416(b) Model

Small Farm Recovery Program

The Dominican Republic

A Case Study

IMPLICATIONS FOR FUTURE GOVERNMENT-TO-GOVERNMENT AGREEMENTS

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December 2001

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A PROMISING MODEL FOR MONETIZED FOOD AID.

EXECUTIVE SUMMARY

This case study describes an alternative model for monetized food aid programs which maximizes coordination between USG Agencies, provides for monitoring the use of the monetized proceeds, and strengthens the ability of the USG to meet its international economic development and market development objectives. Under this model, the USG donates commodities to foreign governments for disaster relief or economic development programs, and retains a voice in the use of the monetized proceeds, strengthening the effective use of those resources to achieve U.S. Mission objectives.

The model described in this report also provides an alternative to managing food-aid-assistance through PVOs. In many cases, host-country governments have objectives, priorities and strategies that are not the same as those of international PVOs. PVOs often work in areas where they have the greatest expertise rather than in the areas of greatest need as defined by the host government. Under the model described in this paper, representatives of the host government and the U.S. government share the management of food aid resources. Representatives of the two governments jointly evaluate project proposals from host government agencies and locally based NGO□s and award monetized proceeds to the proposals which best meet program criteria.

In September, 1998 a class IV hurricane, "Georges□, battered the Dominican Republic. Over 200 persons died, 400,000 were left homeless and economic losses were more than $3 billion. The U.S. government responded to the disaster with $78 million in assistance for hurricane relief, rehabilitation, and reconstruction. Included in this package USDA donated 100,000 tons of wheat to the Government of the Dominican Republic (GODR) under Section 416(b) of the Agricultural Act of 1949. The wheat was sold by the GODR for $16 million and the proceeds were used to support a Hurricane Georges Small Farm Recovery program.

The program was implemented by the GODR Technical Secretariat of the Presidency (TSP) under the overall guidance of a Program Executive Council (the Council) composed of representatives of TSP, the GODR Ministry of Agriculture (MOA), the U.S. Department of Agriculture (USDA), and the U.S. Agency for International Development (USAID).

Over the three year period, 1999 through 2001, the program provided funding for 40 projects totaling $24 million, including $8 million in counterpart funding added to the $16 million in monetized proceeds from the donated wheat and $2 million in interest earnings. Of the 40 projects, 17 were awarded to public sector agencies, principally the MOA, and 23 projects were carried out by local non-governmental organizations (NGO□s) and farmer□s associations. 43% of funds went to the public sector and 57% to the NGO□s.

The 40 projects were successful in delivering program benefits to some 65,000 small and medium-size farm operations. Funds were used for rehabilitating coffee, cacao and sugar operations damaged by the high winds, flooding and mud slides. Funding also went to replanting forests, soil conservation measures and the replacement of livestock and poultry lost in the hurricane. Additional projects included construction or repair of rural access roads, reconstruction of the national plant and animal quarantine stations, the MOA bio-technology lab, 15 rice storage and processing facilities and 15 rural service centers.

The purpose of this case study is to describe and analyze this program to determine its strengths and weaknesses, the lessons that were learned during its implementation and the suitability of the model for replication in other situations.

A critical element in program success was the Program Executive Council which facilitated the identification, discussion and resolution of inter-governmental and inter-agency concerns, identified and resolved bottlenecks and provided continuous management oversight of program implementation. The Council's control of the use of program funds prevented potential misuse by GODR agencies. It also provided political cover for the Dominican government agencies, since allocations of resources were carried out by the "council" which reduced undue pressure from political supporters and other constituents. In addition, the Council provided a forum for reconciling what were often four different points of view on any given issue. By fully understanding each other's programs and capacities, Council members ensured that hurricane reconstruction activities were coordinated and complementary rather than competitive or duplicative.

The cooperation of USDA and USAID in implementing the Section 416(b) hurricane reconstruction program was a fundamental factor in its success. It was a clear confirmation of the adage that "it takes two to tango." In this instance, USDA was responsible for initiating and implementing the Section 416(b) program. However, due to limited staff, the Office of the Agricultural Attaché would have been hard pressed to do much more than request and justify the food and monetization program, and then turn the monetized proceeds over to the GODR for agricultural reconstruction activities.

USAID received $29 million in supplementary funds from Congress for hurricane reconstruction, which coupled with its own resources, PL 480 Title II and supplemental funds received by other USG agencies totaled about $78 million. USAID/DR was charged with the responsibility for coordinating the entire USG recovery and reconstruction effort in the Dominican Republic, which included agricultural recovery and rehabilitation of natural resources. The USDA, USFS, USGS and USAID played crucial and synergistic roles as they coordinated efforts with each other and a number of Dominican government and NGO institutions in the recovery of over 72,000 small farms and the stabilization of 8,000 hectares of soil in critical watersheds. From the onset of the USG hurricane recovery and reconstruction program it became evident to USAID and USDA that, if managed properly and coordinated with experienced development partners (public and private) in country, Section 416(b) food aid could be the centerpiece for agricultural recovery in the country. To help coordinate this effort, USAID provided $1.2 million for a Participating Agency Support Agreement (PASA) to fund a USDA employee to manage the Section 416(b) Small Farmer Recovery Fund and to provide technical assistance to help the TSP administer the program. This made it possible for USDA to maintain a responsible level of supervision over the use of the monetized food aid resources. In turn, USAID was able to influence the flow of those funds to important rural reconstruction objectives. The cooperation allowed both organizations to leverage additional resources and surpass all results targets in record time.

