A Review of the ANE Bureau's PL-480 Title I and III Programs: A Summary of Key Findings and Issues

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EXECUTIVE SUMMARY

The ANE Bureau currently has PL-480 Title I and III programs in Morocco, Tunisia, Egypt, Yemen, Pakistan, Sri Lanka, Bangladesh, Indonesia, and the Philippines. Case studies of the economic and policy environment in which these programs are implemented were prepared by the Bureau; this paper summarizes major findings and issues from those studies.

Recommendations

The major recommendations drawn from the case studies concern the need for better analysis of these program, with monitoring and evaluation more closely tied to this analysis.

1) More attention needs to be given to the efficiency with which the food and foreign exchange made available by these programs is used. The resources made available by PL 480 Title I and III programs in ANE primarily serve growth and adjustment objectives (as opposed to nutritional objectives). By addressing foreign exchange constraints, the justification should assess the need for additional foreign exchange and the recipient government's efforts to undertake needed structural adjustment. The efficiency of the foreign exchange regime and other economic policies that affect foreign exchange allocation should be carefully analyzed at the planning/justification stage. Policy changes that affect foreign exchange allocation should be analyzed in justifying the program and monitored during program implementation.

2) Food pricing policies need to be carefully analyzed to determine whether there are unwarranted distortions, including disincentives to domestic food production, inappropriate incentives to consumers, etc. These policies should be monitored during implementation.

3) Self-help measures should be utilized more fully as a policy dialogue tool. Self-help measures should be stated clearly and quantified if possible, and the expected impacts of the measures should identified and analyzed in the program justification. Given that PL-480 programs in the ANE region largely serve foreign exchange requirements, self-help measures need not necessarily be restricted to policy and institutional reforms within the agriculture sector. This, along with the character of PL-480 Title I as a BOP and budgetary resource, suggests both a need and an opportunity to involve the Ministry of Finance and/or Ministry of Planning in the discussion of the self-help measures.

4) Senior management needs to view food aid as an integral resource of the program, deserving the same level of theor attention as othe major categories of assistance. Further, PL-480 resources need to be used by senior management in theor discussions with the recipient country to support policy and institutional reform comparable to DA and ESF assistance.

5) Local currency generations used for budgetary support can have considerable fiscal importance for the recipient country and should be programmed in ways that reinforce the policy dialogue associated with PL-480. In some cases, this may call for directing local currency to budgetary categories that support or enable enactment of self-help measures. However, detailed programming (e.g., stipulating the specific activities to be funded) can sometimes reduce the influence PL-480 resources have on policy and institutional reform.

6) Evaluation of tyhe program should address the same issues raised above in points 1, 2 and 3, shifting the analysis from ex ante to ex post.

7) Monitoring and evaluation of development activities funded with local currency generations should be limited to assuring the correct amount of proceeds are generated (or deposited in a special account) and used according to the program agreement. Evaluating the development impact of local currency funded activities should depend principally on information generated by the projects.

8) The developmenmtal impact of PL-480 Title I can be weakened by market development concerns and other issues raised in an interagency context. In order to contend with these forces, A.I.D. missions and AID/Washington need to work closely to formulate strong, convincing justifications for Title I programs based on their developmental impacts, and to shape the programs accordingly. The recommendations are intended to contribute to this effort.

Summary

Contrary to common perceptions, ANE's Title I/III programs largely serve growth and adjustment objectives. Rather than providing additional food, Title I/III programs permit savings in foreign exchange to help ease the recipient country's balance of payments problems. Accordingly, the policies affecting foreign exchange should be of concern. Across the nine ANE countries with Title I/III programs, the policy regimes that determine the efficiency with which these resources are used, vary widely from highly inefficient (e.g., Egypt) to acceptable (e.g., Pakistan). Growth and adjustment objectives are also supported in many program by self-help measures designed to improve efficiency and productivity. In short, ANE's Title I and III programs should be viewed largely as an economic resource transfer that can support the development of the recipient country, if the resources are used efficiently, rather than nutritional or feeding programs.

