P. L. 480 TITLE II
DEVELOPMENT PROGRAM POLICIES
USAID/DCHA/OFFICE OF FOOD FOR PEACE
November 1, 2002

A. Legal and Regulatory Requirements:

1. Amendments to the Farm Security and Rural Investment Act of 2002

FFP policies and approval decisions take into account the following changes to the legislative mandates and amendments to the new Farm Bill:

(a) The Farm Security and Rural Investment Act of 2002 (Farm Bill) signed into law May 13, 2002, amended Section 202 of the Agricultural Trade Development and Assistance Act of 1954, to include the following language: "STREAMLINED PROGRAM MANAGEMENT – (1) IMPROVEMENTS – Not later than 1 year after the date of enactment of this subsection, the Administrator shall – (A) streamline program procedures and guidelines under this title for agreements with eligible organizations for programs in 1 or more countries; and (B) effective beginning with fiscal year 2004, to the maximum extent practicable, incorporate the changes into the procedures and guidelines for progra ms and guidelines for resource requests. (2) STREAMLINED PROCEDURES AND GUIDELINES – In carrying out paragraph (1) the Administrator shall make improvements in the Office of Food for Peace management systems that include- (A) expedition of and greater consistency in the program review and approval process under this title; (B) streamlining of information that needs to be monitored and reported on by eligible organizations; and (C) for approved programs, provision of greater flexibility for an eligible organization to make modifications in program activities."

(b) Section 202(e)(1) was amended by striking "not less than $10,000,000 and not more than $28,000,000," and inserting "not less than 5 percent nor more than 10 percent of the funds" or annual appropriation.

(c) There was no change to section 203(b) "Minimum Level of Local Sales" which requires that: "...the Administrator shall permit private voluntary organizations and cooperatives to sell, in recipient countries, or in countries in the same region, an amount of commodities equal to not less that 15 percent of the aggregate amounts of all commodities distributed under non-emergency programs under this title of each fiscal year, to generate foreign currency proceeds..."

(d) Section 203(e) was amended to read, " (1) IN GENERAL- In carrying out this Act, reasonable precautions shall be taken to ensure that sales or donations of agricultural commodities will not unduly disrupt world prices for agricultural commodities or normal patterns of commercial trade with foreign countries. (2) SALE PRICE – Sales of agricultural commodities described in paragraph (1) shall be made at a reasonable market price in the economy where the agricultural commodity is to be sold, as determined by the Secretary or the Administrator, as appropriate."

(e) The Farm Bill also amended section 204(a)(2) "Minimum Non-Emergency Assistance" also known as the sub-minimum, which now requires that "…the Administrator shall make agricultural commodities available for non-emergency food distribution through eligible organizations under section 202 in an amount that for each fiscal years 2002 – 2007 is not less than 1,875,000 metric tons." It should be noted that pursuant to section 204(a)(3) "The administrator may waive the requirements of paragraphs (1) and (2) [the "minimum" and the "subminimum"] for any fiscal year if the Administrator determines that such quantities of commodities cannot be used effectively to carry out this title or in order to meet an emergency. "

(f) There was als o no change to section 204(b)(1) "Use of Value-Added Commodities" which requires that: "...in making agricultural commodities available under this title, the Administrator shall ensure that not less than 75 percent of the quantity of such commodities required to be distributed during each fiscal year... be in the form of processed, fortified, or bagged commodities and that not less than 50 percent of the quantity of the bagged commodities that are whole grain commodities be bagged in the United States."

(g) Section 407(e)(1) was amended to include a provision for internal transport storage and handling (ITSH) costs for non-emergency programs in least developed countries (LDCs). Specifically, the law states that "In the case of agricultural commodities made available for non-emergency assistance under Title II for least developed countries that meet the poverty and other eligibility criteria established by the International Bank for Reconstruction and Development for financing under the International Development Association, the Administrator may pay the transportation costs incurred in moving the agricultural commodities from designated points of entry or ports of entry abroad to storage and distribution sites and associated storage and distribution costs."

