**FOOD FOR PEACE**
**INFORMATION BULLETIN**

**FFPIB 14-01** Date: August 15, 2014

**MEMORANDUM FOR ALL FOOD FOR PEACE OFFICERS**

**TO**: USAID/W and Overseas Distribution Lists; FFP Awardees

**FROM:** DCHA/FFP, Dina Esposito, Director

**SUBJECT:** **Eligible Uses of Section 202(e), ITSH, CDF, and Monetization Proceeds for FFP Projects**

## I. Purpose and Authority[1]:

This Food for Peace Information Bulletin (FFPIB 14-01) updates and consolidates the eligible uses for Section 202(e) and Internal Transportation, Storage and Handling (ITSH) funding based on legislative changes in the Agricultural Act of 2014. Unless otherwise noted, the guidance provided for eligible and ineligible uses of Section 202(e) funds will also apply to "Community Development Funds" (referred to as "CDF"). This FFPIB includes a matrix that provides guidance with respect to the order of preference for budgeting Section 202(e)/CDF, ITSH, monetization, and cost-share funding. **Note: Eligibility of certain costs for Section 202(e), CDF, and/or ITSH funding does not guarantee such funding. Decisions about the availability of Section 202(e), CDF, and ITSH funding in a particular award will be determined by the Office of Food for Peace (FFP) Agreement Officer, in consultation with the Office of Acquisition and Assistance (OAA) when appropriate (i.e., CDF), taking into account the availability of funding, statutory requirements, and program and policy considerations.**

Section 202(e) in Title II of the Food for Peace Act, as amended by Section 3002 of the Agricultural Act of 2014, requires FFP to make funding available to eligible organizations to assist in:

1. establishing and enhancing programs under Title II;
2. meeting specific administrative, management, personnel, transportation, storage, and distribution costs for carrying out Title II programs in foreign countries;
3. implementing income-generating, community development, health, nutrition, cooperative development, agricultural, and other developmental activities within one or more recipient countries or within one or more countries in the same region; and
4. improving and implementing methodologies for food aid programs, including needs assessments (upon request of the Administrator), monitoring (especially at the household level), and evaluation.

[1] In general, resources linked to the Food for Peace Act as amended are governed by 22 CFR 211, and resources linked to the Foreign Assistance Act as amended are governed by 22 CFR 226. In situations where the Assistance regulations are silent, the Federal Acquisition Regulations are the next source of direction.

An eligible organization that receives funds for any of the above-listed purposes may invest and earn interest on the funds pending the eligible organization's use of the funds. Any interest earned on such investment may be used for the purposes for which the assistance was provided to the eligible organization without further appropriation by Congress. The overall amount of the award will not be reduced for the amount of interest earned.

ITSH funding is available to eligible organizations for in-country costs directly associated with:

1. movement of Title II food aid to storage and distribution sites;
2. storage of the food aid; and
3. distribution of the food aid in all emergency programs and in non-emergency programs in least developed countries (LDCs)[2] that meet the poverty and other eligibility criteria established by the International Bank for Reconstruction and Development for financing the International Development Association.

Food for Peace Act, Title IV, Section 406 (b)(6) authorizes the use of funding for eligible organizations' transportation costs of agricultural commodities (including pre-positioned commodities) destined for meeting urgent and extraordinary relief requirements, i.e., emergency program costs, incurred in moving the commodities from designated points of entry or ports of entry abroad to storage and distribution sites. Title IV Section 407(c)(1)(B) authorizes the use of funding for eligible organizations' transportation costs for non-emergency assistance programs incurred in moving the commodities from designated points of entry or ports of entry abroad to storage and distribution sites in LDCs and associated storage and distribution costs.

## II. Background:

The Agricultural Act of 2014 amended the Food for Peace Act such that Section 202(e) funding was increased from "not less than 7.5 percent nor more than 13 percent" to "not less than 7.5 percent nor more than 20 percent" and additional eligible costs were included.

As amended, Section 202(e) may now be used to enhance Title II programs; this represents an expansion over prior legislation, which directed the use of Section 202(e) only for establishing new programs. Details on the use of Section 202(e) funding under the new legislation are outlined in section IV below.