Disincentive effects in ANE countries are largely due to food price and marketing policies. In the majority of cases, ANE Title I and III programs have not contributed to disincentives to domestic agricultural production. Where well-entrenched policy distortions create unwarranted disincentives to agricultural production, and where overriding U.S. foreign policy or market development objectives drive food aid decisions, Title I/III may contribute to enabling the recipient country to continue such policies, producing the perverse effect of weakening A.I.D.'s ability to use food aid to promote development. Egypt is the most notable example where, in the context of current producer and consumer price policies, the Title I program helps to enable the GOE to maintain economically unsound food policies.

The case studies indicate that producer and consumer pricing policies and food and agricultural input marketing systems need to be monitored: a) to assure that they provide appropriate incentives to production and consumption as changes in these systems occur, b) to assess changes, or the lack thereof, in respect to self-help measures, and c) to identify additional policy reforms and self-help measures the programs should support.

The resources provided by food aid have contributed to supporting larger adjustment programs at the macroeconomic and sectoral levels. Even though the IMF or World Bank are usually the major lenders for such programs, food aid resources have provided additional incentive to the recipient country to enter into and carry out these reform programs, and additional resources to ease the adjustment.

In several countries, the self-help measures included in Title I/III agreements have produced important agriculture policy changes and promoted private sector development. In short, in several ANE countries (e.g., Pakistan, Bangladesh and Philippines) food aid has been an effective means for supporting policy reform, particularly where a series of programs have provided continued suport for a set of reforms. In light of this experience, it appears that the utility of food aid as a policy dialogue "instrument" has been under-estimated in some ANE programs. More recently, the policy orientation or use of self-help measures has increased (e.g., Tunisia and Morocco).

U.S. market development objectives have undermined the use of food aid for policy dialogue by overiding A.I.D.'s ability to withhold resources (Philippines) or by limiting the measures to those that do not threaten U.S. market interests (Pakistan). These conflicts need to be anticipated and resolved at the outset so as not to disrupt policy dialogue unnecessarily.

Local currency generations from food aid have often augmented host country budgets for projects and other development activities during periods of fiscal austerity, further contributing to economic growth. In addition to counterpart funding of development projects, local currency generations have also been used for existing budget line items, capital development and even disaster relief. This funding has helped to alleviate potential hardships during a period of structural adjustment in these countries. Such programming has also provided most ANE missions with a mechanism for directing sales proceeds to activities likely to produce development benefits.

Several of the studies noted the increase in management demands resulting from greater programming of local currency. Specifying the use of local currency in program agreements assures that what A.I.D. considers priority development projects receive funding. However, increased programming imposes greater monitoring requirements for A.I.D. and the recipient country to assure compliance. At issue is whether the gain from greater programming offsets the increased management demands and staff time increases, as well as the problem of who "owns" the local currency. Very detailed programming may even run contrary to A.I.D.'s policy objectives.

The case studies also raised several additional issues. Determining whether the self-help measures of Title I/III programs produced actions that were additional to what the recipient country would have enacted irrespective of the food aid is inherently problematic. This paper argues that given the nature of the policy reform process and A.I.D.'s role in it, the additionality question should be addressed in respect to whether food aid contributed effectively to the overall policy reform process. Ambiguity in the statement of self-help measures was noted for several programs. Given that food aid largely represents an economic resource transfer in ANE programs, specificity in self-measures should be encouraged to improve program monitoring and evaluation.

Finally, monitoring and evaluation focusing on the development impact of food aid resources has been a standard part of past programs. Given that ANE's Title I/III programs are largely economic resource transfers usually linked to policy reform, standards for analysis, monitoring and evaluation of development effectiveness that apply to other such modes of assistance should also apply to these programs. Efforts to improve analysis, monitoring and evaluation should focus on the areas specified above, especially on the contribution of the self-help measures to the policy reform process.