The Section 416(b) program manager allowed the Office of the Agricultural Attaché to be fully involved in the management of project activities that were funded with Section 416(b) resources, without diverting that office from its many other duties. The presence of the program manager also facilitated close collaboration with the GODR agencies to develop procedures for reviewing and approving proposals, making disbursements to program participants and providing follow-up project monitoring and auditing services.

The success of the program in channeling resources to small and mid-size farmers was due, in large part, to the involvement of grass roots NGOs and agricultural associations. Over the previous ten years, USAID provided funding to strengthen the Dominican NGO sector. This gave many NGOs the organizational and administrative capacity to implement hurricane reconstruction projects within such a short time frame. If USAID had not made this prior investment, it would have required a major institutional capacity building effort to bring the NGOs up to a level where they could have efficiently utilized the resources of the program.

Critical to the overall success of the hurricane reconstruction effort was the existence of an experienced, knowledgeable Dominican government counterpart agency to take on the responsibilities of planning, implementation and evaluation of the program. That agency, the External Resources Coordination Department of the TSP, was the unit which made the program operate effectively. The TSP Coordinator of External Resources presided over all sessions of the Council, supervised the technicians who worked with the U.S. shipping agent to sell the donated wheat, promoted and publicized the availability of funds for small farm reconstruction, worked with the other agencies in the preparation of guidelines for the elaboration of proposals, reviewed and recommended proposals for approval, managed disbursements to the individual projects, monitored progress, evaluated results and audited accounts. With frequent visits to project sites, TSP technicians were able to identify and help correct bottlenecks and to advise on mid-course corrections as needed. If this unit had not existed, a consulting company would have had to be contracted or a unit created to handle the many responsibilities associated with implementation of the program.

APPLYING THE MODEL IN OTHER SETTINGS.

There are many development and reconstruction situations that would warrant the application of a model that features close cooperation between USDA, USAID, the host governments and NGOs in other settings. Monetized food aid resources should be an important asset in the USG

War on Terrorism. USG will want to help our friends and allies as they support us in the struggle against terrorists around the world. Food aid is a logical resource in this endeavor. However, we will also want to try to assure that these resources are utilized properly and reach the target populations that they are intended to reach.

As pointed out in the USDA/FAS Report to Congress on Food Aid Monetization dated August 10, 2001:

> "The evaluation of USDA food aid monetization has been constrained due to limited personnel, high staff turnover, and recent, large food aid programs, including the Russia Food Aid Program in 1998/99 and the Global Food for Education Initiative. USDA has focused on developing and implementing projects as quickly as possible. The limited presence of overseas agricultural attaches has also impaired USDA□s ability to actively oversee some monetization projects."

One way to address the concern about improved monitoring of monetized food aid resources would be for USDA and USAID to join forces at the country level, and combine the local currency generated from monetized food aid with on-the-scene supervision by a USAID PASA-funded USDA employee. In this way, the two agencies could work closely together to reach the U.S. Government objectives articulated by the American Embassy Country Team in its annual Mission Program Plan.

The Bush administration has put increased emphasis on the MPP as the vehicle for defining U.S. government interests and objectives. The MPP is the Country Team guide for requesting and providing resources and coordinating the use of those resources to reach U.S. objectives. Thus, there are no longer simply USDA or USAID objectives but U.S. Government objectives that USDA and USAID should contribute to, in a coordinated manner.

The USDA/FAS Report to Congress on Food Aid Monetization concludes:

> "The monetization of food aid commodities has significant food security and development impacts. While there are challenges and constraints to an effective use of monetized proceeds, experience demonstrates that food aid monetization can be an effective resource for grassroots development in foreign countries.□

It is clear that monetized food aid can have significant impact on grass roots development as confirmed in the Hurricane Georges Small Farm Recovery Program and in the other activities described in the USDA/FAS Report to Congress.

The use of monetized food aid resources in coordinated programs with recipient governments and NGO□s could work equally well under all food aid programs. Recipient governments would have to agree to the procedure, but this could be negotiated at the time of the official government request.

The DR model has the advantage of involving USDA, USAID, the host government and participating NGO□s and community associations in a coordinated program aimed at meeting agreed upon U.S. and host government objectives. The approach is particularly well suited to agricultural and rural development where USDA interests (e.g. supporting democracy and market based agricultural development) and expertise complement those of USAID.

The advantages of the model for USDA are that it provides an in-country direct-hire staffer to manage monetized food aid without overburdening the already heavily engaged Agricultural Attaché. It helps to assure that the monetized food aid funds are used for the purposes intended and directly reach the local population groups targeted for assistance. It also allows USDA to participate more fully in reaching the development objectives in the Country Team MPP. Through the involvement in development projects, particularly those related to agriculture and rural development, the agricultural attaché has increased interaction with host government officials, providing greater opportunities for furthering overall USDA objectives such as market development, market based agricultural development and supporting democracy. Additionally, this model strengthens opportunities for the Agricultural Attaché and USAID Mission Director to sit at the table and jointly plan the use of the funds leading to greater coordination and an optimal use of the available resources to meet each agency□s goals and objectives.

The advantages of the model for USAID are that monetized food aid provides substantial amounts of local currency to complement USAID dollar funded technical assistance activities. The opportunity to have a role in managing the allocation of these local currency funds to development activities provides good justification for using USAID dollar funds for a PASA with USDA for an in-country direct-hire program manager. Through this collaboration, both USDA and USAID can more effectively direct the use of scarce resources to meet common USG objectives.