Prior to the 2002 Farm Bill, ITSH funding was only available for emergency programs; however, a 2002 Farm Bill amendment expanded the authorized uses of ITSH funding to include costs of

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[2] All emergency programs are eligible for ITSH funding; however, non-emergency programs only qualify for ITSH funding if they are in least developed countries (LDCs) as described by the list of the International Development Association's (IDA) eligible borrowers.

The following website provides a list of the eligible LDC countries in which FFP will consider ITSH funding for non-emergency programs.
http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20054572~menuPK:115748~pagePK:51236175~piPK:437394~theSitePK:73154,00.html

non-emergency programs in LDCs. Therefore, FFP includes all eligible programs in its official ITSH funding policy in this FFPIB.

Separate and independent from funds provided for the Food for Peace Act and the authorities provided in Section 202(e), USAID's Bureau for Food Security (BFS) has made development assistance funds from annual appropriations for the Foreign Assistance Act available to FFP annually since FY 2011. FFP refers to these funds as "Community Development Funds" (CDF) and has included CDF in its FY 2014 and draft FY 2015 budget requests.

FFP has monetized in Title II programs since 1986 and the proceeds from monetization have become a critical resource for Awardees. The Agricultural Act of 2014 continued the reauthorization of the Food for Peace Act with a requirement that a minimum of 15 percent of the aggregate value in tonnage of non-emergency Title II commodities be made available annually for monetization by Awardees. This level of 15 percent was first established with the reauthorization of P.L. 480 in 1996, representing an increase from the previous minimum level of 10 percent for monetization.

## III. Definition of Eligible Organizations for Section 202(e) and ITSH Funding for emergency or non-emergency programs:

In order to be considered eligible to receive either Section 202(e) or ITSH funding for a non-emergency program, an organization must be either:

- a Private Voluntary Organization (PVO) or Cooperative that is, to the extent practicable, registered with USAID; or
- an Intergovernmental Organization, such as the U.N. World Food Program (WFP).

As outlined in Section 202(a) of the Food for Peace Act, to receive either Section 202(e) or ITSH funding for an emergency program, an organization must be:

- a PVO or Cooperative that is, to the extent practicable, registered with USAID;
- an Intergovernmental Organization, such as WFP; or
- a foreign government.

All eligible recipients of funding are referred to as "organizations" in this FFPIB.

## IV. Eligible Uses for Section 202(e) Funding:

**A**. In Title II programs, eligible uses for Section 202(e) funding must be reasonable, allowable, and allocable, and are subject to the Agreement Officer's determination that the facts of the particular situation support the use of Section 202(e) funding. Costs may include, but are not limited to, those listed below. Some of these costs may be subject to restrictions and/or waivers; examples are marked with asterisks (*).

a. Materials, tools, and equipment necessary for all program sectors as described in the FFP annual program guidelines, including:

- seeds*, fertilizers*, tools and equipment*, including animals for husbandry activities;

- publications related to programming;
- education, communication and training materials;
- building materials used in program activities;[3]
- access or provision costs for clean water or a clean water source;[2]
- materials, supplies and funds for income generating or micro-financing activities;
- domestic or imported therapeutic feeding supplements purchased locally or regionally, including ingredients for or packets of oral rehydration solutions (ORS)*;
- medications*;
- local processing;
- branding and marking; and
- A-133 audit costs, subject to the approval of the Agreement Officer.

b. Storage-related costs such as warehouse leases, fumigation*, pesticides*, security, property insurance as required by the host country laws (i.e., insurance that is not related directly to Title II commodities in non-LDCs (for example, vehicle insurance).

**B.** Eligible uses for Section 202(e) funding in all programs include specific administrative, management, personnel and, in cases where ITSH funding is not permitted, internal transportation and distribution costs for carrying out Title II programs in foreign countries (see footnote 2 on page 2)**.** All costs must be reasonable, allowable, and allocable. Costs may include, but are not limited to those listed below. Some of these costs may be subject to restrictions and/or waivers; examples are marked with asterisks (*).