1. Introduction: The Increasing Importance of Food Aid

The ANE Bureau currently supports PL-480 Title I and Title III programs in nine countries - Philippines, Indonesia, Bangladesh, Sri Lanka, Pakistan, Egypt, Yemen, Tunisia and Morocco. Though provided in the form of food commodities, the monetary equivalent of this aid in local currency and foreign exchange is considerable. In FY 88, food aid from PL-480 Titles I, II and III and from Section 416 worth more than $850 million constituted approximately one-third of the Bureau's total assistance budget (excluding assistance to Israel). TitleI/III totaled some $467 million. Clearly, food aid is an important part of the Bureau's economic development programs.

Food aid can serve a range of purposes, from the least self-interested (humanitarian disaster relief) to the most self-interested (development of markets for U.S. agricultural producers). As a form of economic development assistance, the effectiveness of food aid is dependent to a significant degree on the economic context in which the aid is provided. Of particular importance are the economic policy environment that affects the efficiency of markets through which food aid moves; the incentives to local producers and consumers of food commodities; the economic policies that affect the efficient allocation of foreign exchange made available by food aid imports; the impact of local currency generations used for development activities; and, perhaps most important, the impact of the program's self-help measures.

Food aid provides a means for improving this same policy environment, at the macroeconomic level (e.g., in conjunction with host country structural adjustment efforts) and at a sectoral level (e.g., self-help measures directed at reform of agricultural prices, input pricing and other aspects of market operations). The linkage of food aid to policy reform is both direct, through the program's self-help measures and indirect, through making available additional resources (food, foreign exchange and local currency) that can support policy reforms not specified in self-help measures. As a means of influencing policy changes, the self-help mechanism facilitates policy dialogue by increasing A.I.D.'s access to host country policy makers while food aid supplies the resources to support the process. (1)

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(1) Title I and III programs also serve other objectives, such as U.S. foreign policy and trade development, that are are not assessed in this study.

To understand more clearly the economics and economic impacts of ANE's Title I and III programs during the past ten years, a case study of each program was prepared by Bureau staff. Data on food aid levels, commodity mix, local agricultural production, trade, and government budgets were reviewed. The studies discussed the basic objectives of the programs and their relationship to the commodities provided, the efficiency of foreign exchange use, incentives to production, distributionsystems, consumption patterns, market operations and pricing, policy dialogue, self-help measures and the use of local currency. (Annex A contains the scope of work followed by these studies.)

This paper summarizes key findings from the case studies, focusing on common factors affecting the programs and issues raised by the case studies concerning the effectiveness of food aid as a mode of economic development assistance and a means of supporting policy reform.

2. Program Objectives

The issue of what objectives these programs primarily serve (i.e., economic versus nutrition) depends on what food aid contributes to the recipient country's economy. If the commodities contribute to meeting the country's basic food requirements (i.e., without the food aid, supply levels would have been correspondingly lower) then the food aid resources serve nutritional objectives by increasing the amount of food available to the population. If the recipient country would have obtained the same level of commodities through other channels, e.g., from other donors or through commercial purchases, irrespective of the PL-480 program, then the food aid resources save foreign exchange. That is, the food aid permits the recipient country to use the foreign exchange that would have gone to food purchases for other purposes. The foreign exchange the food aid makes available ameliorates the country's balance of payments difficulties.

Based on past patterns of consumption and levels of food imports, the studies indicate that Title I/III resources largely augment availability of foreign exchange and not food. The importance of the foreign exchange made available by the food aid varied according the size of the program in respect to the overall foreign exchange requirements and the severity of the recipient country's balance of payment problem. This ranged from relatively minor (e.g., Tunisia) to substantial (e.g., Bangladesh). However, each recipient country confronted a growing balance of payment problem beginning in the late 1970's or early 1980's. The severity of the balance of payment problem also varied among the nine PL-480 countries, but in each case, the foreign exchange made available by food aid was definitely needed for much of the period covered by the PL-480 agreements.

