manual, in consultation with Title II CSs.

### **2.2. WHAT IS A MARKET ASSISTANCE PROGRAM?**

A MAP is defined here as *a program that provides food aid to food insecure households through targeted market sales*. The primary objective of a MAP is *to increase access of*

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<sup>1</sup> Fred Cuny’s book, *Famine, Conflict and Response: A Basic Guide*, provides a good discussion and several examples of such programs.

*food insecure households to affordable food supplies.* Secondary benefits could include: the promotion of market development; and, the *potential* generation of funds (through monetization) to be applied to other humanitarian/development activities.

A MAP is appropriate when vulnerable populations with some purchasing power are unable to access adequate food due to distorted or severely undersupplied markets that result in food being unavailable or prohibitively expensive. Such situations may result from one or more of the following causes:

- Geographic isolation of markets;
- Government policies that impede trade;
- Breakdown of market infrastructure;
- Lack/loss of trader capital;
- Disruptions in normal supply markets; and/or
- Insecurity resulting from armed conflicts.

### **2.3. HOW DO MAPS DIFFER FROM MONETIZATION PROGRAMS?**

It is important to distinguish between MAPs and “traditional” monetization programs. Although both MAPs and monetization programs involve the sale of food aid commodities to meet food security objectives, they differ greatly in their approach, objectives and modes of implementation.

MAPs are designed to *directly increase food consumption* of food insecure populations by specifically targeting food sales to vulnerable households and ensuring widespread affordability. While traditional monetization programs can contribute to increased food consumption by increasing the availability of food supplies, their mode of implementation is focused more towards raising revenues to fund activities of CSs and/or other humanitarian agencies. While a MAP may also yield proceeds that could be used for funding CS activities, this is not its primary objective. In most monetization programs, sales are made to the highest bidders, with little effort made to target sales to the poorest consumers. In essence, MAPs are distribution programs aimed at feeding vulnerable populations with *no* fundraising motivation, whereas monetization programs target the highest-bidder customers *with* fundraising as the objective – not consumption of the commodity by the vulnerable.

An additional difference is that, unlike the case of monetization programs, formal transfer of a title from the CS to buyers is not required for a MAP, and the CS implementing a MAP may impose sales conditions upon its buyers, such as fixed retail prices, if necessary, to achieve program objectives.

### **2.4. WHY MAPS INSTEAD OF TRADITIONAL DISTRIBUTIONS?**

In situations where people have some purchasing power, but are unable to meet their food needs due to increasing food prices or lack of market availability, MAPs may be more appropriate than traditional food aid distributions in which food is given freely or in

exchange for labor or other input (attendance, etc.). If implemented well with effective self-targeting methods employed, MAPs are potentially a more cost-effective way to reach beneficiaries, both reducing the costs of administering distributions and allowing the possibility for sales proceeds to offset some of the program costs.

Hypothetical examples of situations that may be suited to MAPs include:

- Urban areas where food access has been impeded by supply failures, but where implementation of large-scale targeted food distributions (free food, Food for Work (FFW), etc.), as carried out in rural areas, are unlikely to be feasible, due to the inevitable difficulties of targeting urban households.<sup>2</sup>
- Rural areas where many households have some cash income but are unable to translate that into food access due to private traders facing impediments including conflict or infrastructural breakdown.
- Situations where food markets can be strengthened through the MAP approach, by obviating the need to set up parallel food distribution channels which may displace normal commercial channels.

## **SECTION 3 IMPLEMENTATION GUIDELINES**

### **3.1. WHERE SHOULD MAPS BE IMPLEMENTED?**

A MAP could be implemented in countries, or areas within countries, that meet the following criteria:

- Serious market failures are causing or exacerbating food insecurity by making food either unavailable or prohibitively expensive. The market failures could result from a number of possible factors such as policies that impede trade, infrastructural constraints, geographic isolation, or lack of trader capital.
- The targeted food insecure population has sufficient purchasing power to purchase their food needs at MAP commodity prices, without excessively depleting their assets or forfeiting expenditures on other critical needs. In contexts where many households have very little or no purchasing power, traditional food distributions (free food, FFW, etc.) should remain first priority, or both could be implemented simultaneously.
- Normal commercial incentives for food production and marketing will not be undermined by a MAP program, as determined per Bellmon Amendment requirements.

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<sup>2</sup> Traditional large-scale food aid distributions are generally more difficult to carry out in urban areas, as the process of developing transparent and well-targeted beneficiary lists relies greatly on the kind of close community networks that are characteristic of rural villages. Rural distributions are also relatively spread out and modest in size, making them more manageable, and less susceptible to risks of insecurity.