a. methodologies to improve and implement food aid programs, as approved by the Agreement Officer on a case-by-case basis;
b. needs assessments upon the request of the USAID Administrator;
c. monitoring, especially at activity sites and at the household level, and evaluations, including activities tied to environmental compliance;
d. administrative and overhead costs in-country;
e. staff, including field management and personnel costs*;
f. after preliminary discharge from an ocean carrier, internal transportation and distribution costs, i.e., rail and barge transportation (includes costs to transport, load and unload commodities; stevedoring for barge transportation), for non-LDCs;
g. trucking (includes the lease or rental of trucks, maintenance, fuel, drivers and loading/unloading charges) for non-LDCs;
h. distribution cost for non-LDCs;
i. local banking costs;
j. local processing;
k. branding and marking*; and
l. country-specific pro-rata indirect cost rates (Country-specific indirect cost rates (Negotiated Indirect Cost Rate Agreement or NICRA) approved by M/OP/PS/OCC prior to proposal submission will be authorized for Section 202(e) funding. These are

[3] All types of construction in non-emergency programs must be identified for pre-approval and regulated through 22 CFR 226. .

separate and distinct from NICRAs approved by M/OP/PS/OCC for organizations' headquarters.)*

Note: FFP's preferred policy regarding vehicle procurement is that organizations purchase vehicles for project use with a source of funding other than the U.S. Government (i.e., organizations' cost share). Section 202(e) funding may be used to rent or procure vehicles for use in Title II projects if the organization is unable to identify alternative funding and the vehicles are necessary for activity implementation.

**C.** Under changes in the Agricultural Act of 2014, Section 202(e) funding may be used to *establish and enhance* Title II emergency and non-emergency programs. A program is a coherent collection of projects, typically grants or cooperative agreements with implementing organizations that collectively contribute to addressing the FFP objectives in a country or region. These projects, which together comprise a program, are aligned with the FFP Strategy and, where applicable, the USAID Country Development and Coordination Strategy (CDCS). When relying on this specific authority, Title II commodities provided under Sections 202(a) or (b) **must be an integral component of the program**.

Section 202(e) costs to enhance or establish FFP programs may include but are not limited to:

a. local and regional purchase of commodities to enhance FFP programs in both emergency and non-emergency interventions, if deemed appropriate;
b. cash transfers and food vouchers to enhance FFP programs in emergency and non-emergency settings, if deemed appropriate; and
c. complementary services in emergency and non-emergency programming including analysis, behavior change messaging, and resilience interventions in protracted recovery or conflict-affected settings.

**D.** Additional expenses allowed under Section 202(e) include:

a. non-emergency programming to address context-specific drivers of food insecurity (e.g., conflict mitigation, disaster risk reduction, agriculture, nutrition, and water, sanitation, and hygiene), and all other activities covered by monetization;
b. interventions to protect emergency program impacts; and
c. on- and off-farm income-generating and capacity-building activities contributing to household and community resilience and sustainable food security.

## V. Ineligible Uses for Section 202(e) Funding:

The following costs are **not eligible** for Section 202(e) funding:

- costs of activities not associated with FFP programs;
- case studies not associated with assessments or evaluations of FFP awards;
- proposal writing;
- advocacy; and
- expenses associated with hospitality.

## VI. Eligible Uses for ITSH Funding:

Eligible uses for ITSH funding must be allowable, reasonable, and allocable, and must support costs associated with the provision of Title II commodities to the final distribution point, including household or local warehouse. Costs may include, but are not limited to, those listed below. Some of these costs may be subject to restrictions and/or waivers; examples are marked with asterisks (*).

**Direct program costs** of a Title II emergency program or a non-emergency program in an LDC associated with the in-country movement, management and monitoring of Title II commodities necessary for distribution and in direct support of eligible Title II activities including:

a. clearing and handling;
b. storage, warehousing and commodity distribution costs;
c. internal transport[4] via rail, truck, barge or air;
d. monitoring, including commodities en route, in storage and at distribution sites, including activities tied to environmental compliance;
e. staff directly associated with the in-country movement, management, and monitoring of Title II commodities;
f. vehicle lease, fuel, and maintenance in short-term programs or when leasing a vehicle is considered to be more cost effective than purchasing a vehicle;
g. vehicle procurement (non-U.S. vehicles may require a waiver prior to procurement);
h. in-country operational costs;
i. capital expenditures;
j. local processing; and
k. branding and marking.

