PD-AAY-614

BANGLADESH

PL - 480 TITLE III PAPER

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May 1987

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EXECUTIVE SUMMARY

This paper examines the developmental appropriateness and effectiveness of the two PL-480 Title III programs carried out in Bangladesh from FY 1978 to FY 1986. The paper emphasizes the policy aspects of these programs, since policy dialogue and reform have been key program elements.

This is one of several ANE country studies addressing a common set of questions about Title I/III programs in the region. These questions, together with summary responses and conclusions, follow. For further information, the reader may refer to the text.

Basic Objectives

1. What are the basic objectives of the program? What is the program supposed to accomplish?

The Title III programs of FY 78-81 and FY 82-86 were intended to promote agricultural development and improve Bangladesh's food security, primarily through policy reform. Specific objectives included: (a) maintaining crop prices at levels high enough to induce farmers to use HYV technologies, (b) protecting poor rural consumers from sharp increases in foodgrain prices, (c) reforming the government ration system by better targetting foodgrain distribution to the poor and reducing subsidy costs, (d) maintaining and properly managing national foodgrain reserves, (e) encouraging participation of the private sector in marketing and processing of agricultural commodities, and (f) supporting with local currency generations selected government development programs/projects. (See Section C.)

2. What commodities have been provided? What value, what volume? What is the rationale for this commodity mix? Does the commodity mix fit with the objectives?

From CY 1978 through CY 1985, $478 million of wheat, rice, soybean oil, and cotton was provided under the Title III programs. Wheat was the most important commodity in terms of both value and quantity. (See Section B and Table A.)

Rice was included in the commodity mix because of the excess supplies of U.S. rice, the short supply of rice in Bangladesh, and because rice is the preferred foodgrain. Cotton was included because of its potential for increasing imployment and incomes of poor rural handloom workers. Soybean oil was included because it was anticipated that the need for PL-480

foodgrain would gradually diminish as Bangladesh approached foodgrain self-sufficiency. Other reasons not specifically cited in the Title III agreement, but important nonetheless, were that wheat and rice were deemed well suited to encourage reform of the ration system and that soybean oil and cotton could promote development of the private sector. In addition, provision of all four commodities was anticipated to reduce deficits caused by inadequate domestic production and to save foreign exchange. (See Section E4.)

Conclusions: The mix of commodities was generally consistent with program goals in that it seems to have helped to promote policy reform and has clearly helped to fill the gap between Bangladesh's production and consumption of foodgrains, vegetable oil, and cotton. Inclusion of rice, however, seems to have been ill-advised because of possible disincentive effects on domestic rice production and because of rice's high cost relative to wheat. Phasing out rice during the next Title III program seems highly desirable. (See Section E4.)

3. What is the real resource transfer? Does the PL 480 program provide additional food to the economy? Would the PL 480 food have been imported if the program did not exist?

Recent experience indicates that the BDG would be likely to use its scarce foreign exchange and its limited credit in internatioional financial markets to purchase additional food without the PL 480 program. Hence, the real resource transfer is foreign exchange. (See Section E1.)

4. How effectively does the foreign exchange market operate? More generally, has the BDG created a policy environment that merits foreign exchange and balance of payments support?

The BDG vastly improved its trade regime over the past few years, and, in spite of some anomalies, the general thrust of reform has been strongly in the direction of a more efficient foreign exchange market. More generally, the BDG has displayed a capacity and commitment for changing to freer, more open markets through policy changes such as in the pricing of agricultural inputs and in its efforts to collect outstanding agricultural loans. (See Section E1.)

Incentives for Agr. Production, Distribution, and Consumption

5. How are PL 480 commodities marketed? How do the prices compare with international price equivalents? How does the marketing arrangement affect the role of the private sector?

Title III rice and wheat were marketed mostly through the Open Market Sales (OMS) channel of the government's Public Food Distribution System (PFDS). OMS prices for these commodities were set at levels slightly below market prices, and sales were made when necessary to prevent sharp increases in market prices. Over the period reviewed, OMS rice and wheat prices usually remained below the equivalent border prices, as did the prices of non-Title III foodgrains distributed through the PFDS, but the gap between the domestic and border prices narrowed. (See Section D2 and Table H.)

Title III cotton was processed into yarn by public sector mills and sold to private handloom operators. Soybean oil was processed by public sector plants sold to private sector distributors. Both US cotton and soybean oil were priced higher than competing commodities from other international suppliers, requiring that the Bangladesh government subsidize the processing of the U.S. commodities. No data are available comparing domestic and border prices for cotton and soybean oil. (See Section D6.)

Conclusions: The Title III programs were generally successful in promoting marketing arrangements that favored the private sector. Grain dealers, for example, were made the sole distributors of OMS rice and wheat and also benefited from a relaxation of government controls over their business practices. Edible oil dealers were given the right to market all Title III soybean oil, and private sector oil processing capacity has increased. Handloom operators benefited from secure access to Title III cotton yarn and the removal of restrictions on the capacity of private mills. (See Section D6.)

6. How appropriate are incentives to producers of commodities supplied by PL-480, and/or which compete with PL-480 commodities? Are output (producer) prices and input prices distorted in one direction or another, using international prices as a standard? Is the recipient taking adequate steps to encourage agricultural production?

Conclusion: The government's record in providing adequate agricultural production incentives has been mixed. While the government took such positive steps as increasing investment in irrigation, drainage, and flood control, it did not always adequately defend the foodgrain procurement prices it had announced prior to the crop season. Failing to follow through on its commitment may have had a negative impact on rice and wheat production incentives, especially at a time when fertilizer subsidies were being reduced. Incentives for

oilseeds production also may have been reduced by edible oil imports and subsidized sales of non-PL-480 edible oil through the ration system. (See Section E5.)

7. How appropriate are prices to consumers of PL-480 commodities and/or those commodities which are close substitutes? Are prices subsidized either directly or indirectly? If so, are distributional (equity) objectives efficiently met? Do these subsidies have a significant impact on the balance of payments and/or the budget?

Conclusions: The Title III programs have been successful in supporting some improtant reforms in the PFDS. In particular, the acceptance and use of CMS by the government has helped to stabilize consumer foodgrain prices. In addition, targetting of foodgrains to the truly needy improved, and the subsidy cost of the monetized ration channels declined over the period. However, the overall cost of the subsidy, including the costs of the fully subsidized ration channels, increased, and some favored groups did not have to bear the cost of decreased subsidies in the monetized channels. (See Section D4 and Tables B, C, and D.)