FINAL REPORT

I. INTRODUCTION

On September 22, 1998, a class IV hurricane, "Georges", battered the Dominican Republic (DR). The high winds and torrential rains left more than 200 dead and caused wide-spread economic loss. As part of its response to the disaster, the U.S. Government (USG) donated 100,000 metric tons of wheat to the Government of the Dominican Republic (GODR) under Section 416(b) of the Agricultural Act of 1949. The wheat was sold and the proceeds were used for rehabilitation and reconstruction of the agricultural sector which was devastated by Hurricane Georges. Over the three year period 1999 - 2001, the $18 million generated by the sale of this wheat and interest earned funded 40 projects benefiting some 65,000 small to mid-size farmers.

The Hurricane Georges Small Farm Recovery Program was implemented by the GODR Technical Secretariat of the Presidency (TSP) under the overall direction of a Program Executive Council (the Council) composed of representatives of the U.S. Department of Agriculture (USDA), the U.S. Agency for International Development (USAID), the Dominican Republic Ministry of Agriculture (MOA) and the TSP. This case study was undertaken to describe and analyze this unique experience in USDA/USAID/Host Government/NGO cooperation in management of monetized food aid resources, and to consider the suitability of this model for replication in other situations.

This case study is organized as follows: I. Introduction; II. A description of the Section 416 (b) hurricane rehabilitation and reconstruction program in the DR; III & IV. An assessment of the strengths and weaknesses of the program; V. A discussion of lessons learned; and, VI. Thoughts on replicating the model, including a discussion of potential advantages and disadvantages of USDA and USAID employing such a model in the future. A brief description of U.S. Government food aid monetization programs is attached as Annex A.

II. THE DOMINICAN REPUBLIC HURRICANE RECONSTRUCTION PROGRAM

A. BACKGROUND

l. General

The DR is a middle-income developing country dependent on agriculture, free trade zones, and services, especially tourism. The gross domestic product was $48 billion in 2000 and the economic growth rate over the past decade has been dramatic, about 7 percent annually. The DR has approximately 8.7 million people with a per capita income of about $2,110. Annual remittances from the United States total over $1.5 billion.

The United States is the DR□s top trade partner, accounting for 66 percent of the value of that country’s exports, mostly mining and agricultural products. The DR imports 25 percent of its goods and services from the United States, including foodstuffs, petroleum, cotton and fabrics, chemicals and pharmaceuticals making it the US□s largest market in the Caribbean.. Although the service sector has recently overtaken agriculture as the leading employer of Dominicans, agriculture remains very important in terms of export earnings. Agricultural products include sugarcane, coffee, cocoa, tobacco, cotton, rice, beans, potatoes, corn, bananas, livestock, dairy, and poultry.

2. Hurricane Georges

On September 22, 1998, Hurricane Georges entered the DR from the southeast with torrential rain and winds of up to 120 miles per hour. Total economic losses from the hurricane were estimated at $3.3 billion. Over 200 persons were killed, but the actual number of missing and dead will never be known because floodwater and mud slides carried away many unregistered migrant workers. The Pan American Health Organization reported that about 866,000 persons were displaced and 400,000 rendered homeless. The hurricane severely limited the availability of potable water and sanitation facilities, contributing to immediate and dramatic health problems, particularly in poor urban neighborhoods and in rural areas throughout the country.

Heavy winds and flooding damaged sugarcane plantations and livestock in the eastern lowlands. Wind also damaged the coffee and cocoa producing areas in the mountainous central region and flooding damaged the lowlands of the southwest where plantains, cassava, and other basic food crop are grown. Ninety percent of basic food crops were destroyed, leaving 600,000 Dominicans in need of food assistance.

3. The U.S. Government Response

The USG□s initial response to Hurricane Georges targeted the immediate needs of the victims through emergency relief activities such as providing helicopter transport, tents, plastic sheeting, water containers and purification systems, and pre-packaged food. Eventually, hurricane response activities shifted to address the longer term needs of rehabilitation and reconstruction. The goal of rehabilitation and reconstruction programs is to re-establish conditions that existed prior to a disaster, whereas the goal of “development” . programs is to help people to achieve a higher standards of living. By law, the specific goal of USG hurricane response programs was relief, rehabilitation and reconstruction, not development.

Prior to Hurricane Georges, the USAID annual program budget for development programs in the DR was approximately $13 million. These programs focused on four areas: health care, economic opportunity, expanding democracy, and environmentally sound energy production. About 90 percent of USAID program resources were being channeled through NGOs. Over the three years following the hurricane, USAID funded approximately $78 million for hurricane relief, rehabilitation and reconstruction purposes in a variety of areas.

The USAID mission in the DR received $29 million of supplemental emergency funds in August 1999 under the Central American and Caribbean Emergency Disaster Relief Fund. The $29 million was allocated as follows: $8 million for economic reactivation, $7.5 million for public health, $8.5 million for housing and shelter, and $5 million for environmental management and disaster mitigation. The economic reactivation component focused on increasing access to financial and related services to small farmers and micro-entrepreneurs and rehabilitating electrical systems. This component also focused on the rehabilitation of flood-damaged small-farmer land and plantings in labor-intensive and income-producing crops. Another objective was improving food marketing systems and correcting agricultural policies. Under the disaster mitigation component, USDA's Forest Service provided training to local NGOs and GODR agencies on soil conservation and fire prevention and fighting. The Forest Service also assisted the new GODR Ministry of Environment and Natural Resources with forestry management, pest management, urban forestry, and policy reform.

Apart from this funding, the USG hurricane response included $16 million of USDA assistance for agricultural sector reconstruction under the Section 416(b) program, $10.5 million of USAID emergency food aid under Title II of Public Law 480, $4 million of U.S. Department of Defense resources to replace schools and a bridge, $6 million of USAID resources from Emergency Child Survival Funds, and $5 million of USAID resources from the Office of Foreign Disaster Assistance. All of the other USG agencies (HUD, CDC, FEMA NOAA, USGS etc.) provided another $5.9 million.