2. The Mandates and Monetization

FFP management of the Title II non-emergency budget allows for responsible growth up to the "subminimum" of 1,875,000 metric tons of commodities in grain equivalent terms. As of September 2001, the program used approximately 1.530 million metric tons in grain equivalents. Low commodity prices have helped to achieve close to the subminimum, and had it not been for significant fall-out at the end of the year the program would have exceeded the subminimum. In terms of emergency programs, over the past several years, the United States has relied on Section 416(b) resources to help meet emergency requirements. However, these resources are no longer available. Thus, the non-availability of Section 416(b) and continuing high levels of emergency demand have put severe pressure on Title II resources.

In FY 2001, over 64% of the total value of Private Voluntary Organization (PVO) non-emergency Title II food aid was monetized. This level of monetization represents a significant change in the nature of food aid programs since the Food Aid and Food Security Policy Paper was adopted, permitting programs to better address the root causes of malnutrition. However, bulk commodities are often used in monetization because of their easier marketability, making it more difficult to meet the 75% value-added mandate. Recently, the Office of Management and Budget (OMB) has raised concerns that monetization is an inefficient means for funding food security activities. As a result, as part of the FY 2003 President's Budget review process, OMB recommended that monetization across the non-emergency portfolio be reduced by 50% to a level of 30% over time as activities are completed. While OMB has since clarified that 50% is simply a goal, USAID has provided a report to OMB based on an analysis of the development portfolio, with partner input, wherein USAID agrees to reduce monetization levels, where it makes sense to do so, without setting arbitrary targets. Thus, any programs that are 100% monetization will be carefully scrutinized in relation to other financing options and are less likely to be approved.

Further, section 202(f) of P.L. 480 states that "To ensure that agricultural commodities made available under this title are used effectively and in the areas of greatest need, organizations or cooperatives through which such commodities are distributed shall…"assess and take into account nutritional and other needs of beneficiary groups." This section of the legislation is the basis for the requirement to perform a national food security assessment to determine areas of greatest nutritional and other needs. FFP remains concerned with rising rates of child malnutrition documented in numerous Demographic Health Surveys, and therefore, expects Title II programs to demonstrate the plausible linkage between approved and on-going activities and improved household nutrition. Cooperating Sponsors (CS) are still encouraged to submit new DAPs which include a balanced approach to the country's most severe food security problems as they relate to access, availability and utilization, with emphasis on distribution components.

Following are further clarifications regarding the use of monetization in the Title II non-emergency portfolio for FY 2004 activities:

FFP believes the benchmark of 80% C&F (commodities and freight) or 100% FAS (free alongside ship) whichever is greater is now inconsistent with the statutory language noted above. Consequently, the Program Operations Division of FFP (FFP/POD) is revising the Monetization Field Manual language on cost recovery. New language requires that the CS attempt to set a sales price which 1) Represents the fair market value of the commodity in the country in which it is being sold; 2) Does not depress the price of locally produced commodities in accordance with the 1977 Bellmon Amendment; and 3) Does not undercut normal commercial practices. It should be noted that report language was also included with the 2002 Farm Bill legislation, which stated that other factors such as USG acquisition costs and U.S. and world market price of the commodities should also be taken into consideration.

As a result, in deciding whether to approve a proposed monetization program, USAID will consider USG acquisition costs, the U.S. and world market price of the commodities, and transportation costs; i.e., the C&F costs, after allowance has been made for local handling charges and other costs incurred by the CS in connection with the sale. USAID will also consider localized factors that may impact local market prices. In general the highest price possible should be sought to maximize proceeds from commodity sales. USAID will review and approve those monetization proposals which demonstrate the ability to generate sufficient resources to justify the use of monetization proceeds to fund the program.