Policy Dialogue

8. What policy changes have been associated with the PL-480 program? What effects were they intended to achieve? How has implementation progressed? How have the actual results compared with the expected results? To what extent were the policy changes attributable to the PL-480 program?

As noted above, the Title III programs were intended to induce/support policies which would maintain agricultural production incentives, stabilize food prices, reform and lead to better management of the government food distribution system, and bring about more participation by the private sector in agricultural marketing and processing.

Conclusion: The Title III programs achieved some notable successes in food and agricultural policy, particularly in instituting open market sales to stabilize food prices, in reforming the ration system, and in encouraging the private sector. It is not possible to attribute the government's favorable actions in these areas exclusively to Title III, since the World Bank through its policy dialogue was pursuing some of the same reforms, but it is doubtful that at least some reforms would have been made in the absence of Title III. The new FY 87 - FY 89 program provides an opportunity to support further reforms and improve performance in such areas as agricultural price incentives. (See Sections D, E3, and F.)

Budget/Local Currency

9. Are local currency proceeds programmed? How are they generated and accounted for? What is the value in local currency of these proceeds? How are they used?

From FY 79 - FY 85, $256 million equivalent in taka was generated from sales of Title III commodities and placed in a special account. The proceeds were programmed and disbursed for a variety of activities aimed at accelerating agricultural production, especially activities in fertilizer and irrigation development. During this period, a large gap developed between the cumulative value of Title III commodity shipments and the cumulative proceeds from sales of these commodities. The new Title III program is designed to solve this problem. (See Section D7 and F.

10. What is the impact of the PL 480 program on the BDG budget? What can be said about the productivity of these expenditures?

PL 480 food aid increased the revenues of the BDG by approximately 3 percent of the country's annual development budget in FY 85. Because of the considerable shortfalls in local currency generations, not all of the expenditure increases attributable to the PL 480 revenue increase can be traced. Hence with respect to the BDG expenditure of funds that did not generate local currencies into the special account--about 45 percent of the program total--nothing can be said about the productivity of these expenditures. On the other hand, PL 480 food aid that has generated local currencies in the special account may be said to be as productive as the projects that USAID and the BDG have agreed to fund. (See Section E2.)

11. What are the staffing inputs associated with the program? Is the program particularly staff-intensive? Are the right kinds of staff involved in view of the objectives and impacts of the program?

Conclusion: The Title III programs were staff intensive, requiring a Food for Peace Officer on a full-time basis as well as part-time support from several other US direct hires in the Mission. An FSN professional also worked full time on the programs. This mix of staff was appropriate for the programs. (See Section D7.)

13. Can tangible, developmentally meaningful impacts of the program be identified? How do these imports relate to the basic program objectives?

Conclusions: Monitoring and evaluation of activities supported with local currency generations concentrated on accountability for funds and performance at the input - output level. Thus, no conclusions can be drawn about economic returns or other developmental impacts of the local projects. (See Section D7.)

BANGLADESH PL-480 PAPER

Introduction

The PL-480 Program in Bangladesh has been the subject of numerous studies and evaluations in recent years. These have included country case studies, analyses supporting PL-480 program proposals, and annual evaluations, all of which were carried out or sponsored by AID, as well as various studies by independent researchers. The high level of interest in PL-480 and the food and agriculture system in general is not surprising, given the large amounts of food aid which have been provided to Bangladesh by the U.S. and other donors, and the severity of the chronic poverty and malnutrition which exist in that country.

This paper draws heavily on the available literature. It attempts to reach some conclusions about the developmental appropriateness and effectiveness of PL-480 Title III programs in achieving their objectives since the first such program was initiated in FY 78. Special emphasis is given to the policy aspects of these programs, since policy dialogue and reform have been key program elements.

B. Background

The Bangladesh Title I and III programs have been among the largest USG food aid programs in the world. From FY 73 through FY 85 commodities valued at $974 million were provided under Titles I and III, including $534 million (3.7 million MT) of wheat, $262 million (831 thousand MT) of rice, $125 million (212 thousand MT) of soybean oil, and $53 million (36 thousand MT) of cotton (Table A). From CY 78 through CY 85, $478, million of these commodities (mostly wheat) was supplied under Title III alone. Between July 1980 and June 1985, Title III wheat and rice imports represented 26 percent of all concessional foodgrain imports by Bangladesh and two percent of all foodgrain available for consumption.

The objectives and content of the Title I and III programs have evolved over time in response to changing circumstances. The emphasis of the Title I programs of FY 73-80 changed from famine relief (1972-75) to agricultural development (1975-80). The Title III Food for Development programs of FY 78-86 have continued and expanded on the development themes of the later Title I programs. All of the Title III programs have been directed at the broad goals of agricultural development (increased agricultural production and improved distribution and storage) and food security.

Converting from Title I to Title III when the opportunity presented itself in the late 1970's was attractive to both AID and Government of Bangladesh (BDG). The principal selling point from the BDG's perspective was the "loan forgiveness" provision of Title III and the security afforded by a multiyear food aid commitment. AID, on the other hand, saw an opportunity to build more policy content into the agreement's development provisions. Indeed, the hallmark of the Bangladesh Title III programs has been the policy measures incorporated into the FY 78, 82, and the just - signed 87 agreements.

C. Title III Program Objectives and Content

The agricultural production and food security goals to be pursued under the FY 78 Title III agreement were translated into four specific objectives:

1. Maintenance of incentive prices (prices which would encourage farmers to adopt and use HYV, fertilizers, and other more productive inputs) during harvest periods.

2. Constraint of foodgrain prices for the benefit of poor rural consumers during the months when foodgrain supplies were low.

3. Distribution of a larger share of subsidized foodgrains to the poor.

4. Support for selected BDG programs/projects in agriculture, rural development, population control, and health directed at the rural poor.

These four objectives were to be pursued in the following manner: Incentive prices were to be maintained through the existing government wheat and rice procurement program, foodgrain (rice) prices to the rural poor held down through a program of open market sales (OMS) of Title III wheat, and the poor to receive a larger share of the subsidized food by distributing Title III wheat through the existing Modified Ration System (MR) of the PFDS. Support for development programs/projects was to come from local currency sales proceeds of Title III commodities (mostly wheat plus a small amount of soybean oil).