To establish whether implementing a MAP is appropriate in a particular country, CSs need to conduct a market analysis of the food sector. On the supply side, these analyses should focus on the aspects of market performance that impinge on food availability and affordability, including market competitiveness, efficiency, constraints, prices and volatility. On the demand side, analyses should focus on factors related to the purchasing power of food insecure households, including net income levels, asset and credit availability, employment opportunities, and household expenditure patterns. FFP's Program Policies and Proposal Guidelines provide further information on market analyses for Title II programs<sup>3</sup>.

### **3.2. HOW SHOULD A MAP TARGET ITS BENEFICIARIES?**

Because a MAP utilizes the market as its distribution mechanism, targeting can be more difficult, though still possible. There is no one best approach to targeting beneficiaries as it will depend on the unique market and social context in which the program is operating. But a key principle is to try to make the program as *self-targeting* as possible, as opposed to relying on *administered targeting* methods, such as the use of beneficiary lists. Not only are administered targeting methods more onerous to implement, but self-targeting approaches can also allow markets to operate more naturally.

Whatever approach is used, it is essential to monitor MAP activities to ensure the targeting objective is being achieved. In a situation of great scarcity, even better-off households will be inclined to purchase less-preferred commodities and traders will have incentive to sell to those willing to pay the most for the product. *It is thus imperative to track whether the sales methods used are effectively targeting the poor, and if not, to modify them accordingly.*

Three types of self-targeting approaches to consider:

- *Geographic targeting* to retail outlets in low income areas;
- The use of *self-targeting commodities*; and
- The use of *sales modalities* that increase the likelihood of most of the food being purchased by the targeted populations.

**3.2.1. Geographic Targeting:** In many contexts in which a MAP may operate, there is some level of geographic separation among income groups. Most cities, for example, have a separation between low-income and high income areas. Where this is the case, the separation can be used to help target beneficiaries by utilizing retail outlets only in relatively poorer urban areas or villages. This would not necessarily prevent residents of wealthier areas from purchasing the MAP commodity from the low-income area retail outlets, but it should at least discourage it.

**3.2.2. Self-Targeting Commodities:** In many contexts, a distinction can also be made between types of commodities that are likely to be consumed in greater quantities by

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<sup>3</sup> Available online at [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/fy08\\_final\\_guidelines.html](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/fy08_final_guidelines.html)

relatively wealthier households, and those consumed in greater quantities by poorer households (normally because they are cheaper). The latter, in which consumption of the commodity decreases as incomes rise are generally referred to by economists as “inferior goods”, although a better term might be “less-preferred”.<sup>4</sup> By identifying such less-preferred commodities, a MAP may be able to exploit income-related differences in consumer preferences to make it more self-targeting. In some cases, self-targeting commodities may already exist in the market; in other cases they could be newly introduced by the MAP. Differences in the type of cereal, its color, or the quality of its milling, are examples of characteristics that can be utilized to identify a self-targeting commodity. In most of Southern Africa, for example, maize is preferred over sorghum, white maize is preferred over yellow maize, and refined meal is preferred over roller meal or hammer meal. The ability to purchase the more preferred products increases as incomes rise, whereas those with lesser means may opt to purchase the less preferred product, if they are cheaper.

**3.2.3. Sales Modalities:** The use of sales modalities that encourage relatively poorer households to purchase the commodity, and/or discourage wealthier households, should also be employed. *CSs are encouraged to be creative* in identifying self-targeting sales modalities. Four examples of possible approaches to consider are:

- **Packaging sizes.** Selling in small packaging sizes to encourage poorer households with little available cash to buy the product.
- **Publicity.** Putting messages on packaging and/or making community announcements advertising that the product is food aid in order to discourage wealthier households concerned with their “status”.
- **Purchase Limits.** Putting low limits on amounts that customers can purchase in a single visit to discourage wealthier households (or non-participant traders) less willing to make frequent trips to the shop. (This method should only be employed where shops are not too far away from the targeted consumers.)
- **Associations.** Selling commodities through organizations that are linked to the poor, such as smallholder associations or cooperatives.

**3.2.4. Administered Targeting<sup>5</sup>:** While self-targeting mechanisms are encouraged, administered targeting may be preferred in some contexts where it is the most feasible and appropriate way for the MAP to meet its targeting and food security objectives. This could include, as examples, the use of vouchers (or food stamps) and/or creation of lists of eligible buyers. Normally, however, these should be considered as last resort options.