B. THE SECTION 416 (B) PROGRAM

1. Introduction

The bilateral agreement between the USG and the GODR for the donation of agricultural commodities under Section 416(b) was signed in December, 1998. The hurricane had destroyed basic food crops and the DR required food assistance imports to meet domestic consumption requirements and to stabilize prices. The Section 416(b) agreement called for the provision of 100,000 MT of wheat and related ocean transportation services. The donated wheat was sold by the GODR and the monetized proceeds were used to support the Hurricane Georges Small Farm Recovery Program. The specific objectives of the program were:

1) Rehabilitation of productive agriculture and small-scale livestock production, including the most immediate needs of small scale farmers to undertake a new production cycle.

2) Reconstruction of productive agriculture and small-scale livestock production, including the medium term investments required by small scale farmers to sustain their productivity and help

ensure the successful harvest, post-harvest processing and sale of their crops, but for which they no longer have sufficient assets to finance.

3) Sanitary and phytosanitary protection and control, and market system analyses, including activities to protect small scale farmers from exotic species of pests and pathogens newly introduced by Georges and analyses required to guarantee adequate marketing channels and knowledge.

4) Soil and watershed stabilization, including measures to stabilize old and newly exposed soils such as planting and/or replacing perennials and trees on hillsides, along stream and river beds, and along roads and highways.

The USG-GODR Agreement provided for the program to be implemented by the Technical Secretariat of the Presidency (TSP) under the overall direction of a Program Executive Council (The Council) composed of representatives of the GODR Ministry of Agriculture (MOA) and Technical Secretariat of the Presidency (TSP), the office of the Agricultural Attaché in Santo Domingo (USDA) and the USAID coordinator of the American Embassy Hurricane Assistance Committee.

2. Monetization

The Section 416 (b) agreement with the GODR designates the Technical Secretariat of the Presidency (TSP) as the program administrator with responsibility for monetization and disbursement of funds. The TSP arranged for the services of a shipping agent in the United States, and invited all five wheat millers in the DR to offer competitive bids for the donated commodity. Bids were accepted for 100,000 metric tons of wheat, dark northern spring. The agreement specified that the wheat would be sold CIF Santo Domingo at U.S. ports, to be delivered in 20,000 metric ton lots every other month beginning in February 1999.

Only two of the five wheat mills submitted bids for the donated wheat. Although the prices were considered competitive at about $160 per metric ton, several explanations were offered for the lack of interest by the other millers. There was overcapacity in the wheat milling sector, due in part to the recent privatization of the mill owned by the GODR. Wheat millers were accustomed to 60 to 90 day credits from their regular suppliers, whereas they were required to pay cash for the Section 416 wheat. The shipping schedule, i.e., 20,000 metric tons every other month beginning in February 1999, was too limiting, and the minimum tonnage required for bids precluded the small millers from participating in the commodity tender.

The ownership of the commodity passed to the wheat millers upon loading of the vessel at the U.S. port. According to the Agreement, the buyer was required to open an irrevocable Letter of Credit payable to the GODR upon loading the wheat on the ship and verified by a designated agent. The Section 416(b) agreement indicates that the TSP would receive complete payment of the wheat upon loading of the vessel in the U.S. by presenting the Letter of Credit to the corresponding bank with documentation demonstrating wheat delivery.

The funds generated by the wheat sales were placed in an interest bearing account in the GODR Agricultural Development Bank. The interest rate was favorable averaging 12-14 percent and resulted in adding an additional $2 million to the total program amount. Unfortunately, liquidity problems with the Bank temporarily slowed project disbursements during program implementation.

3. Program Implementation

By law, the GODR requires all foreign assistance resources to be administered by the TSP. Thus responsibility for implementation of the program was assigned to the External Resources Coordination Department of the TSP. Fortunately for the Hurricane Reconstruction program, STP had considerable prior experience with the management of 416(b) resources under joint GODR/USAID programs in the late 1980's, with funding carrying over into the 1990's. The STP Coordinator of External Resources chaired the Council. and managed day-to-day implementation of the program. The STP staff responsible for implementing all aspects of the program consisted of the External Resources Coordinator, five technicians and three auditors. This capacity was augmented at times by contracted consultants to handle heavy workloads, principally during proposal review.

Both during and after the negotiations related to the signing of the Section 416(b) agreement, there were a number of discussions on how best to get program resources to small and medium farmers. The GODR Ministry of Agriculture wanted most, if not all, the program resources to be channeled to and through its agencies. The TSP, USAID, and USDA to a lesser extent, wanted more of the resources to be channeled to and through non-governmental organizations. The agreement provided for resources to go to both governmental and private sector organizations, with the understanding that several MOA projects would get priority consideration. The Council served as the continuing forum for negotiation and resolution of these conflicting views.

To make the program known to potential collaborating organizations, the TSP and MOA sponsored a series of eight highly promoted and publicized regional meetings in February and March of 1999 in areas affected by the hurricane. At these meetings, general guidance was provided to potential collaborators and they were encouraged to submit brief project profiles for consideration by the Council. Concurrently, formal guidelines for preparation of project proposals were being prepared by the TSP and USDA and were formally approved by the Council in April, 1999. A two-step process was established for presentation of proposals, i.e. a brief profile, which if approved was followed by a more detailed proposal.