The FY 78 agreement was amended six times. This resulted in a number of policy and procedural changes, and the following objectives were added:

1. Maintenance and proper management of adequate national foodgrain reserves.

2. Phasing out major elements of the PFDS by the time foodgrain self-sufficiency is achieved.

3. Encouraging participation of the private sector the marketing and processing of foodgrains and vegetable oils.

The second Title III agreement, signed in March 1982, carried forward the goals and major objectives of the earlier agreement. Changes in the program (there were 12 amendments) were minor, but the 1982 agreement did incorporate the concept of a flexible commodity mix to include non-foodgrains if appropriate. This allowed for the inclusion of cotton in the commodity mix as well as wheat, rice, and soybean oil. The program also expanded the first program's promotion of the private sector by adding support for private sector cotton spinning.

D. Title III Program Implementation and Impacts

1. Incentive prices to farmers

AID evaluations indicate that the BDG's performance in supporting farm prices to encourage use of HYV technology has been uneven. An evaluation of the first 16 months of the FY 78 Title III program concluded that the BDG had carried out effective procurement programs, based on generally adequate prices to farmers, during both the 1977/78 and 1978/79 rice harvests, and in the wheat harvest of 1979. However, the evaluation team also concluded that the government had been more interested in procurement to meet the perceived needs of the ration system than in "the more appropriate objective" of providing adequate incentive prices. They recommended that these priorities be reversed, specifically through announcing procurement prices well in advance of planting seasons and by encouraging private traders to act as intermediaries to reach small farmers, especially in remote areas.

A later evaluation (conducted in FY 1982) concluded that although there had been some difficulties with the procurement program, the overall effect had been positive. Although the evaluators found that the program had begun to function effectively only in FY 1981, they concluded that the program was partly responsible for the growth in use of HYV technology and production gains after 1975.

The Mission's Program Approval Assistance Document (PAAD) for the just-initiated FY 1987-89 Title III program was much less enthusiastic about the BDG's procurement/price support performance. On the positive side, it noted that the ratio of procurement prices to fertilizer prices has consistently been higher in Bangladesh than in nearby rice-and- wheat-producing countries. It also credited the Government with announcing what appeared to be real incentive prices well in advance of crop seasons. On the negative side, however, the PAAD repeated the criticism of the evaluation seven years earlier, i.e., that the primary objective of government procurement still is to obtain foodgrains for the ration system. The Mission found in 1986, for example, that the Government took a number of actions which discouraged procurement in order not to add to its already large stock levels. In addition, in 1986, the Government delayed announcing procurement prices. As a result, procurement was minimal, even in districts with substantial surpluses of boro rice and where market prices were well below procurement prices.

2. Constraint of consumer foodgrain prices

Of the various elements in the Title III programs, open market sales has been the most innovative. The intent of OMS has been to protect poor consumers throughout Bangladesh from sharp increases in foodgrain prices. As originally conceived, the idea was to release government stocks of wheat onto the market whenever necessary to keep foodgrain prices from exceeding a predetermined level. Later, the objective became one of moderating price increases rather than holding prices at a given level. This change took place because the BDG feared that attempting to hold the price could lead to a sustained drawdown of stocks at a time of severe shortages. Implementation of the concept was further adjusted (in 1981) to allow for release of rice and unmilled paddy as well as wheat through OMS. The purpose in this case was to strengthen the impact of OMS on market prices.

Currently OMS aims to limit seasonal price increases to 20-25 percent of the procurement price. When a certain "trigger" price is exceeded, the Government begins OMS sales through private traders. For rice, this trigger or initial OMS price is set in all except Statutory Rationing (SR) areas at a level about 15 percent above the rice procurement price.[1/] Once

1/ The level is about 20 percent in SR areas.

the market price rises to a level about 10 percent above the initial OMS price, a new OMS sales price replaces the initial price. This price is set about halfway between the current market price and the initial OMS price. If market prices continue to rise, the OMS price moves up also.

AID evaluations indicate that, after a rough beginning, the BDG has made steady progress towards meeting the price stabilization/consumer protection objectives of OMS. In 1979, the Mission's evaluators were highly critical of the OMS program, concluding that OMS wheat sales had been much lower than anticipated and had not held down rice prices. They pointed out that although low stock levels and "unusual marketing conditions" were partly responsible, the BDG's actions had also contributed to the failure. They faulted the BDG for poor management which resulted in trigger prices not being used as the basis for OMS sales in some localities, too much of the OMS wheat going to the capital city rather than rural areas, and too much of the OMS wheat being sold to flour millers, whose products are consumed mainly by wealthier people. The evaluators also criticized the BDG's restrictions on the quantities of OMS wheat which licensed private dealers were permitted to sell and the prices they could charge.

According to the 1982 evaluation, the problems identified above were the subject of extended negotiations between the Mission and the BDG. The dialogue led to tightened control of OMS operations and revision of certain procedures.

The BDG-Mission dialogue seems to have contributed greatly to the improved performance of OMS observed later. In September-October 1982, for example, OMS sales rose significantly following sharp food grain price increases in early September. The result was that foodgrain prices peaked in October and declined in November-December to levels low enough not to require further OMS sales. OMS continued to operate effectively in FY 84 and FY 85, although some generally minor administrative problems remained.

3. Distribution of Title III foodgrains to the poor

Both of the Title III programs have used PL-480 commodities (mainly wheat) to seek to improve the food security of the truly needy. The primary means was through the OMS, although the MR ration channel was also used in the first program. The fact that both mechanisms were used initially reflects a compromise between the USG and BDG which was reached in negotiating the first Title III agreement. At that time AID had argued that OMS was a more efficient and equitable tool for

food distribution than MR and should be the sole means for distribution of Title III foodgrains. The BDG argued that the MR program already helped the rural poor and should be continued (this was despite documented evidence that the impact of MR on the truly needy was insignificant).

AID evaluations indicate that wheat channelled through MR under the first agreement had a negligible impact on the rural poor. Distribution was erratic and eligible recipients were not limited to the truly needy. This experience helped to strengthen the USG's case for CMS as the more appropriate tool for promoting the food security of the rural poor.

4. Phasing down the PFDS

Both Title III agreements have aimed to scale down the costs of subsidies in the monetized channels of the ration system and to better target foodgrain distributions to the poor by increasing the share of the nonmonetized channels in total distributions.[1/]. The second agreement went further than the first in that it required the BDG to eliminate parts of the

1/The monetized channels include Statutory Rationing, Modified Rationing, Essential Priorities, Other Priorities, Large Employers, Marketing Operations, and Flour Mills. The nonmonetized channels include Food for Work, Gratuitous Relief and Vulnerable Group Feeding.

system. This requirement was weakened, however, by the fact that the time limit for compliance coincided with the date by which Bangladesh was to achieve food "self-sufficiency". It was assumed that at that point (about 1985) the PFDS would need only three of the distribution channels which existed in 1982, i.e., OMS, Food for Work (FFW), and the relief channels, since the needs of most people could be met through the open market. As it turned out, the self-sufficiency target date proved to be unrealistic.