The nutrition versus foreign exchange question is important to how food aid programs should be designed and managed. The most common view of Title I and III programs are that they constitute additional food that serves nutritional objectives. In reality, the principal effects of ANE's programs are to increase the availability of foreign exchange to help ease balance of payments problems and to support policy reform via self-help measures. Additional objectives include increasing agricultural production; improving the efficiency of agricultural markets; expanding the role of the private sector in importing, processing and distribution; and supporting price policy changes for producers and consumers.

Further, food aid increases the flow of real resources available in the recipient country during the year they are provided. These resources are typically imported and sold by the government. The local currency generated through these sales can contribute to the general development budget of the country, providing funding for various A.I.D. and other donor projects in agriculture, infrastructure, and human resource development.

However, determining that food aid met economic more than nutritional objectives (i.e., whether it added to food supplies or to foreign exchange supplies) requires assumptions about food imports in the absence of the PL 480 program. Further, in some countries, it may not be an "either-or" proposition. In cases such as Sri Lanka, food imports (including wheat which was the main PL-480 commodity) increased over the course of program, and the amount of food provided through the program was small in comparison to the overall volume of food imported. This, along with other indications that the government was committed to meeting the growing demand for wheat, suggests that the PL 480 food aid largely constituted foreign exchange assistance.

Predicting what would have been the case for countries facing a serious balance of payments problem requiring import reductions and other adjustment measures is more difficult. Under these circumstances, countries may have had no alternative other than to reduce food imports. If food aid was truely additional to that which would have been otherwise imported, the food aid then constitutes an investment in human capital.

Food aid in excess of meeting those levels may partially serve both nutritional and foreign exchange objectives. In other words, a portion of the food aid may have been additional to other food imports and the remainder, not additional. Alternatively, food aid in excess of basic nutritional levels may have led to wasted resources in the form of excess consumption or food used for animal feed.

A further complication is that even if food aid contributes to maintaining an adequate food supply, there is no assurance that the food distribution systems function in a way that nutritional requirements are met equitably throughout the country. For example, the food supply for certain disadvantaged groups or geographic regions may have been inadequate even though the overall food supply, in principle, was sufficient for the country's needs. In short, even when food aid contributes to an adequate aggregate food supply, there is no assurance that this also contributes to meeting nutritional requirements throughout the country. No conclusions can be drawn about ANE Title I and III programs in this regard; more analysis than is contained in the case studies would be needed.

3. Efficiency of Foreign Exchange Use

Given that food aid in many cases essentially contributed to the availability of foreign exchange, it is important to consider how effectively countries utilized this resource. Policies and practices that govern the allocation of foreign exchange determine the efficiency with which the resources provided by ANE's Title I/III program were used.

Across the nine countries, policies affecting the exchange rate and trade regime varied widely, from the inefficient (e.g., Egypt, Tunisia, the Philippines) to the reasonably sound (e.g., Pakistan, Indonesia). Some showed some improvement over the course of the program (e.g., Bangladesh). Ineffective use of foreign exchange was caused by policy distortions common to many developing countries - over-valued currencies, quantitative restrictions on imports, trade policies protecting inefficient local industries for import substitution objectives, controls on foreign exchange by the central bank that resulted in inefficient allocation to parastatals as opposed to private sector producers, expansionary fiscal policies that worsened the balance of payments, etc.

Pakistan illustrates the complexity of the problem. Pakistan's exchange rate policy during the 1980's combined with an adequate supply of foreign exchange to the private sector through formal and informal channels contributed to increased productivity of foreign exchange in the Pakistani economy. However, promotion of inefficient import substitution industries and subsidized energy pricing diminshed effective use of foreign exchange. Overall, Pakistan maintained rapid growth without unmanagable strains on the balance of payments, indicating reasonably good policies governing the use of foreign exchange and other resources.