In the case of approved DAPs, if there are fluctuations in the market where commodity prices drop below the anticipated sales price provided in the monetization plan, FFP will not approve additional commodities to make up the shortfall except in exceptional circumstances.

Thus for an initial DAP submission, the CS should provide information which: 1) Discusses the anticipated sales proceeds for the first fiscal year of the program; 2) Describe the methodology used to determine the reasonable market price in the economy where the commodity is sold; 3) Include a survey of market prices for comparable commodities in the local markets; and 4) Provide an analysis of cost recovery in terms of cost to the USG for commodities and freight. The Missions will then review and certify the validity of the information provided. FFP/W will then approve/disapprove the proposed program. At the time of call forwards, FFP/POD would then revalidate this information (in the Mission concurrence cable) and process the call forward accordingly.

Monetization activities will be undertaken only where they will not disrupt commercial markets for agricultural commodities. Program levels will be compared with USDA's established amount available for US programming under the "usual marketing requirements" (UMR) analysis. Sales designed and executed in consultation with the U.S. food export and processing trade are encouraged.

Monetization of value-added (i.e., processed, fortified, or bagged) commodities is preferred over monetization of bulk commodities. The FFP Director must approve monetization of commodities to be used for purposes other than human consumption. Where more than one CS in a country proposes monetization, FFP expects that the monetization sales will be carried out jointly.

Proposals advocating monetization of Title II commodities to generate sales proceeds for purchase of locally produced food or cash for work will only be supported in exceptional cases. For example, a program may be supported where inland transportation is either prohibitively priced or so unreliable that it is impossible to establish and maintain a commodity pipeline from the U.S. Monetization cost recovery will be taken into account in this decision.

Monetization sales will benefit activities in, and be undertaken in low-income food-deficit countries (LIFDCs); if not feasible to monetize in the country where proceeds will be utilized; monetization may be carried out in an adjacent LIFDC in the region. If neither is feasible, then monetization may take place in an adjacent least-developed country (LDC) in the region. (The most recent LIFDC country list is available via link from the FFP homepage, see reference in the Available Information List in Annex I of the DAP Guidelines). Note: Monetization in the recipient country is preferred over monetization in a "third" country where the food security activities will not be taking place and the food security benefits of monetization are less clear.

<u>3. 202(e) and Non-emergency ITSH</u>

a.) 202 (e)

As noted above, under Section 202(e) the new legislation allows for 5% to 10% of the appropriation to be used for administrative and support costs. With this new expanded authority, many of the prior policy restrictions/limitations have been eliminated. (Note: the draft DAP guidelines dated May 1, 2002 have been revised to delete the restrictions section.) An increase in dollar funding made available under Title II is extremely helpful in countering the effects of reduced monetization. However, there are trade offs in that the increase in 202(e) levels and the addition of ITSH authority makes meeting the new subminimum a challenge. The Title II appropriation has increased in prior years, leveled off in recent years, and will again increase in subsequent years. However, any increase in the appropriation will not necessarily lead to an increase in the number of non-emergency activities. In an attempt to manage this trade-off, following are parameters for programming these new resources. **Note:** 202(e) and ITSH modalities and funding levels for WFP are under review.

The new legislation sets forth parameters for 202(e) of "not less than 5 percent nor more than 10 percent…" Thus, FFP is establishing a budgeting level of 7 percent of allocated PVO non-emergency funds, to be utilized for costs under Section 202(e). For example, if the allocation for non-emergency programs was $425 million ($410 million for commodities $15 million 202(e)), an additional amount of approximately $30 million (or total of $45 million) would be set aside in the budget as Section 202(e) funding. This level (and the ITSH level below) was calculated based on the amount of commodities needed to meet the subminimum within FY 04 budget request levels, pursuant to instructions from Congress that during the budgeting process, FFP must demonstrate that planned program levels will meet the requirements set forth in section 204(a)(2) of P.L.480. Note: The Emergency Programs Divisions will establish the parameters for their portion of 202(e) funding.