Three measures were to be taken under the second agreement to reduce subsidies: a gradual increase of the ration price to bring it closer to the free market price; a reduction in the rice portion of the ration and the eventual withdrawal of rice from the ration system; and a reduction in the ration quota for individual cardholders.

Recent evaluations report some progress but also some remaining problems in phasing down and redirecting the ration system to meet the needs of the poor. The FY 86 annual Title III evaluation was generally quite positive in its assessment, concluding that, when measured against the situation in 1974, "policy and program modifications have been extraordinary and positive while chronic food deficits remain." To substantiate their conclusion, the evaluators cited such evidence as a reduction of the share of rice in total PFDS distributions from 37 percent in BDG FY 81 to 24 percent in FY 85 (Table B),[1] and the growth in the proportion of total PFDS distributions made through targeted FFW, Vulnerable Group Feeding (VGF), and other relief channels from 21 percent in 1981 to 44 percent in 1985 (Table C).[1]

The PAAD for the proposed FY 87-89 program also acknowledges the progress the BDG has made to date, but points out that further improvements are needed. On the positive side, it credits the BDG with reducing the part of the total PFDS subsidy due to the difference between ration prices for monetized channels and market prices. Data provided in the PAAD support this finding, as the subsidy cost attributable to operations of the monetized channels declined from 999.8 million taka ($61.2 million) in FY 80/81 to 895.1 million taka ($34.3 million) in FY 84/85. Although the volume of foodgrains distributed through these channels increased by 27.8% over the period, this was more than offset by the reduction in the unit subsidy. By 1985, the average ration price of rice had reached 90 percent of the market price as compared to 74 percent in 1981, while the average ration price of wheat had risen to 96 percent of the market price as compared to 90 percent in 1981.

1/ Although the evaluators' data do not coincide exactly with the table data, the general trend is apparent in both data sets.

Despite the reduction in the subsidy cost of the monetized ration channels, the overall cost of the subsidy (not counting PFDS operating costs) increased from 2.47 billion taka ($150.89 million) in FY 80/81 to 4.94 billion taka ($189.71 million) in FY 84/85. This was due to the 125 percent increase in the volume of foodgrains moving through the nonmonetized channels. If FFW distributions are considered salary in-kind rather than subsidized foodgrains, the total cost of the subsidy grew over the period from 1.17 billion taka ($71.6 million) to 2.4 billion taka ($92.2 million). Noting the growth in the subsidy, the World Bank warned in its 1986 Country Economic Memorandum that if PFDS subsidies are not reduced, the BDG will have difficulty (a) adjusting PFDS sales volumes to effectively stabilize grain prices and (b) meeting the needs of the poorer people through the relief channels.

The PAAD for the FY 87-89 program also concluded that "many inequities" remain in the PFDS. This is supported, for example, by the fact that between FY 80/81 and FY 84/85 the Essential Priorities (EP) channel, which serve the police and military, received an increasing share of the total subsidy attributable to the monetized channels (Annex Table D). While the ration price for other monetized ration channels increased, the EP price remained at the level it had been in 1974 (Annex Table H). In addition, while the individual ration quotas for some monetized channels (there are no quotas for EP) have been reduced as called for in the agreement, the quotas are now so low that the benefits are out-weighed by the costs of operating the channels.

5. National foodgrain reserves

The BDG maintains reserve stocks of foodgrains to meet needs arising out of emergencies and to stabilize foodgrain prices. The Title III programs have sought to improve the Government's capacity and incentives to carry out these functions, especially by allowing PL-480 wheat to be used for building and maintaining foodgrain reserves. The second agreement also made the value of the wheat used for reserves eligible for offset credit provided that agreed-upon total foodgrain reserves were maintained.

Aid evaluations indicate that over the period of the Title III programs, the BDG maintained and managed its reserve stocks fairly well. This was despite the fact that stocks were not maintained at levels high enough to qualify the BDG for loan forgiveness under the "commodity use offset" provision. When national food security was threatened by a drought in 1983 and floods in the summer of 1984, the BDG responded quickly by importing substantial amounts of grain using its own resources

and calling for emergency food aid to avert famine. The imported foodgrains were distributed in time to hold down price increases and protect the most vulnerable people from starvation. Contributing to this success were such factors as additions to public storage capacity in prior years, improvements in the Food Ministry's management and logistical capacity, and targeting of relief operations using a quantitative index of flood damage. Ironically, however, the BDG's large imports in 1984 and build-up of stock levels led to a problem of excess stocks in 1985 when crop production was greater than expected. With continued good crops in 1986, the BDG was unable to efficiently dispose of the excess stocks and, as noted earlier, has been reluctant to procure foodgrains to maintain incentive prices for farmers.

6. Support for the private sector

Promotion of the private sector in Bangladesh has long been a theme of Title I and III programs. PL-480 commodities have been used directly to support private sector development, with the scope of activity broadening as new commodities were added to the programs.

Foodgrains

The Title III agreements have required that only private grain dealers be used as distributors of OMS wheat and rice. The agreements have also sought both to loosen government controls over these dealers, e.g., by allowing them to sell OMS commodities in any amount to anyone and at any price, and to provide dealers government-sponsored credit and market information services.

Although the program evaluations do not address the question explicitly, it appears that the BDG has permitted OMS dealers to operate with increasing freedom over time. In 1981, for example, the anti-hoarding laws were liberalized to increase the amount of grain which could be held by dealers. In addition, the fact that OMS distributions have been executed successfully indicates that dealers have been able to operate with reasonable freedom. On the other hand, the BDG has apparently not taken any special pains to assist the dealers to carry out their functions more efficiently.

Soybean oil

The Title III Agreement of 1982 stipulated that (a) PL-480 soybean oil should be sold through private sector wholesale and retail outlets, and not through the ration system, (b) the amount of vegetable oil in the ration system should not be increased, and (c) the BDG should analyze and make recommendations on how policies affecting the vegetable oil industry should be adjusted to encourage the local industry.

AID evaluations report that the first two objectives were met.[1/] However, due to the high cost (including shipping) of Title III unrefined soybean oil relative to the cost of competing vegetable oils, including unrefined soybean oil from other sources and imported refined palm oil, private oil processors in Bangladesh have not been interested in purchasing the Title III oils. As a result, the public refining industry (owned by the Bangladesh Sugar and Food Industries Corporation) has become the sole handler of U.S. soybean oil. Public refineries have been willing to take the oil because the BDG

1/The evaluations are silent on the question of whether the BDG achieved the third objective. privatized has yet not been fulfilled.

has been willing to absorb the difference in cost between the U.S. oils and cheaper competing oils.