As might be expected, the program was flooded with proposals. 151 proposals totaling nearly $87 million were received before the process was closed on August 31,1999, four months earlier than originally scheduled. The review process was carried out by staff from the TSP and MOA. Eight criteria were used in evaluating the proposals: 1) The location of the project (within the area affected by the hurricane); 2) The project beneficiaries (small and medium farmers as defined by MOA); 3) The number of families affected by the project; 4) The conformity of the proposal with program objectives and requirements; 5) The estimated time for completion of the project; 6) Budget (within program guidelines? counterpart provided? administrative costs reasonable?); 7) Administrative, technical and financial capacity (experience with similar activities? experienced technical and administrative personnel?); and 8) Organizational structure (organized adequately? appropriate implementation plan?). Of the 151 proposals received, 45 were approved for submission of full-scale proposals. Of these, 33 proposals were approved for funding by the Council during the initial round of approval. An additional seven projects were approved for funding (bringing the total to 40) as additional resources became available from interest generated and reprogramming of funds.

4. Program Monitoring, Evaluation, and Auditing

Once projects were approved for funding by the Council, the STP was responsible for following up to see that projects were proceeding as planned, that commodities and services were purchased as programmed and in accordance with approved procurement and contracting procedures. The monitoring staff was composed of a supervisor and four technicians who made periodic visits to project sites to review progress, technical soundness of project activities and administrative procedures. A supervisor and two auditors conducted on-site audits of all program activities.

5. Program Results

Of the 40 projects approved, 23 were awarded to NGO's and 17 were for the public sector, principally the MOA. About 56 percent of the funds went to NGOs and 43 percent to the public sector. It is estimated that the 40 projects benefited approximately 65,000 small to mid-size farm operations. The projects rehabilitated many of the country's cocoa, coffee, and sugar cane production areas. The projects also resulted in replanting forests, soil conservation measures, and the replacement of livestock and poultry. About 6,000 hectares of farmlands were rehabilitated, and project resources were used to replace over 70,000 chickens and 8,000 livestock, including cattle, pigs, and goats.

Infrastructure projects reconstructed 50 kilometers of access roads to assure transport of agricultural products to markets. Also, two national animal and plant quarantine facilities were rebuilt in connection with measures to reduce and control the spread of animal and plant diseases. In addition, projects funded repairs on 24 kilometers of irrigation canals, 15 rice processing and storage facilities, the MOA bio-technology lab, and 15 rural agribusiness centers.

The proceeds from the sale of the monetized commodities were deposited in the Agrarian Development Bank (BDA) creating a substantial fund available for loans to small and medium-sized producers. The BDA loans were aimed at stimulating agricultural production and agri-business enterprises in the rural communities. The impact of these loans was an important stimulus to increasing economic activity in the hurricane affected regions.

Technical assistance was a key component for many of the projects. From the onset, USDA and USAID determined that technical assistance would be essential for the effective use of USG resources, and the Section 416(b) agreement stipulated that FAS/ICD would provide appropriate technical assistance to the grantees through the resources of USDA's 18 agencies and its 104 cooperating land-grant universities.

One of the proposal selection criteria involved the requirement for the applicant to contribute some of its own resources to the project. This requirement resulted in the leveraging of more than $8 million in counterpart resources from public and private agencies in the DR. Altogether, the Section 416(b) program implemented projects with expenditures on the order of $26 million, including $18 million in funding from monetized proceeds and interest earnings and an additional $8 million from counterpart resources.

C. THE ROLE OF USDA AND USAID

The cooperation of USDA and USAID in implementing the Section 416(b) hurricane reconstruction program was a fundamental factor in its success. It was a clear confirmation of the adage that "it takes two to tango." In this instance, USDA was responsible for initiating and implementing the Section 416(b) program. However, due to limited staff, the office of the agricultural attaché would have been hard pressed to do much more than request and justify the food and monetization program, and then turn the monetized proceeds over to the GODR agricultural reconstruction activities. The danger of giving the host government free rein of the donation would be the potential for fraud, corruption, misuse, or redirecting the funds to further political ends.

USAID received $29 million in supplementary funds from Congress for hurricane reconstruction, which coupled with its own resources, PL 480 Title II and supplemental funds received by other USG agencies totaled about $78 million. USAID/DR was charged with the responsibility for coordinating the entire USG recovery and reconstruction effort in the Dominican Republic, which included agricultural recovery and rehabilitation of natural resources. The USDA, USES, USGS and USAID played crucial and synergistic roles as they coordinated efforts with each other and a number of Dominican government and NGO institutions in the recovery of over 72,000 small farms and the stabilization of 8,000 hectares of soil in critical watersheds. From the onset of the USG hurricane recovery and reconstruction program, it became evident to USAID and USDA that, if managed properly and coordinated with experienced development partners (public and private) in country, Section 416(b) food aid could be the centerpieces for agricultural recovery in the country. To help coordinate this effort, USAID provided $1.2 million for a Participating Agency Support Agreement (PASA) to fund a USDA employee to manage the Section 416(b) Small Farmer Recovery Fund and to provide technical assistance to help the TSP administer the program. This made it possible for USDA to maintain a responsible level of supervision over the use of the monetized food aid resources. In turn, USAID was able to influence the flow of those fund to important rural reconstruction objectives. The cooperation allowed both organizations to leverage additional resources and surpass all results targets in record time.

USDA was responsible for requesting and justifying the 416(b) donation and developing the 416(b) Agreement. Also, through the PASA staff, USDA provided oversight and FAS/ICD technical assistance to the GODR agencies and the Council. USAID funded the PASA with USDA that provided a USDA direct-hire employee as the program manager. As a member of the Council, the USAID representative provided expertise and advice on agricultural and rural development and the critical role of NGO□s that had been strengthened by USAID over the last decade. It proved to be a strong combination of inputs.