Note: FFP's preferred policy regarding vehicle procurement is that organizations purchase vehicles for project use with a source of funding other than the U.S. Government (i.e., organization's cost share). ITSH funding may be used to rent or procure vehicles for use in Title II projects related to internal transport, storage, and handling of Title II commodities if the organization is unable to identify alternative funding.

**VII. Ineligible Uses of ITSH Funding:**

The following costs are **not eligible** for ITSH funding:

a. costs of activities that are not supported directly by Title II resources or directly related to the movement, management, and monitoring of Title II commodities;
b. pro rata indirect costs;
c. direct audit costs (OMB Circular A-133);
d. headquarters or other offshore indirect costs;
e. duties, taxes or fees, without express Agreement Officer approval;

[4] In the case of landlocked countries, Title II inland transport funding may be provided on a reimbursable basis for transport from discharge port to extended delivery point(s) (EDP/EDPs), or designated point(s) of entry within the recipient country. ITSH funding will be provided for internal transport from the EDP(s) or designated point(s) of entry to distribution site. When an awardee requests inland or internal transport using a through bill of lading to a designated internal point, funding may be provided on a reimbursable basis under the awardee's inland freight purchase authorization (PA).

f. inland transport from discharge port to designated point(s) of entry or EDP(s) of the recipient country, in the case of landlocked countries. Title II inland transport funding may be provided on a reimbursable basis for transport from discharge port to designated point(s) of entry or EDP(s);
g. select activity input costs for goods and services not directly associated with the Title II food aid distribution activities, e.g., seeds, tools, agricultural or educational materials/equipment, construction materials, etc;
h. technical support staff who provide services not directly associated with the Title II food aid distribution activities, e.g. agricultural specialists, civil engineers, economists, etc;
i. staff training, except as indicated below;
j. long-term airlift costs; and
k. minor road repairs, except as indicated below

Note: ITSH funding will only be considered for staff training directly tied to logistics and commodity management and end-use checking and other training required to safeguard commodities; long-term airlifts and minor road repairs will only be considered on an exceptional basis. If there is significant national interest, an immediate, urgent need for funding of these line item costs, and a finding that the cost is directly associated with internal transportation, storage, and handling of Title II commodities, the Agreement Officer may determine that these costs may be funded by ITSH funding on an exceptional basis.

## VIII. Community Development Funds (CDF)

CDF are development assistance funds which complement Title II non-emergency programming in several Feed the Future (FTF) focus countries and resilience priority countries. Through CDF, FFP is able to program cash to fund community-level development activities directly when the process of monetization is not contributing to country-level development objectives and/or when the activities aim at building a community's resilience. The legislative source of these funds is the Foreign Assistance Act of 1961, as amended, and not the Food for Peace Act. Therefore, regulation 22 CFR 226 and all the appropriate cost principles govern the use of these funds.

## IX. Monetization

Monetization is an activity in which donated commodities are sold in local markets in part to generate cash resources for program implementation. Please see Food for Peace Monetization Field Manual.

## X. Funding Expectations:

1. FFP strongly encourages organizations to identify other sources of public and private funding (including cost share) in order to leverage Title II resources and diversify support for the program **prior** to making requests for Section 202(e) and ITSH funding.
2. Section 202(e) and ITSH funding shall only cover those costs/activities submitted in U.S. dollar amounts.
3. No expense is eligible for Section 202(e) or ITSH funding until it is approved under a procurement authorization, modification, grant or cooperative agreement.

4. In LDCs, Section 202(e) funding is expected to cover expenses tied to program impact and ITSH funding is expected to cover expenses tied to the receipt of commodities, i.e., those costs tied to the movement, storage, and distribution of Title II commodities. In non-LDCs, Section 202(e) funding would be used to cover both types of expenses.
5. FFP will receive and consider Section 202(e) and ITSH funding requests from organizations on a per program basis. All organizations will be subject to the same Section 202(e) and ITSH funding policy guidelines defining what types of costs may be covered by the funding.

**XI. FFPIB 14-01 Amendments/Modifications:**

FFP may issue amendments/modifications to any FFPIB. However, subject to statutory requirements, the FFP Director may waive a particular provision in this FFPIB in extraordinary circumstances.