Despite the continued public sector role in the industry, increased privatization of the oil processing industry is occurring. During the period of the second program, private sector capacity increased from 34,000 MT to 50,000 MT annually. Public sector capacity, on the other hand, first declined from 24,000 MT to 15,000 MT but then increased to 20,000 MT. Thus, in 1986, the expectation of the FY 82 Title III evaluation team that the industry would be completely privatized has not yet been fulfilled.

Cotton

Cotton was used during the second Title III program to promote development of the privately owned, rural-based cotton spinning (handloom) industry. The industry is labor intensive and employs primarily women. The agreement contained provisions aimed at (a) removing restrictions on the capacity (number of spindles) of private mills; (b) ensuring that private mills receive a proportionate share of cotton imported by the Government; and (c) removing administrative and fiscal constraints on development of the cotton industry.

AID documents conclude that the above objectives have been achieved. The size limitation on new spinning mills was removed in 1982. By FY 85 the public sector Bangladesh Textile Mills Corporation (BTMC) had turned over 27 of its 56 textile mills to the private sector. In addition, four new private textile factories had been established, and textile output increased 22 percent between FY 82 and FY 85.

Like U.S. soybean oil, U.S. cotton is currently priced higher than cotton from other sources. As a result, only the BTMC is willing to use U.S. cotton. At the same time, BTMC does provide 80% of its yarn to rural handlooms at controlled prices.

7. Support for BDG development activities

As noted earlier, the two Bangladesh Title III programs have been directed primarily at improving BDG food and agricultural policies. Use of local currency proceeds of sales of PL-480 commodities to support BDG programs and projects has played a lesser role in program justification, with activities funded with taka generations intended to reinforce the policy initiatives.

Local currency proceeds have been used mainly to help accelerate agricultural production. Specifically, they have been used, in conjunction with funds provided by the BDG and other donors, to finance projects in the BDG's Medium-Term Foodgrain Production Plan and other rural development projects. The bulk of the proceeds has gone for irrigation projects and fertilizer development (99% through BDG FY 85), although small amounts have also financed construction of foodgrain warehouses, rural feeder roads, and bridges and culverts (Table E). During BDG FYs 79 and 80, all of the taka generations were allocated to the fertilizer project, while from BDG FY 81 through FY 85, nearly all of the proceeds supported irrigation projects. From FY 79 through FY 85, the Mission limited itself in terms of funding decisions to the review and approval of project proposals from the BDG. Beginning in FY 86, however, the Mission began to take a more active role in programming the local currencies by ensuringthat a portion of the generations was allocated to USAID's projects, e.g., the Agricultural Research Project. This practice is expected to continue under the new Title III program.

From US FY 79-FY 85, $256 million equivalent in taka was generated from sales of Title III wheat, rice, soybean oil, and cotton. The proceeds were deposited into a Special Account, from which $233 million was disbursed for approved local projects.1/ The bulk of the proceeds was generated by sales of foodgrains (mostly wheat), with 1.4 million MT of wheat, 106,000 MT of rice, 87,000 MT of soybean oil, and 83,000 bales of cotton sold through FY 85 .

Program evaluations discuss several implementation problems related to local currency generations and projects. The most prominent problem is the large "gap" which developed between the cumulative value of Title III commodity shipments and the cumulative proceeds from sales of these commodities .2/ While present from the beginning, the gap grew more rapidly following the elimination in FY 82 of MR as an authorized channel for loan forgiveness eligibility. As noted earlier, this measure was intended to buttress the Mission's policy

1/$202 million had been certified for Currency Use Offset through FY 85.

2/Most of the gap was accounted for by differentials between shipments and local sales of wheat.

reform efforts by encouraging the BDG to rely primarily on the OMS as the consumer price stabilization instrument. An unexpected development, however, was that the growing success of the OMS in inducing private traders to keep their prices below OMS prices, coupled with the high levels of foodgrain imports (1985) and good domestic harvests, kept free market prices generally low. As a result, OMS sales (and local currency generations) were held down, causing the generation gap to widen. In FY 85, sales to Flour Mills and Large Employers were made eligible for loan forgiveness under the agreement because of a BDG decision to sell Title III foodgrains through these PFDS channels at OMS prices. In spite of these actions, the generation gap had reached the equivalent of about $217 million by mid-1986. Accelerating take generations to reduce the gap and make available additional financial resources for development projects is an important objective of the FY 87-89 program.

Other problems were identified in a 1985 GAO report entitled, "Financial and Management Improvements Needed in the Food for Development Program". The GAO concluded essentially that USAID had not placed sufficient priority on monitoring project progress, evaluating effectiveness of these projects, and ensuring that expenditures were made for agreed purposes. In their view, satisfactory implementation of these projects was the only basis for determining eligibility for loan forgiveness. USAID argued on the other hand that, based on potential developmental impact, priority should be placed on policy reform rather than on projects, and that the Mission's limited staff resources and leverage with the BDG should be employed accordingly. The FY 85 and 86 Title III evaluations carried out by AID/W and USDA personnel generally supported the Mission's position. In addition, they supported USAID's view that other "hands-on" donors, which are the primary sources of funds for the projects AID supports, are capable of and should be relied on, to monitor the projects. The FY 86 evaluation recommended that the Mission fund only those projects which are primarily funded by other hands-on donors and USAID.

The Title III programs have been and continue to be staff intensive, requiring a Food for Peace Officer on a full-time basis as well as part-time support from the Supervising Agricultural Development Officer and several other direct hire Americans (e.g., economists) in the Office of Food and Agriculture. A full-time FSN professional was added to the staff in FY 83 to track the expenditure of local currency funds on the various projects, visit the project sites and observe progress, and create data files on these projects. AID program evaluations indicate that this FSN's work has been instrumental

in strengthening the Mission's monitoring of local project implementation, although apparently not enough to satisfy the GAO. What is clear is that USAID's staff resources will not be increasing and that monitoring and evaluation arrangements built into the new Title III program will be critical to effective implementation of both the policy and project aspects.

Despite the large amount of Title III local currency which was disbursed over the period covered by the two programs, very little information is available concerning the developmental impacts (especially in any quantitative sense) of the projects which the generations helped to finance. This seems to reflect the lower priority which these projects were accorded in a "policy-driven" program. Project monitoring and evaluations concentrated on accountability for funds and performance at the input-output level (e.g., accomplishments of targets for new area irrigated). Internal rates of return were apparently calculated for a few completed irrigation projects partially financed by IDA, but this appears to have been the exception rather than the rule. The latest Title III evaluation (FY 86) does indicate that the current projects "are in general doing a satisfactory job of moving toward the BDG goal of agricultural and rural infrastructure development", but the basis for this conclusion is not explained.