Indonesia instituted a number of structural adjustment measures, including a series of devaluations, in response to the fall in the international oil prices. The GOI has recently made further changes both at the macroeconomic and sectoral levels. Foreign exchange provided by food aid, therefore, is used fairly efficiently. Though much remains to be done to improve the policy environment in Bangladesh and Morocco, foreign exchange use has improved in both countries.

In short, in countries where progress on economic policy reform has been made or is underway, the foreign exchange made available by the Title I/III programs is likely to be effectively utilized when this assistance is tied to those changes. Additional foreign exchange can be an incentive to continue the process and to alleviate some of the hardships than may result from structural adjustment. In cases where foreign exchange is used inefficiently, going to marginally productive or unproductive purposes, or where the country refuses to undertake needed policy reforms, an economic rationale for making available foreign exchange through a TitleI/III program is problematic. At best, it might serve to encourage future policy reforms; at worst, it might act to delay them, e.g., by alleviating the need to price foreign exchange appropriately.

A major conclusion drawn from the studies is that ANE's TitleI/III programs largely constitute additional foreign exchange assistance to the recipient country. Therefore, justifications and decisions concerning food aid and analyses of economic impacts should should pay greater attention to policies affecting how efficiently foreign exchange is used. This issue receives too little attention at present and, in some cases, is ignored in food aid analyses. Self-help measures to encourage more efficient allocation of foreign exchange should be considered where appropriate.

4. Incentives for Agricultural Production, Distribution and Consumption

A major issue for food aid programs is their potential for creating disincentives to domestic agricultural production. Whether PL 480 commodities create or help to maintain disincentives to domestic food production is determined by the pricing and marketing systems through which the commodities move. This includes the pricing and marketing of other commodities for which PL 480 food may substitute.

Given that ANE Title I/III programs primarily make available additional foreign exchange for the recipient country, the key question is whether prices to producers are at or close to international market prices. (In other words, disincentives from these programs cannot result from increasing overall food supply that would lower farmgate prices, because the food supply would have been approximately the same with or without the Title I/III program.) That is, ANE's Title I/III programs may contribute to production disincentives when food price policies are seriously distorted - i.e., domestic prices are set considerably below international market prices. Even when the PL 480 commodity provided is not produced locally (e.g., wheat), it can still create a disincentive to producers of a local commodity for which it substitutes (e.g., rice) due to distorted food pricing policies.

ANE's Title I and III programs are implemented under a variety of agricultural production and marketing systems. With some notable exceptions, disincentives to domestic agricultural production have not resulted from these programs, particularly since they do not provide additional food in ANE countries. Rather, production disincentives in food aid countries are due to agricultural price policies and market controls imposed by the host government. Moreover, the self-help measures in a number of these programs have been directed at changing policies that cause market distortions and production disincentives.

Several of the case studies concluded that little if any price distortions or disincentives to production resulted from substitution of wheat for rice by consumers. For example, producer prices for rice are set relatively high in Indonesia in support of the government's policy of achieving rice self-sufficency. The government does not subsidize wheat consumption. Hence, PL 480 wheat has not created significant production disincentives to rice producers.

Producer price incentives are also supported in Tunisia, Morocco, Sri Lanka, Pakistan, Yemen and the Philippines. Morocco, for instance, sets procurement prices for wheat at 15% to 40% above international market prices. Consequently, despite the size of the Title I to Morocco, food aid is not creating significant disincentives to production, and wheat and cereal plantings are increasing. In Yemen, the government sets what are considered to be reasonable profit margins for rice and wheat importers, including transportation costs. The resulting high food prices create a clear incentive for domestic food production. In some countries, price incentives may indeed be too great rather than too small.

Production incentives for edible oils in Pakistan have been supported by the Title I program's self-help measures to increase consumer prices, slowing growth in oil imports and encouraging domestic production. In light of low international edible oil prices, the price of imported oil used for ghee (and ghee prices) were not so low as to discourage domestic production to a significant degree. Domestic production is now protected (perhaps excessively) due to a variable tariff on imported oil.