III. PROGRAM STRENGTHS

A. GODR INSTITUTIONAL CAPACITY

Critical to the overall success of the hurricane reconstruction effort was the existence of an experienced, knowledgeable agency to take on the responsibilities of planning, implementing and evaluating the program. This agency, the External Resources Coordination Department of the TSP, was the unit which made the program operate effectively. The Coordinator of External Resources presided over the meetings of the Council and supervised the technicians who worked with the U.S. shipping agent on the sale of the imported wheat, promoted and publicized the availability of funds for small farm reconstruction, prepared the guidelines for the elaboration of proposals, reviewed and recommended proposals for approval, handled disbursements to government agencies and NGO□s, monitored progress, evaluated results and audited accounts. If this unit had not existed, a consulting company would have had to be contracted or a unit would have had to be created to handle the many responsibilities associated with implementation of the program.

B PROGRAM EXECUTIVE COUNCIL (THE COUNCIL)

Another critical element of the program was the Program Executive Council which facilitated the identification, discussion and resolution of inter-governmental and inter-agency concerns and issues, developed the program strategy, programmed all funds, selected all grantees, identified and resolved bottlenecks and provided continuous management oversight of program implementation. Council sessions were long and sometimes contentious, but were pursued until consensus was achieved, or agreement was reached to reconsider particularly difficult issues at a future session. The Council□s control of the use of program funds prevented potential **misuse** by GODR agencies. It also provided political cover for the Dominican Government agencies when they were pressured by constituent groups -- they could always explain that resource allocations were decided by the council and that they had but one vote. The Council also provided a forum for reconciling what were often four different points of view on any given issue. The differing view points were discussed openly and frankly. This facilitated reaching stronger, fully agreed upon positions which was essential when dealing with participating organizations and other interested parties. By fully understanding each other□s programs and capacities, Council members ensured that hurricane reconstruction activities were coordinated and complementary rather than competitive or duplicative.

C. USAID-FUNDED PASA FOR USDA DIRECT HIRE PROGRAM MANAGER.

The program could not have been carried out successfully without the full-time involvement of the USAID PASA-funded USDA program manager. The presence of the USDA program manager, hired and supervised by USDA’s Foreign Agricultural Service, allowed the Office of the Agricultural Attaché to be fully involved in the planning and implementation of the Section 416(b) program, without diverting that office from its many other duties. The full time involvement of the USDA program manager facilitated close collaboration with the GODR agencies to develop procedures for reviewing and approving proposals, making disbursements to program participants and providing follow-up project monitoring and auditing services. The program manager served as the USDA representative on the Council. He was also responsible for meeting both USDA and USAID reporting requirements

D. INVOLVEMENT OF NON-GOVERNMENTAL ORGANIZATIONS

The program was successful in channeling resources to large numbers of small and mid-size farmers devastated by the hurricane, in large part due to the involvement of grass roots NGO’s. Over the previous ten years, USAID had funded NGO strengthening activities that provided local, community-based NGO’s with the organizational and administrative capacity to implement the hurricane reconstruction projects. If USAID had not made this prior investment, it would have required a major institutional capacity building effort to bring the NGO’s up to a level where they could efficiently utilize the resources of the program. In cases where the capacity of a participating NGO was considered deficient, it was required to enter into an agreement with an established NGO to provide the necessary administrative and financial guidance and services.

E. PROGRAM MONITORING AND AUDITING

A key ingredient in the program’s success was the TSP’s strong commitment to responsible monitoring and auditing procedures. With frequent visits to project sites, TSP technicians were able to identify and help correct bottlenecks and to advise on mid-course corrections as needed. The monitoring and auditing visits were important in controlling and minimizing fraud and financial malfeasance.

F. PUBLIC/PRIVATE COOPERATION

The decision to approve funding for projects for both the Secretariat of Agriculture and the NGO's proved fortuitous as there were a number of areas where public/private cooperation was possible. Perhaps most notable were the important complementarities between the MOA Coffee Borer Control project and the grants to NGO's for coffee rehabilitation. The government, NGO's and commercial sector also collaborated on the cocoa rehabilitation program. In addition, the reconstructed plant and animal quarantine stations and the MOA bio-technology lab provided essential services to farmers in participating NGO's.

IV. PROGRAM WEAKNESSES

A. DELAYS IN PROGRAM IMPLEMENTATION

Several factors combined to delay program implementation. Elections in the GODR were held on May 16, 2000 and the new government was installed on August 16, 2000. For several months prior to the election, during the transition period, and several months into the new administration, program operations were hindered by political maneuvering and the problems associated with a new administration getting up to speed. Another problem was the delay in disbursements for approved projects caused by a lack of liquidity and archaic bureaucratic procedures in the Agricultural Development Bank which was holding the funds generated by the sale of the imported wheat. The Bank paid a high rate of interest on program funds, but caused many delays by not processing disbursement requests expeditiously.

B. CUMBERSOME GODR BUREAUCRATIC PROCEDURES

The GODR public sector agencies, principally the MOA directly implemented 17 or 42% of the approved projects and used 43% of total program funds. The rate of project implementation was much slower for the public sector activities than for the participating NGO's, largely due to cumbersome bureaucratic procedures. For example, some 22 individual steps were required to process and disburse funds for a purchase order or contract at the MOA. In addition to the problems with program disbursements discussed above, there were also problems within the TSP where the review and approval of contracts with the participating organizations were held up by the STP legal counsel staff. In these cases, the intervention of the Council was helpful in motivating the bureaucracy to be more responsive.

C. GRANTEE SELECTION PROCESS

A number of implementation problems could have been avoided by more carefully selecting grantee institutions that were better prepared to manage a development program quickly. A selection criteria that only NGOs with good track records, prior clean audits and ample development experience need apply would have significantly improved program implementation performance.