E. Some Program Issues

1. Macroeconomic justification for Title III assistance

Macroeconomic effects work through the real resource transfer involved in the PL 480 program. In the case of Bangladesh, the PL 480 program supplies food that the food-short Bangladesh economy would import in any case, and thereby primarily helps the country save foreign exchange that can be spent for other purposes. Hence, the real resource transfer can be said to be foreign exchange. This section examines the nature of this transfer and evaluates the macroeconomic environment in which it takes place.

Without food aid, recent experience indicates, the BDG would probably use its scarce foreign exchange and its limited credit in international financial markets to purchase additional food to keep the food supply at what might be called "acceptable" levels. Acceptable levels in this case means levels that are apparently deemed necessary by the BDG, but may still be below minimum nutritional requirements. For example, in Bangladesh FY 1986, Bangladesh would have required imports of 2.9 million metric tons of foodgrains, in addition to domestic production of 16.07 million MT, to meet minimum nutritional requirements as prescribed by the FAO. In fact, foodgrains imports are

estimated to have been 1.2 million MT, leaving a considerable gap in meeting the nutritional target level.[17] Table G shows this acceptable level since FY 1981 to have been about 175 kilograms of foodgrains per capita. The most notable deviation from this level-- 186 kilograms in 1985 --was caused by miscalculating the effects of poor weather conditions. The BDC anticipated that the domestic production of foodgrains would decline because of flooding, and therefore borrowed overseas to finance commercial purchases of foodgrains. In fact, the harvest in 1985 was adequate and so the additional commercially purchased food grains brought the country's per capita food supply to an atypically high level.

This apparent policy of keeping the food supply at least at an acceptable level implies that food aid provides imports that would otherwise have to be purchase abroad. As a consequence, the aid enables Bangladesh to free up foreign exchange for other purposes and allows more leeway in managing its balance of payments situation.

17/ Closing the nutritional gap has proved to be difficult. Between 1981 and 1986 per capita foodgrain production (rice plus wheat) declined slightly (Table F).

How the country manages its foreign exchange situation in turn reflects other aspects of economic policy; for example, the exchange rate, the functioning of agricultural markets, the growth of non-traditional exports, the functioning of credit markets, and much more. The foreign exchange situation also reflects a number of factors out of the government's control, such as the world price of jute, foreign aid levels, and weather conditions. Nonetheless, in the long-term effort to stimulate growth and bring the country to a higher level of self-reliance, foreign exchange, to be used efficiently, must be allocated in a generally favorable policy environment. How well has Bangladesh progressed toward creating such an environment?

Recent years have witnessed significant improvements in economic policy-making in Bangladesh. Macroeconomic management has been sound and the government has taken steps to increase the competitiveness and efficiency of the economy. Nonetheless, much still remains to be accomplished if Bangladesh is to achieve satisfactory levels of growth and to resolve the problem of its overwhelming poverty.

The Bangladesh foreign exchange situation typically shows how much has been accomplished and also how much more needs to be done. Bangladesh suffers from a severe foreign exchange constraint. Usually Bangladesh earns 60 percent of the foreign exchange it uses to pay for imports and receives the remainder from foreign aid. The supply of non-aid foreign exchange comes from traditional exports, mainly jute, from non-traditional exports, such as garments and frozen shrimp, and from worker's remittances. The demand for foreign exchange comes from all categories of goods--capital, consumption, and intermediate--and reflects the country's narrow natural resource base and the impoverished state of the economy.

Among the main policies affecting the foreign exchange markets to that of the exchange rate. In general, the BDG has moved toward a freer, more market oriented, exchange rate in the past few years by reducing the differential in the dual exchange rate system between the controlled and the free secondary market rates 15 percent in FY 85 to an expected 7.5 percent in FY 87. Furthermore, the Government has expanded the scope of the free secondary market. Hence, the share of exports in the secondary market increased from 27 percent in FY 85 to 53 percent in FY 86 and is expected to reach 71 percent in FY 87. Similarly, the share of imports passing through the secondary market increased from 20 percent in FY 85 to 28 percent in FY 86 to an expected 42 percent in FY 87. Following changes announced this year, all non-government imports, except those financed by foreign aid or through barter arrangements, will

come through the secondary market.

To some extent these generally positive steps to promote exports through exchange rate policy have been undermined by the poor performance of the export promotion efforts and by anomalies that persist in the pattern of tariff and quota protection. Bangladesh still suffers from poor export credit quarantee facilities and from inefficient and inflexible import rules that inhibit exporting industries from procuring supplies on a timely basis. Also, some tariffs are higher on inputs than on outputs and the level of tariffs is still quite high. Quotas also restrict the supply of inputs to small-scale manufactures.

These negative aspects of the trade regime are what still remain to be corrected after the system has been vastly improved over the past few years. Futhermore, the BDG has agreed to address these remaining problems and to continue its efforts to unify the dual exchange rate system. Similarly, in other areas of policy reform--e.g., agricultural pricing, privatization, and economic management--the BDG has displayed a commendable capacity and commitment for change in the direction of freer markets and economic efficiency. Also, the recently completed negotiations with the IMF and IBRD on policy linked programs for the structural adjustment facility (SAF) and the second tranche of the Import Procurement Credits (IPC XIII) augur well for the future.

The main objective of the adjustment programs of the IMF, IBRD, and AID has been to overcome the structural weaknesses of the Bangladesh economy--inefficient resource use, inadequate export incentivies, a poor infrastructure base, and an inadequate policy basis for agricultural growth.

In regard to this objective, economic performance in Bangladesh was satisfactory during FY 1986, although overall GDP growth was disappointing at 3.9 percent. The IMF found, for example, in January 1987, that the country was meeting most of the targets agreed to under a 19 month stand-by arrangement signed in December 1985. The budget deficit had been reduced, primarily as a result of lower than expected expenditures but also because of higher revenues. Furthermore, the government seems to be taking steps to strengthen the fiscal system. Monetary growth was moderate and in line with the changes in the economy generally and inflation declined to below 10 percent.

A major problem noted by the IMF and other donors was the rate of loan recovery, which fell to 27 percent in agriculture and 10 percent for the development finance institutions' loans to

industry. Nonetheless, the BDG has recently taken strong steps to improve recovery rates and preliminary data for July through December, 1986 suggest some progress.