Section 202(e) funding requests will be reviewed and approved in accordance with the standard criteria outlined in the DAP guidelines. In addition to the standard criteria, FFP will determine 202(e) levels in relation to the following priorities: 1) existing commitments to ongoing DAPs (i.e., requests submitted as part of a CSR4 package); 2) countries with non-convertible currencies or where there have been extensive problems with in-country monetization; 3) support of direct distribution activities; and 4) demonstrated ability to deliver measurable results. In addition, country programs that are legally prevented from conducting monetization activities generally receive special consideration. Again, in an effort to reduce monetization costs, all administrative and training costs formerly paid for out of the monetization budget should now be included in the 202(e) budget.

b.) ITSH

As discussed above, internal transport, storage and handling funding is now available for in-country costs directly associated with the movement, management, and monitoring of Title II commodities for approved non-emergency programming. In an effort to standardize and permit timely use of the new ITSH authority, the "Guidelines for Internal Transportation, Storage and Handling (ITSH) of P. L. 480 Title II Emergency Programs," will be applicable for programming for non-emergency ITSH. (Note: Where the guidelines specifically reference emergency or urgent and extraordinary relief requirements insert developmental requirements, replace emergency with development, etc.) It is important to note that, no indirect cost rates or NICRA (Negotiated Indirect Cost Rate Agreement) can be charged against ITSH funding. FFP will issue ITSH guidelines for non-emergency programs with the FY 05 policy letter.

Again, in an effort to meet the subminimum, FFP has established a budget level of approximately 5% or $25 million of ITSH for FY 04 non-emergency programming. ITSH funding requests will be reviewed and approved in accordance with the ITSH guidelines. Any reference to 202(e) in the ITSH guidelines is not applicable. FFP will determine ITSH levels in relation to costs associated with direct distribution activities in the priority regions outlined in the Food Aid Food Security Policy Paper and in relation to the following sector priorities: (1) General relief and HIV/AIDs activities; (2) Maternal Child Health and Nutrition Activities (MCH/N); (3) Agricultural Activities; and (4) FFE activities. No ITSH will be authorized for monetization commodities. Thus, all costs for ITSH should now be included in an ITSH funding source column rather than under 202(e) or monetization.

3. Streamlining

As a result of the new Farm Bill and the FFP Management Streamlining Team's efforts, the following changes in FFP policy will be implemented in FY 04.

(a) Approval of CSR4s and other administrative modifications to transfer authorizations has been delegated from the Office Director down to the Strategic Objective team leader. This delegation has significantly reduced the number of clearances required for CSR4 approval.

(b) DAP submissions will only be reviewed once in a fiscal year cycle and either approved or disapproved based on the merits of the proposal and availability of funds. Further, off-cycle DAP submissions will only be accepted in extreme circumstances. This reform should dramatically reduce the time and level of effort required by USAID and PVO staff for program approval.

(c) While USAID's standard policy for the period of performance for assistance instruments is five years per section 635 (h) of the Foreign Assistance Act of 1961, as amended, for new DAPs, FFP has agreed that transfer authorizations can be awarded for a base period of up to six years. This additional year should allow the CS enough of a timeline to procure commodities and set up baselines in the initial year. If additional time is required, then CS may request that the transfer authorization be modified to extend the estimated completion date per FFP's current policies.