V. LESSONS LEARNED

A. NEED FOR A STRONG INSTITUTIONAL BASE

In carrying out a program to deliver resources to large numbers of small farmers, it is essential to have a strong institutional base in place (or create one). In this case, the TSP provided the base for promoting and publicizing the program, reviewing and approving projects and monitoring and auditing project performance. The participating NGOs organized and guided the farmers so that they could participate in the program. If this institutional base had not been in place, the program would have been much more difficult to implement. A capacity to perform the functions of the TSP would have had to have been created or contracted and considerable attention would have had to have been focused on identifying and strengthening institutional mechanisms to organize and guide small farmers.

B. VALUE OF USDA/USAID COOPERATION

While USDA has the responsibility for implementing the 416 (b), Title I and Food for Progress programs, it does not have the in-country staff to make sure that program benefits reach intended beneficiaries. USAID has the resources to provide in-country technical advisors but often lacks sufficient local currency to carry out programs which reach large numbers of rural residents. By providing the funding for the USDA PASA position, USAID made it possible for USDA to maintain a responsible level of supervision over the use of the monetized food aid resources. USAID in turn was able to participate in the decisions regarding allocation of those funds to important rural reconstruction objectives that complemented their own and US Embassy strategic objectives. The cooperation allowed both organizations to function more effectively.

C. VALUE OF CONSISTENT ON-THE-GROUND MONITORING

The program administrators must assure that every project is monitored on a regular basis by experienced project managers to quickly resolve implementation problems in the field and reprogram funds to other activities.

D. IMPORTANCE OF SHARED OBJECTIVES

The Program Executive Council consisted of two Dominican and two American government agencies and was the entity that drove and managed the 416(b) program. In order for the Council to function effectively and efficiently there should be uniformity in the goals and objectives of the participating agencies. Given the nature of the four agencies, each with its own unique objectives, politics, bureaucracies and methodologies there are many opportunities for conflict. Since decisions were made democratically there was considerable “give and take” which usually led to fair decisions, but not necessarily to the optimum decision in all cases. It is important that all agencies participate actively in the design of the Donation Agreement in order to ensure that all parties agree on common objectives as they enter the implementation phase of the program.

VI. THOUGHTS ON REPLICATION OF THE MODEL.

There are some recent developments which appear to support the application of a model for monetized food aid programs that features close cooperation between USDA, USAID, the host governments and international and local non-governmental organizations in other settings. Monetized food aid resources would appear to be an important asset in the USG War on Terrorism. USG will want to help our friends and allies as they support us in the struggle against terrorists around the world. Food aid is a logical resource in this endeavor. However, we will also want to try to assure that these resources are utilized properly and reach the target populations that they are intended to reach.

As pointed out in the USDA/FAS Report to Congress on Food Aid Monetization dated August 10, 2001:

> “The evaluation of USDA food aid monetization has been constrained due to limited personnel, high staff turnover, and recent, large food aid programs, including the Russia Food Aid Program in 1998/99 and the Global Food for Education Initiative. USDA has focused on developing and implementing projects as quickly as possible. The limited presence of overseas agricultural attaches has also impaired USDA□s ability to actively oversee some monetization projects. USDA, however continues to incorporate evaluation into its review process. OIG recently raised a concern in testimony before the Senate about USDA□s monitoring of monetized proceeds. USDA has responded to OIG□s concern by requesting that FAS compliance staff help to monitor and verify the use of monetized proceeds. In addition, FAS is planning to increase staff devoted to the evaluation of its food aid program.□

One way to address the concern about adequate monitoring of monetized food aid resources would be for USDA and USAID to join forces at the country level, and combine the local currency generated by the monetization of food aid with in-country supervision by a USAID-funded USDA PASA employee. In this way, the two agencies could work closely together to reach the U.S. Government objectives articulated by the country team in its annual Mission Program Plan.

The Bush administration has put increased emphasis on the MPP as the vehicle for defining U.S. government interests and objectives. The MPP is the Country Team guide for requesting and providing resources and coordinating the use of those resources to meet U.S. objectives. Thus, there are no longer simply USDA or USAID objectives but U.S. Government objectives to which USDA and USAID are to contribute, in a coordinated manner.

The USDA/FAS Report to Congress on Food Aid Monetization concludes:

> “The monetization of food aid commodities has significant food security and development impacts. While there are challenges and constraints to an effective use of monetized proceeds, experience demonstrates that food aid monetization can be an effective resource for grassroots development in foreign countries.”

It is clear that monetized food aid can have significant impact on grass roots development as confirmed in this case and in the other PVO managed activities described in the USDA/FAS Report to Congress. The potential for food aid funds contributing significantly to the furthering of its goals was recognized by USAID/Santo Domingo when it joined forces with USDA to provide a USAID-funded USDA direct hire employee as program manager for the 416(b) hurricane reconstruction program. The full picture was completed by the participation of host-country NGO□s and farmer associations which made it possible to reach large numbers of rural families with meaningful reconstruction resources.

The monetized food aid resources for such programs would not have to be restricted to Section 416(b) programs. The principles employed would work equally well with PL 480 Titles I, II and III, and Food for Progress resources. Recipient governments would have to agree to the procedure, but this could be negotiated at the time of the official government request.

The model has the advantage of involving USDA, USAID, the host government and participating NGO□s in a coordinated program aimed at meeting agreed upon U.S. and host government objectives. The approach is particularly well suited to agricultural, rural development and school feeding programs where USDA interests (e.g. market based agricultural development and supporting democracy) and expertise complement those of USAID.