A policy framework paper required by the IMF for the structural adjustment facility loan commits the BDG to continuing and deepening these trade, financial, managerial and other reforms using the recent $140 million grant under the joint IMF/IBRD structural adjustment facility (SAF) as a incentive. Through the SAF, the BDG has agreed to increase tax collections and loan recoveries, and to continu previous policies of privatization and banking and trade liberalization.

2. Impact of local currency proceeds on the BDG budget

By supplying free resources to the economy and requiring local currency transfers--which are frequently not made--into a special account, the PL 480 program has a complex budgetary effect. This can be explained by first examing the situation without PL 480 food aid. In this case, the BDG would be likely to spend resources out of its budget to purchase food overseas and maintain a acceptable level of food supplies as discussed above. These funds would be derived from the eventual sale of the food to the public or from other revenues depending upon how the BDG chooses to deal with the transaction. In this case the acquisition of food adds nothing to the budget: budget funds are expended, food is purchased, and revenues are generated (by sales, taxes, etc) to compensate. The budget is left at the same level as it was before.

On the other hand, with PL 480 food aid (both Titles II and III), the BDG is essentially given revenue in the form of food and the budget is increased accordingly. For example, in Bangladesh FY 84 and FY 85, the BDG received the revenue equivalent of taka 1.0 billion and taka 0.9 billion respectively. This amounted to approximately 3 percent of Bangladesh's annual development budget in each year--the level by which the revenue side of the country's budget increased regardless of whether local currencies were generated into the special account.

According to the agreement between the BDG and USAID, the increased revenue generated by the Title III program requires the transfer of an equivalent amount of taka into a special account to be spent in ways jointly agreed to by USAID and the BDG. As mentioned above, however, not all shipments of PL 480 Title III food have yet generated local currency equivalents. In fact, of $473 million worth of commodities sent to Bangladesh under the latest Title III program, only $256 million in taka had been generated through sales and deposited

into the special account as of 1986. Nonetheless, by raising the level of revenues in the Bangladesh budget, PL 480 shipments have a budgetary impact. This happens because the Bangladesh budget is increased on the revenue side, and consequently more revenues are available for expenditure outside of the PL 480 program.

The main difference between what happens when local currencies are generated and when they are not concerns who controls the expenditure of the revenue. When taka are deposited into the special account the funds can be spent only for purposes jointly agreed to by USAID and the BDG. When funds are not deposited in the special account, the BDG has the sole authority over how to spend the additional revenue. Hence, the ungenerated local currency can be described as fungible in contrast to the generated local currency which must be spent on purpose jointly agreed to by USAID and the BDG.

Regarding inflation, the net effect should not create pressures for price increases with or without local currency generations because the budget is increased and a comparable amount of resources (food aid) is added to the economy.

Tracing the development impact of the increased budget revenues is complicated by the question of control. The impact from the funds jointly controlled by USAID and the BDG is relatively easy to evaluate and is the same as the impact of the projects the money is being spent on. This is to say, if the project receiving the special account funding is worthy and contributes to development, then its impact can be evaluated and characterized the same way. On the other hand, the impact from funds outside of the joint control of USAID and the BDG is impossible to trace in the budget. Such funds could be used, for example, on worthy development projects or on unworthy and inefficient subsidies.

3. Attribution of policy reforms

Evaluators of the Bangladesh Title III programs have differed on the question of to what extent BDG policy reforms can be attributed to Title III. The GAO, in its 1985 review of the programs in Bangladesh, Bolivia, and Senegal, concluded that no reforms could be attributed directly to Title III because "other donors may have also promoted the reforms, or recipient governments may have already been receptive to the needed changes". On the other hand, the drafters of the AID-sponsored 1985 impact evaluation of the Title I/III in five countries, credited the Bangladesh programs with inducing the BDG to adopt policies which "resulted in substantially increased food production as well as improved marketing and distribution

systems". These evaluators attributed the BDG's willingness to make reforms primarily to the shift from Title I to Title III and the resultant "implicit food security" afforded by the multi-year agreement.

It is not possible to conclude either that Title III was the sole factor responsible for the BDG's policy reforms or that the BDG would not have undertaken these reforms in the absence of Title III. Other donors, notably the World Bank, were active in the food and agricultural policy dialogue with the BDG at the same time that the Mission was, and their positions on such issues as the need to reform the ration system (e.g., to reduce the financial burden imposed by food-grain subsidies), the appropriateness of OMS as a tool for consumer food price stabilization, and the importance of maintaining agricultural production incentives through a government procurement program were virtually identical to those taken by A.I.D. Thus, there was a high degree of agreement among donors concerned with food and agricultural policy in Bangladesh. This unified approach was acknowledged and applauded by most of the teams who have evaluated Title III in Bangladesh. Still, given (a) the significant balance of payments and budget support embodied in the programs and (b) the political sensitivity of some reforms, e.g., those affecting food subsidies, it is doubtful that at least some of the reforms would have been made in the absence of Title III.

4. <u>The Appropriateness of the commodity mix</u>

The mix of commodities provided under the PL 480 programs may be either consistent or in conflict with the basic program objectives. In the case of Bangladesh, the FY 82 Title III agreement stated that rice was to be included "because of the excess supplies of U.S. rice, the short supply of rice in Bangladesh, and because of its expected favorable impact on rural development, specifically on employment and incomes of the poor people (many of whom are women) who work in the private handloom sector. Soybean oil was included because it was anticipated that the need for foodgrain shipments would gradually diminish as Bangladesh moved toward foodgrain self-sufficiency. No specific rationale was given for including wheat, although in earlier Title I programs wheat was introduced as a nutritious, domestically producible, and self-targetting food for the poor.

Looking beyond the language of the agreement, it can be inferred that each of the commodities was intended not only to help reduce deficits caused by inadequate domestic production (and save foreign exchange), but also to support the policy thrusts of the program. That is, wheat and rice were to be

used to encourage reform of the Public Food Distribution System, and soybean oil and cotton were intended to promote development of the private sector.

The mix of commodities has been generally consistent with the Title III program goals. As discussed earlier, the commodities seem to have helped promote policy reform and have clearly helped to fill the gap between Bangladesh's production and consumption of foodgrains, vegetable oil, and cotton. In addition, none of the program evaluations indicates that the Title III commodities has had a significant disincentive effect on domestic production, although the FY 86 evaluation speculates that aggregate food aid from all sources might be creating disincentives.