Incentives provided by support prices are only effective if the government is able to maintain them consistently. Bangladesh has had some difficulty in this respect. In several years, the BDG has not been able to purchase food grains at official prices. On the other hand, the BDG has tried to provide infrastructure - improved irrigation, drainage, flood control - needed to encourage increased production. (Similar arguments about "indirect" incentives to producers could be made for each of the countries receiving food aid. Looking at more than market prices, the case could be made that successful infrastructure and agriculture development projects supported by the central government also constitute incentives to producers.)

The major problem case is Egypt. The exchange rate system has made food imports attractive; whereas, the GOE's agricultural and food price policies clearly create unwarranted disincentives for agricultural producers.

Further, though disincentive issues generally pertain to prices to producers, distorted consumer prices can also erode the economic justification of TitleI/III program. Egypt offers a good example of the effects of extremely low, subsidized consumer prices of wheat products. As a result of such price distortion, high consumption of wheat products is encouraged at the expense of consumption of other foods, services and/or investment expenditures. The extent to which such policies achieve the government's welfare objectives is also questionable - untargeted, subsidized food prices benefit consumers across all socio-economic classes, irrespective of their need for such subsidies.

The GOE's importation of wheat to meet this inflated demand increases overall food imports, worsening Egypt's balance of payments. Additional distortions result from restrictions on meat imports that lead to artificially high prices for red meat. This raises the price for animal fodder, encouraging farmers to grow berseem (clover) instead of wheat. Finally, the GOE further discourages wheat production by setting farmgate prices for wheat well below world market prices. Contrary to economic development objectives, U.S. food aid helps the GOE to maintain economically unsound policies, enabling the GOE to maintain price policies that seriously distort production decisions in the agriculture sector. In short, Egypt's Title I program is clearly an example of where the lack of economic justification for food aid is overridden by foreign policy and U.S. market development objectives.

Tunisia and Morocco also maintain food price policies that encourage high consumption levels of wheat products by subsidizing consumer prices. For example, Tunisia's consumer price subsidies on cereals accounted for 60% of the total cost of subsidies provided by the government in 1985. Like Egypt, the Government of Tunisia's importation of wheat to meet this inflated demand increases the overall level of imports, worsening the balance of payments. However, given high producer prices, PL 480 commodities do not contribute to production disincentives. Further, Tunisia has made progress recently to increase bread costs and plans to eliminate such subsidies gradually over a ten year period.

Bangladesh's food distribution and consumer pricing policies have also changed during the course of the food aid program. Subsidies on food have been reduced, though the overall costs of the ration system may have increased. The Open Marketing Sales channel of the BDG's Public Food Distribution System was expanded while two other channels have been eliminated. This has contributed to stabilization of food prices and to better targeting of food subsidies (this was a major objective of the program's self-help measures). Further, the role of the private sector in the agriculture marketing system has increased, the most notable example being fertilizer distribution. A number of these changes have been supported directly by the Title III program's self-help measures.

A less successful attempt to change a part of the food marketing system in the Philippines was the elimination of the National Food Authority's monopoly position as a wheat importer and flour wholesaler. Self-help measures of the Title I program were designed to involve the private sector in wheat importing, making the market more competitive. However, domestic private sector millers succeeded in forming a cartel and gaining protection from flour imports. In effect, a private sector monopoly replaced the public sector monopoly. While the resulting high prices for flour encourage domestic price production, they nonetheless constitute a distortion.

Other examples of how producer and consumer prices and the food and agricultural input marketing systems have interacted with the food aid programs could be provided. The obvious conclusion, however, is that prices, marketing systems and related policies need to be monitored closely. This is necessary because they affect efficiency in food markets, including markets of which PL 480 commodities are a part. Moreover, analysis of changes, or the lack of change, in these systems should help to identify the policy reforms and self-help measures food aid programs should support.