### **3.3. HOW SHOULD PRICES BE DETERMINED?**

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<sup>4</sup> It must be noted that “inferior” does not mean that the good is less nutritionally beneficial than a “normal” good. In fact, the reverse is often the case. Taking the example of preferences in Southern Africa, the coarsely-ground flours are often considered inferior (by consumers) though they are healthier than more refined flours which contain less bran.

<sup>5</sup> In *administered targeting*, beneficiaries are explicitly identified by program implementors, communities or other institutions according to some specific criteria or conditions, as opposed to *self-targeting* in which beneficiaries select themselves.

To achieve MAP objectives, sales prices need to strike a balance between being:

- *low enough* to be affordable to the targeted populations; and
- *high enough* to avoid overly undermining market incentives, or creating an excess incentive for speculation, hoarding or diversion of the commodity to untargeted markets, including non-intended uses such as animal feed.

In trying to achieve this balance, a key implementation issue is deciding between using *market-determined prices versus controlled prices*. Here implementers must decide between the trade-off of encouraging the economic efficiency of a market-oriented approach versus having more control over ensuring that prices are appropriate for reaching the target beneficiaries. As a first step, it is essential that demand and supply-side analyses are carried out prior to determining pricing strategies or levels.

**3.3.1. Market-Determined Pricing:** This price-determination approach is appropriate if the program can achieve supply and demand conditions that allow the commodity to naturally and consistently attain a market price that is affordable for most of the target population, while discouraging purchases by untargeted groups or for unintended uses. This is more likely to be the case in situations in which (1) market conditions and food prices are relatively stable; and (2) alternative higher-priced foods preferred by wealthier households are consistently available on the market.

**3.3.2. Controlled Pricing:** In other cases, MAP objectives may be achieved more effectively through controlled prices determined by the program implementers. This was the case in the Zimbabwe MAP for example, where the constrained and volatile cereals market resulted in high food price inflation and inconsistent supplies of the primary staple cornmeal. This approach requires implementers to establish some type of *pricing model* that employs supply- and demand-related data to guide pricing decisions. Key data include household incomes (to assess affordability) and relative prices of alternative commodities (to assess risks of undermining existing markets and/or incentives for diverting MAP commodities to unintended uses).

**Case Example: Price Determination in the Zimbabwe MAP**

In Zimbabwe, retail prices of a MAP commodity (sorghum meal) have been determined by MAP implementers. To guide pricing decisions, the C-SAFE consortium agencies have developed pricing models that analyze supply- and demand-side conditions based on household and trader survey data. Prices have been frequently revised upwards to respond to the volatile and hyper-inflationary economic environment. Price rises were designed to reduce incentives of hoarding and parallel marketing, and were consistent with data showing rises in (nominal) household incomes. Such incentives for hoarding and re-marketing have been extremely high at some times due to rising prices (or unavailability) of cornmeal that led to widening price gaps between cornmeal, the preferred staple in Zimbabwe, and MAP sorghum meal.



In situations where a controlled pricing approach is used, the following principles should also be adhered to, in order to implement the program effectively:

- **Continuous Adequate Supplies.** To discourage hoarding or other adverse marketing behaviors detrimental to program objectives, it is important to avoid pipeline breaks and to ensure that supplies of MAP commodities are continuously adequate to satisfy demand.
- **Transparency of Prices/Conditions of Sale.** To prevent overpricing by retailers or reselling, consumers should be well-informed about MAP commodity prices and other conditions of sale (e.g., quantity limits, retailer eligibility). Different approaches for achieving price transparency include: printing prices on bags; posting signs in retail shops; and, announcing prices through the media or other community fora. While pricing bags may give MAP implementers greatest control, this may be difficult in situations where prices need to change frequently.
- **Frequent Market Analysis.** While market analyses are essential for any MAP, frequent analyses are particularly important when prices are controlled by MAP implementers. These analyses are needed to ensure that the set prices meet the twin objectives of being affordable, but not too low that they undermine markets or encourage diversion or hoarding.
- **Trader Profit Margins.** Not only must retail prices be determined, but also the prices at which the commodities are sold to retailers. Normally the easiest way is to set fixed prices that allow enough profit margins for retailers to have incentives to participate, but avoid excessive margins that would not only reduce the net proceeds of the program, but also encourage hoarding or diversions of the product. In some cases, a competitive auctioning approach could be considered instead of fixed supply prices.
- **Tranche selling.** Sales to retailers should be done in relatively small tranches (generally no more than one month's supply) as a way to enforce sales prices and conditions. Traders who violate the conditions for participation can then be dropped from the program. Assuming profit margins are attractive, the threat of being dropped should encourage compliance, and is more practical than other legal or enforcement mechanisms.