4. Disaster Mitigation & Emergency Preparedness/Response with "Non-Emergency" (Development) Program Funding

Pursuant to Regulation 11, Section 211.5 (o), "After the date of program approval by USAID/W, but before distribution of the commodities, USAID or the Diplomatic Post (or the cooperating sponsor with prior approval of USAID or the Diplomatic Post) may transfer commodities between approved Title II programs to meet emergency disaster requirements or to improve efficiency of operation, such as to meet temporary shortages due to delays in ocean transportation or provide for rapid distribution of stocks in danger of deterioration. Transfers may also be made to disaster organizations for use in meeting exceptional circumstances. Commodity transfers may be made at no cost to the U.S. Government and with the concurrence of the cooperating sponsor and disaster relief organization concerned. A USAID or Diplomatic Post with funds available, however, may pay the costs of transfers to meet extraordinary relief requirements, and USAID/W shall be advised promptly of the details of the transfer. Commodities transferred between programs shall not be replaced by the U.S. Government unless USAID/W authorizes such replacement".

In most cases, FFP would expect that the UN or the U.S. Ambassador would make a disaster declaration. For the transfer of commodities between approved non-emergency (development) programs and emergency requirements, FFP clarifies that up to ten percent of in-country stocks may be diverted from a development program for emergency use with USAID Mission or Diplomatic Post approval. If additional tonnage, above the 10%, is sought for diversion from a development program for use in meeting an emergency, and/or the CS seeks that the commodities be replaced, FFP authorization is required. This authorization must be received prior to reallocation of any additional commodities and funding. The USAID Mission cannot authorize the transfer of monetized proceeds or Section 202(e) for emergency uses, except as the Director of FFP may otherwise approve. The use of any development program commodity stocks for emergency use should be reported under the development activity as general relief/humanitarian assistance.

The policy of requiring some direct distribution (through either WFP or the PVOs) in every country is in part so commodities are available for rapid emergency response. If the emergency activity is of significant scale, the CS should apply for a food aid emergency response, including ITSH funding, from the Emergency Programs Division of FFP. Where emergency preparedness is a part of a DAP, the CS may request contingency stocks in exceptional cases. These commodities should be quantified as general relief and included on the programming total (line 8) of the AER. This request should be accompanied by a disaster response plan that includes analysis, forecasting of the types and frequency of disasters, level of response likely to be required, tonnage and commodity types. Such contingencies will only be allowed where the CS has other direct distribution activities.

B. Agency Policies

1. Food Aid and Food Security Policy

Food insecurity, poverty and lack of social services leave a significant portion of the world's population hungry and malnourished. To alleviate these problems, USAID focuses its resources on long term sustainable development. Within a framework of law and USG policy and interests, USAID aims to invest in people, expand access and opportunity and promote favorable policies and institutional environments which attack the primary basic cause of food insecurity and hunger – poverty, especially in rural areas. The priority for Title II programs is a focus on improving household nutrition and health status, especially in children and mothers, and on increasing agricultural production and marketing.

Food assistance plays an important and special role in this effort. USAID's *1995 Food Aid and Food Security Policy* paper guides program development and resource allocation for all USAID administered food aid activities. USAID allocates resources and manages programs to increase the impact U.S. food aid has in reducing hunger. Priority is given to programs in those countries where food insecurity is greatest. Furthermore, Section 5.A., page 21 of the paper emphasizes the need to focus food assistance efforts in sub-Saharan Africa and South Asia, although not to the exclusion of other food insecure regions of the world.

The activities outlined in new DAPs should be in conformity with host government and multilateral food security assessments and strategies. Coordination with USAID Mission development priorities for the associated countries is highly desirable**.** However, no proposal will be disapproved solely because it is not. Proposals will be reviewed and considered eligible for approval so long as they do not violate the Bellmon Amendment or other statutory provisions, are consistent with the Food Aid Food Security policy paper, and address the host country's most serious problems in the areas of food access, availability, and utilization.

The focus on food access and availability is largely on agricultural production and marketing in rural areas, where the majority of poor live. Raising agricultural production for all households is critical, as is improving rural infrastructure to facilitate trade and lower and stabilize prices of agricultural commodities. For many in rural areas without access to sufficient land, raising incomes from both agricultural transformation and non-farm micro-enterprises is key to broad-based improvements in food security. The focus on food utilization includes such areas as maternal and child health, control of infectious diseases, nutrition education, and water and sanitation. Research indicates that the most important age group to reach is very young children from the age of 6 months through two years. Malnutrition in this age group has a lasting impact on a child's ability to mature and grow mentally and physically.