The advantages of the model for USDA are that it provides in-country direct-hire management of USDA food aid programs without overburdening the already heavily engaged Agricultural Attaché. It helps to assure that the food aid funds are used for the purposes intended and reach the local population groups targeted for assistance. It allows USDA to participate more fully in reaching the development objectives in the Country Team MPP. Through the involvement in development projects, particularly those related to agriculture and rural development, the agricultural attaché has increased interaction with host government officials which provides greater opportunities for furthering overall USDA objectives such as market development and the strengthening of market based agriculture and democratic institutions.

The advantages of the model for USAID are that the monetized food aid provides substantial amounts of local currency to complement USAID dollar funded technical assistance activities. The opportunity to have a role in guiding the flow of these local currency funds to development activities provides good justification for using USAID dollar funds for a PASA with USDA for an in-country direct-hire program manager. Through this collaboration, both USDA and USAID can be more effective at directing the use of scarce resources to meet common USG objectives.

VII. ANNEX A. FOOD AID MONETIZATION PROGRAMS

A. GENERAL

The United States is the world's largest food aid donor, generally providing about half of all types of international food aid. USG food aid programs are implemented by USDA and USAID. USDA food aid is provided through three programs Title I of Public Law 480, the Food for Progress (FFP) Program, and the Section 416(b) Program. USAID food aid is provided through two programs, Title II and Title III of Public Law 480. The Title I and Title III programs always generates monetized proceeds. FFP, Title II, and Section 416(b) food aid resources may be used for direct feeding programs for needy people, or the donated food may be sold in the recipient country with the stipulation that the sales proceeds be used for approved development activities.

B. A BRIEF DESCRIPTION OF CURRENT FOOD AID PROGRAMS

1. Title I -- Trade and Development Assistance.

This program provides for government-to-government sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies. Agreements may also be signed with non-governmental private entities. Agreements under the Title I credit program may provide for payment terms of up to 30 years, low interest rates, and grace periods of up to 5 years. This program's market development focus is geared primarily toward countries that have a shortage of foreign exchange earnings and are experiencing difficulty in meeting their food needs through commercial channels. Priority goes to countries with the greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad-based, equitable and sustainable development. These countries also must demonstrate the potential to become commercial markets for U.S. agricultural commodities.

2. Title II -- Emergency and Private Assistance.

This program provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs in other countries. Agricultural commodities donated by the U.S. government to meet emergency needs may be provided under government-to-government agreements, through public and private agencies including intergovernmental organizations such as the United Nations' World Food Program, and through other multilateral organizations. Non-emergency assistance may also be provided through private voluntary organizations, cooperatives, and intergovernmental organizations.

3. Title III -- Food for Development.

This program provides for government-to-government grants to support long-term growth in the least developed countries. Donated commodities are sold in the recipient country, and the revenue generated is used to support economic development programs. This program has not been funded since YEAR.

4. The Food for Progress Program.

This program, which was authorized by the Food for Progress Act of 1985, provides U.S. commodities to support countries that have made commitments to expand free enterprise in their agricultural economies. Commodities may be provided under the authority of Public Law 480 or Section 416(b). Under certain conditions, USDA's Commodity Credit Corporation (CCC) may also purchase commodities for use in the program.

5. The Section 416(b) Program

This program, which is authorized by the Agricultural Act of 1949, as amended, provides for overseas donations of surplus commodities acquired by the CCC. Donations may not reduce the amounts of commodities that are traditionally donated to domestic feeding programs or agencies, and may not disrupt normal commercial sales. Availability of commodities under Section 416(b) depends on CCC inventories and acquisitions, and programming varies from year to year.

C. MONETIZATION PRACTICES AND ISSUES

According to the Monetization Report to Congress on Food Aid Monetization dated August 10, 2001, since 1988, a minimum of 10 percent of all Section 416(b) commodities must be monetized. The permissible uses of monetized proceeds are administrative costs related to food distribution for humanitarian purposes and broad development purposes, including agricultural development. Since 1996, the minimum monetization level for the Title II program has been 15 percent. In fiscal years 1999 and 2000, around 30 percent of food aid under Title II was monetized, equal to about 600,000 metric tons per year. Over the same period, about 40 percent of Section 416(b) resources were monetized, or about 5.5 million metric tons annually.

Monetization of food aid differs from a commercial export sales in a number of ways, including lengthy delay between the sale and export, the unusual role of PVOs and foreign governments as commodity brokers, and U.S. government laws and policies affecting the availability, pricing and transport of food commodities. In addition, monetization is often done in counties with developing or uncompetitive markets, where commercial activity is limited. The monetization process is often viewed as inconvenient but necessary to generate program development funds. However, a government-to-government monetization agreement may be much easier to implement, since the procedures of the transaction may be very similar to those involved in a commercial export sale. Host governments also have the unique ability to ease import restrictions, facilitate customs and inspection logistics, and can best determine which commodities are preferable for import in order to protect local producers without disturbing normal marketing channels.

Some of the issues related to USDA and USAID monetization programs involve pricing of donated commodities, the impact of food donations on importing country markets, and the evaluation of programs that use monetization resources. USDA monetization regulations require only that commodity sales meet local market conditions, whereas USAID evaluates market conditions and seeks, for example, 80 percent cost recovery CIF basis. USDA takes measures to avoid disrupting local markets with its food aid shipments; nevertheless, food aid may disrupt local markets due to shipments of unusually large lots for cost savings or a compressed shipping schedule for administrative reasons. USAID conducts program reviews and evaluations of Title II programs with contractors. In addition, USAID is currently undertaking a comprehensive assessment of its Title II non-emergency programs, including the impact of monetization. In contrast, USDA evaluation of monetization programs has been limited due to staffing levels that have not kept pace with recent high levels of food aid programming.