### 3.4. OTHER IMPLEMENTATION ISSUES

This section addresses other issues, including taxation and processing/packaging.

**3.4.1. Re-bagging/Processing of Commodities:** In many cases, it may be necessary to re-bag and/or process commodities in order to most effectively reach the targeted beneficiaries. The standard P.L. 480 50-kg or 25-kg bags of grain, pulses or milled products are often inappropriate for retail sales, particularly for low-income consumers living “hand-to-mouth”. Unprocessed grains may also need to be milled before consumption. This is most especially an issue in urban areas, where it may be difficult for the targeted consumers to process the commodity themselves.

Such re-bagging or processing is allowed, if approved in the Transfer Authorization (TA). However, the costs are normally not permitted to be paid from P.L. 480 (ITSH or 202(e) funds, but instead must be paid from sales proceeds. Re-bagging or processing services should be procured through competitive bidding procedures, except where infeasible or impractical. Non-competitive selection of millers or packagers should only be done with written approval from FFP. Re-bagged commodities must also display the USAID logo and standard language as per USAID provisions on branding and marking.

**3.4.2. Taxation:** A MAP is intended as a direct food aid distribution program, rather than as a means to raise proceeds. Additionally, it is not intended to compete with normal commercial food sales, but rather to target sales to households unable to purchase adequate food due to market failures. Therefore, taxation of NGO revenues from the sales is **not** permitted, except where approved in writing by FFP.

## **SECTION 4: PROPOSAL DEVELOPMENT AND REVIEW**

### **4.1. PROPOSAL SUBMISSION**

Proposals to implement MAP activities can be submitted as part of broader proposals (SYAPs or MYAPs) that include other types of food aid activities, or as independent programs. Additionally, they may be part of regional programs where appropriate. In any case, these proposals are subject to all the requirements of FFP's annual Program Policies and Proposal Guidance<sup>6</sup>. This includes the completion of a Bellmon Analysis.

### **4.2. PROPOSAL REVIEW CRITERIA**

CSs should consult FFP's Title II proposal guidance for information on the review and approval criteria. In addition, the following criteria will be used for evaluating MAP proposals, whether proposed as an independent program, or as a component in a broader multi-activity proposal:

**4.2.1. Presence of Market-Related Food Insecurity:** Proposals should demonstrate, through analysis of the food sector, that the target population faces serious problems of food insecurity that are caused or exacerbated by failures in food markets. These failures may result in food being either unavailable in adequate quantities or prohibitively expensive for the target population. Such market failures may result from a number of possible factors such as adverse trade policies, infrastructural constraints, geographic isolation, or lack of trader capital.

**4.2.2. Ability to Assist Targeted Beneficiaries:** Proposals should demonstrate that the MAP can effectively increase the food security of targeted households. This requires that four conditions be met: (1) that the targeted beneficiaries have access to income opportunities or other means of purchasing power to buy MAP commodities; (2) that the

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<sup>6</sup> Available online at [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/ffp/fy08\\_final\\_guidelines.html](http://www.usaid.gov/our_work/humanitarian_assistance/ffp/fy08_final_guidelines.html)

program can substantially increase access to affordable food supplies for these beneficiaries; (3) that the MAP is able, through either self-targeting or administrative means, to direct sales predominately to food insecure households; and, (4) that allocating resources to the MAP does not jeopardize the ability to provide food assistance to the more vulnerable beneficiaries that may be unable to purchase MAP commodities.

**4.2.3. Support of Market Development Objectives:** A key to long-term food security is the effective performance of food markets. As a MAP is intended to address consequences of food market failures, it is important that they not exacerbate the failures further. Proposals should demonstrate what steps will be taken to ensure that the program avoids and minimizes distortions to food markets that could then undermine their performance. In addition, proposals should, to the extent possible, identify ways that the program can promote positive food market development, including regional trade where appropriate.

### **4.3. MAP PROCEEDS USE PLANS AND PROPOSALS**

While generation of proceeds is not a main objective of a MAP, some amount of residual proceeds are likely, after accounting for operational costs that have been attributed to the MAP budget. These proceeds may be used for various purposes such as (but not limited to) funding inputs to support other humanitarian or development activities and covering additional operational costs.

MAP proposals should give a broad indication of the ways that net proceeds are intended to be used. However, given the uncertainties in estimating expected proceeds and to avoid getting preoccupied with revenue targets, it is not necessary to include a detailed proceeds use plan in the initial MAP proposal. A timeframe for the completion of a proceeds use plan, however, must be included in the final proposal and/or TA.