Despite the "negative determination" concerning the disincentives question reached by AID's annual program evaluations, it does not appear that this finding was based on a rigorous analysis. According to the PAAD for the FY 87-89 program, such an analysis had not been done for at least five years, probably because the PL 480 guidelines do not require a through examination of possible disincentives unless PL 480 food aid approaches 10 percent or more of total staple food consumption over a five year period. In Bangladesh, combined volumes of Title II and Title III foodgrains for 1981-1986 represented about 3 percent of total foodgrain consumption.

The main issue concerning the commodity mix is the appropriateness of rice. Analysis supporting the FY 87-89 PAAD argues that rice should be phased out of the PL 480 program "because of its probable disincentive effect on Bangladesh rice production". The PAAD suggests that concessional rice imports at least in some years have led to government paddy procurement in some surplus rice producing districts at levels which were inadequate to maintain the announced floor price. Including rice in the commodity mix can also be questioned on balance of payments grounds, since wheat, which is more nutritious than rice, costs considerably less that rice. For these reasons, phasing out rice from the Title III program seems logical and desirable from a developmental perspective.

5. <u>Appropriateness of BDG agricultural production policies and programs</u>

As discussed earlier, the Title III programs have sought to promote greater agricultural production mainly through encouraging the BDG to procure enough foodgrains at critical times to maintain production incentives. Local currency proceeds have also been used to help finance agricultural investments especially in irrigation and fertilizer. While

important, the Title III programs were of course only one of many influences which shaped BDG agricultural policies and programs over the FY 78-86 period. For example, other donors provided food and project aid, and the World Bank especially was active in both the policy dialogue and in financing of agricultural investments.

How appropriate were the BDG's agricultural policies and programs during FY 78-86? The World Bank in early 1986 was generally complimentary. The Bank cited several successes achieved between BDG FY 81-85, including (a) agricultural and foodgrain production growth rates which were higher than those recorded in the previous five years; (b) a decline in foodgrain imports as a percentage of total apparent consumption; (c) continued success in diversifying both production and consumption out of rice to wheat; and (d) a decline in the real level of foodgrain prices. The Bank attributed the successesto a number of factors. One factor was an increase in public investment in agriculture, especially in irrigation, drainage, and flood control. Such investment was probably facititated by the large reduction in the fertilizer subsidy over the period. Other factors included the expansion of private sector sales and distribution of irrigation equipment and fertilizer, and more effective price supports for foodgrains.

Despite these favorable developments, the Bank identified some continuing problems and concerns. These included, for example, the poor performance of the government procurement program in FY 86 in supporting prices to foodgrain producers; the slump in sales of irrigation equipment due to a lack of credit, uncertainty about the government's pricing and rental policies, and poor public sector performance in distributing equipment; very low recovery of agricultural loans; and continued (though reduced) subsidies on sales and rental of irrigation equipment. In early 1987, the Bank expressed concern that the growth of rice, wheat, and overall agricultural production was beginning to slow and called for the BDG to place higher priority on increasing the efficiency of the irrigation system, stimulating production of rainfed crops and fish in inland waters, and improving the performance of public sector agencies dealing with agriculture.

The Bank's concerns about slower agricultural growth seem to be justified. As shown in Table F, the average annual growth rate for foodgrain production was lower over the period 1981-86 that for 1978-86 and also was lower than the population growth rate. In addition, producton of important secondary food crops was either stagnant or declined. Production of pulses, for example, fell at an annual rate of 3 percent between 1980 and 1985, while oilseeds production grew by only .3 percent per

year between 1972 and 1983. Seconday crops could not compete with foodgrains, which benefited from the HYV technology as well as government programs (fertilizer, irrigation, credit, procurement) to promote foodgrains production. Incentives for oilseeds production also may have been reduced by edible oil imports and subsidized sales of edible oil through the ration system.

One criterion for evaluating the "appropriateness" of domestic prices is how they compare with international or border prices. As shown in Annex Table H, border prices for rice and wheat were somewhat above domestic (wholesale) prices for most years between BDG FY 80/81 and FY 84/85. However, as world commodity prices dropped over the period, the margin between border and domestic prices narrowed. By FY 84/85, the nominal protection rate (NPR) for wheat was only slightly negative at -4 percent, while the NPR for rice had turned positive at 27 percent.

Interpreting these trends must be done with caution, since (a) only five years data are considered (complete data for a longer period are not available) and (b) the border price calculation is quite sensitive to the exchange rate. To illustrate these points, the 1980/81 border price for rice represented a peak for the period 1975-1984 and thus exceeded the longer term trend line. The NPR for rice for 1980/81, therefore, should be considered an outlier. In addition, the taka may have been overvalued by as much as 10 percent over the FY 80/81 - 84/85 period,[1/] which would have tended to understate the border price in taka terms.

Overall, it would seem accurate to say that during the five years in question, farmers' prices for foodgrains were somewhat but not seriously below international prices. Although data are not available, fertilizer subsidies were also in effect but

1/ Personal communication with Dr. Riazuddin Ahmed of IFPRI.

were reduced during the period, a positive move from the standpoint of economic efficiency. The main problem with respect to pricing policy was that, as noted previously, the government did not always buy enough domestic foodgrains following harvests to maintain prices at the level announced before the season. This may have adversely affected production incentives at a time when production costs were rising.

F. Concluding Comments

The third Title III agreement, which covers FY 87-89, was signed April 17, 1987. The new program continues the policy reform emphasis of the first two programs. In general, it seeks to take policy reforms of the earlier programs one step further, e.g. by eliminating subsidies in two ration channels and abolishing two other channels. It also aims to improve the BDG's performance in certain areas where the policy objectives of the earlier programs were not fully achieved, notably in protecting farmers from sharp declines in prices for their paddy and wheat. Finally, the new program adds elements, e.g. in crop diversification, food demand creation through promotion of labor - intensive employment, and capacity - building for food and agricultural policy analysis within the BDG. While it is obviously too early to predict with confidence the outcomes of the new Title III program, experience with the earlier programs was by and large positive. Clearly, there was resistance by some parts of the BDG to some policy reforms (the Ministry of Food, for example, saw its role more as one of procuring foodgrains domestically for the ration system rather than as one of providing support prices to farmers), and it is thus fair to question the BDG's commitment to such reforms. Still, the Mission, in cooperation with the World Bank and other donors, has persuaded the BDG to make some important improvements in its food and agricultural policies, especially in those affecting the private sector and costs and beneficiaries of the ration system. Continued progress will require sustained policy dialogue and additional resources, and the new Title III program is well designed to meet both of these requirements.

ANE/TR/ARD:D.Alverson:vvb:6/16/87:7-7315:Doc.4200D