Flexibility within the statute and the policy paper allows FFP to consider other programs that focus on activity areas related to the availability, access and utilization of food. Specific policies related to the approval and implementation of DAPs in other technical sectors and program categories are described below:

(a) Food for Education

Per the Food Aid and Food Security Policy Paper, USAID believes that agricultural production and health and nutrition programs are the most effective direct means of addressing food insecurity. While education can impact favorably on food security, it's sustainable impact over a longer time period than other types of investment. Traditional Title II assisted school feeding programs implemented by PVOs have gradually been evolving into programs which are better able to demonstrate results in the areas of enrollment, attendance and graduation rates, particularly for girls. These are now referred to as food for education (FFE) programs. FFP's current policy is to approve education programs only where the food supported program contributes to a larger effort in improving education, including national education policy reform, curriculum development, and teacher training programs. Monetization, Section 202(e) and ITSH will be authorized for administrative support for direct distribution activities only. Complementary activities are required and must be funded by sources other than Title II.

While the new Farm Bill has authorized the McGovern-Dole International Food for Education and Child Nutrition Program (a.k.a. Global for Food for Education Initiative or GFEI)) as a separate, stand-alone global food for education program, it is not mandated. This means that appropriation levels will be defined each year. While $100 million of CCC funding has been authorized for FY 03 activities, Agency management of GFEI has not been determined by the Administration. Therefore, as GFEI takes shape, FFP plans to proceed cautiously with Title II FFE proposals. FFP will issue specific guidance when the Administration position is clarified. FFP will continue to honor existing FFE commitments, and new FFE programs (submitted as part of new or follow-on DAPs) will be reviewed in accordance with the guidance outlined above. It should also be noted that, discussions at the recent FFP Worldwide conference identified a number of innovative FFE opportunities (e.g. adult literacy), and FFP will take them into consideration when updating the FFE policy.

(b) Title II Supported HIV/AIDS Activities

USAID considers food security activities addressing HIV/AIDs one of its highest priorities, given the breadth and depth of the pandemic. Thus, FFP intends to continue the investment of not less than $10 million per year for children affected by HIV/AIDS. FFP firmly supports these activities in countries where HIV/AIDS has been identified as an impediment to food security.

FFP will support HIV/AIDS activities categorized as MCH or another sector where, a) a direct and measurable impact on food security in that sector can be achieved, b) the primary FFP input is the distribution of food, and c) integration with other CS, USAID, host country, or other donor supported HIV/AIDS activities can be achieved. While HIV/AIDS activities under general relief will still be allowed, FFP supports a more integrated approach. Under the LIFE Initiative, FFP developed guidelines on the use of food under the general relief category (http://www.usaid.gov/hum_response/ffp/). Where HIV/AIDS activities are to be proposed under this heading, the use of these guidelines is still recommended. Again, FFP will review proposals with HIV/AIDS components in other sectors, based on the factors above. Both monetization and Section 202(e) funding for HIV/AIDS activities, however, will be limited to administrative support.

(c) Humanitarian Assistance Programs

Traditional FFP categories for these programs include general relief, and other child and institutional direct feeding programs. Some HIV/AIDS distribution programs and disaster mitigation activities also fall into this category. FFP will program up to $30 million annually for humanitarian assistance programs; however, both monetization and 202(e) funding for these programs will be limited to administrative support.

2. Transition Programs (TAP)

Countries in, or transitioning out of, emergency food assistance are often critical targets for non-emergency food assistance programs. CSs should consult USAID Mission and FFP staff for direction when considering the development of proposals for short-term food assistance programs that are to be conducted in countries that are recovering from an emergency and in which the environment for non-emergency activities may be unsure or unstable. FFP, in consultation with USAID Missions, regional bureaus, and CSs will determine the timing and appropriateness of the transition to non-emergency activities. FFP's Development Program Division will be responsible for managing the consultation process and determining the date after which short (or long)-term proposals will be considered. As long as questions remain regarding the enabling environment and the possibility of a full-term development program, FFP will recommend a short-term (2-3 years) program of a transitional nature. At this point in time, proposals for TAPs should be submitted in accordance with the DAP guidelines. However, specific guidelines for proposals submitted for transition programs will be forthcoming in the next submission cycle.

3. Conflict Prevention & Mitigation

Since last year, USAID has created a Conflict Office within DCHA. Currently, a draft strategy is circulating internally. As more information becomes available, FFP will provide CSs with more definitive guidance on incorporating conflict prevention as a food security objective.

4. Women in Development

While not a specific highlight of the Food Aid and Food Security Policy paper, USAID believes that women and girls suffer the differential impact of intra-household food distribution, therefore typically suffer from higher rates of malnutrition. Programs utilizing Title II resources should seek to maximize the role of women and improve the equitable distribution of household resources, including food, to girls.

C. FFP Title II Resource Allocation Policies

1. FFP Title II Budget Estimates

FFP conducts its budget planning for the Title II programs by reviewing currently approved DAP life of activity (LOA) funding levels, anticipating new proposals, and comparing the requested levels to anticipated funding resources and commodity availability. During preparation of the President's annual budget request to Congress and USAID's Congressional Budget Justification (CBJ), the DAP LOA funding levels are essential components of FFP budget planning. For a given FY, country CBJ levels are established by FFP in the preceding year, in consultation with USAID Regional Bureaus and Missions. These are based upon: 1) the LOA funding levels approved in original DAP or subsequent DAP amendment; 2) the resource requirements approved for the preceding FY; 3) USAID Mission estimates; 4) new CS requests (new DAPs or DAP amendments); and 5) FFP analysis of the preceding sources of information in conjunction with the level of food security in the country. A modest unallocated reserve will be established in order to budget for commodity and transportation price fluctuations. CSs may advise FFP in the first quarter of the calendar year of funding request levels for planned new DAP proposals or amendments for the following FY.

Once the CBJ levels are determined, supporting detail regarding country dollar value, 202(e) and ITSH levels will be communicated to USAID Missions and CSs. CBJ levels form the basis for establishing the Title II non-emergency Operational Year Budget (OYB), which contains the control levels for all Title II programs. FFP will consider proposals above CBJ levels subject to the availability of funds.

2. Funding Decisions

Based on satisfactory performance, existing commitments to ongoing programs have the highest funding priority, subject to the availability of funds and commodities. DAP proposals, and DAP amendments that request additional resources, will be comprehensively and competitively reviewed based on the criteria described in the DAP Guidelines. Consistent with the Congressional mandate for value-added commodities, FFP will give a higher ranking to new DAP proposals and DAP amendments that incorporate direct distribution activities which use value-added commodities.

3. Use of Non-fat Dry Milk

The reintroduction of non-fat dry milk (NFDM) into Title II programs, after a lapse of over 10 years, offers new possibilities for upgrading the diets of recipients and generating monetization proceeds, but it presents the possibility of new risks to public health. Technical specialists within USAID have weighed these risks and benefits and concur that NFDM be monetized under appropriate policy safe guards and monitoring procedures.

USAID has issued separate guidelines on NFDM that were announced in the Federal Register as a proposed amendment to USAID's Monetization Field Manual. Under those guidelines the CS will not sell this commodity to known manufacturers or marketers of breastmilk substitutes or replacement foods if the manufacturer has breastmilk substitute production facilities in the program country. The CS are also required to include in the sales contract a written commitment from the buyer that the product will not be sold as a breastmilk substitute, nor used to manufacture breastmilk substitutes.

The U.S. Department of Agriculture has over 540,000 metric tons of surplus non-fat dry milk (NFDM) available for Title II programming. This NFDM is available to Title II programs for $155 per metric ton plus freight, considerably below the world market price of roughly $1,900 per metric ton. The commodity is for the most part a superior grade low-temperature quality that is most appropriate for use as an ingredient in dairy products. CSs may monetize NFDM up to the metric tonnage corresponding to the estimated US dollar funding for the program in FY 2003 and 2004, with the understanding that CSs will adhere to and not exceed LOA monetization budgets, unless amended. The commodity is to be sold at fair market value in the country where monetized.

4. <u>Bio-Engineered Crops in Food Aid Commodities</u>

The transgenic soybean and corn varieties commercially produced in the United States have been reviewed under the U.S. regulatory process for determining the safety of new agricultural biotechnology products. This regulatory process is well coordinated among U.S. regulatory agencies and sets the U.S. regulatory standards for human, animal, and plant health, and environmental safety. Soybeans and corn varieties, including transgenic varieties, used for domestic consumption are the same as those used for export, including food aid. In the United States, biotechnology products are not differentiated or segregated either for domestic consumption or for export. As USDA provides further guidance, FFP will communicate it to the CS.

<u>5. Commodity and Freight Price Changes</u>

Where additional resources are required under an approved program, due solely to commodity and/or freight price fluctuations, FFP may allow an increase in program commodities of an amount representing up to 10% of the LOA value of all program commodities, subject to the availability of funds. This will be considered upon request from the CS, and if approved, may be authorized without a formal DAP Amendment. Conversely, if USG commodity prices fall and a program requires fewer resources than originally estimated, FFP may approve resources less than the original estimated cost to the US Government. In most cases, LOAs would be amended through a Transfer Authorization modification to accommodate these changes in the final year of a DAP. This policy does not extend to Section 202(e) and ITSH funding levels.

<u>6. Endowments</u>

The limited Title II experience with Trust Funds is not particularly encouraging. However, FFP is willing to consider funding endowments under the following conditions: 1) the trust fund or endowment is part of a strategy to move out of Title II programming in the country; 2) funding for the trust fund or endowment is from multiple sources with Title II representing no more than 50 percent of the total resource requirement; and 3) the trust fund or endowment is capitalized within a relatively short period of time e.g. DAP cycle, and does not require repeated Title II funding infusions over a long period of time.

<u>7. Economies of Scale</u>

FFP is seeking to achieve economies of scale, where possible. Effective procurement and delivery of commodities, activity implementation, and PVO and USAID management are all pivotal to the success of Title II programs worldwide. Economies of scale are given serious consideration in relation to projected activity impact and results. FFP considers CS programs with annual requirements of less than 2000 metric tons to be administratively burdensome and unlikely to be cost-effective. Priority may be given to program proposals that demonstrate a significant degree of program coordination and consolidation.

8. Follow-On DAPs and Carryover Resources

Consistent with prudent financial management, FFP limits final year commodities, local currency, ITSH and Section 202(e) funding to those amounts needed to complete the approved activities. If necessary, FFP may extend programs in the final year of the DAP. In the event that final year activities do not require the resources obligated and/or generated under the agreement, the Agreement Officer shall make final disposition decisions In exceptional circumstances, FFP may decide to designate resources for a follow-on or new DAP by the original or another CS. As such, these resources will be valued and designated in the approval documentation for the alternative program. CS budgets (monetization, 202(e) and ITSH) should show a zero balance at the end of the final fiscal year.

9. Closeout of Prior Years

In an effort to ensure timely and effective grants management, FFP would like to reiterate that in accordance with Regulation 11 and closeout guidance, CSs should submit a Closeout Plan six months prior to the completion date of a DAP. Resource issues noted in point 8, above, should be addressed when the Closeout Plan is submitted.