5. Policy Dialogue and Self-Help Measures

5.1 Linkage to Macroeconomic Policy Reforms and Major Structural Adjustment Programs

From the case studies, it is evident that ANE missions are attempting to link the provision of food aid more directly to the policy reform agendas of the recipient countries at both the macroeconomic and sectoral levels. The use of food aid as a vehicle for policy dialogue and a mode of assistance supporting reform efforts is well justified. As discussed earlier, these programs largely constitute a resource transfer making available additional foreign exchange and budgetary resources to the recipient country. Merely because the initial form of the resource is food does not mitigate its economic significance nor its capacity to support policy reform. In their programming and management of food aid, Bangladesh and Pakistan have demonstrated that food is a resource that can help to establish a meaningful policy dialogue.

Major economic stabilization and structural adjustment programs supported by the IMF or the World Bank ordinarily involve lending levels considerably greater than the resources available to a USAID mission (Egypt and Pakistan being the exceptions in the ANE region). However, ANE missions support the objectives of these major programs by providing external resources and by addressing sectoral policies consistent with these larger programs. Food aid has been a large part of this strategy.

Even though the foreign exchange and local currency that food aid makes available are usually a small percentage of the overall foreign exchange requirements and government budget of the recipient country, they are important secure resources, especially during periods of economic austerity. Augmenting the country's development budget or providing funding for specific ministry line items (as is done in Indonesia via local currency use in the Agriculture and Rural Sector Support Program) helps to ameliorate hardships imposed by policy changes. This linkage underlies several ANE food aid programs, e.g., Indonesia, Tunisia, and Morocco. As part of the mission's policy dialogue, food aid is provided with the understanding that these resources in part demonstrate A.I.D.'s support for the recipient country's structural adjustment efforts.

5.2 Self-Help Measures

A more direct linkage to the process of structural adjustment and policy reform is through the self-help measures of food aid programs. In ANE programs, self-help measures have been directed at changing commodity prices, increasing service fees, expanding the role of private business in the agriculture sector, and diversifying agricultural and industrial production to reduce imports and increase exports. Such reforms contribute to structural adjustment by reducing government expenditures, generating additional revenues, increasing foreign exchange earnings, re-directing available resources to the private sector for more efficient uses, etc.

In several cases, the self-help measures have been highly effective in stimulating important reforms. Significant results of food aid supported reforms have been achieved in the Philippines, Bangladesh and Pakistan.

For example, in the Philippines, the 1985 and 1986 agreements contained self-help measures directed at improving agriculture market systems through decontrol of milled rice prices, elimination of the GOP's monopoly on the importation of wheat, expansion of the private sector distribution of flour, liberalization of private fertilizer importation and marketing, and divestment from the GOP of certain retail activities. Considerable progress was made in decontrol of rice prices and fertilizer marketing and reducing GOP involvement in retail food outlets, and reforms in these areas have produced positive impacts. Given the political situation in which these measures were advanced, the potential usefulness food aid as a vehicle for supporting policy reform is evident.

Bangladesh's food aid programs have supported self-help measures focused on the Public Food Distribution System. Self-help measures were used, in effect, as conditions for compliance with the Title III's debt forgiveness. Local currency generations from sales only through the relatively unsibsidized channels counted toward debt forgiveness. As a result, use of these market-oriented channels increased.

Additional measures have been designed to expand the role of the private sector in the food distribution system. For example, the program provided soybean oil and cotton; measures were included to promote private sector processing and marketing of edible oils, and greater production by private handloom operators. In short, these measures have been successful in areas of increasing open market sales, expanding private sector participation, stabilizing food prices at appropriate levels and reforming the food rationing system.

As noted in section 4 above, the Pakistan program incorporated self-help measures focussed on the edible oil sector. The mission developed a mulit-year startegy that identified overall objectives and annual targets for the program. The mission's consistent support of the policy objectives of the Title I program over a four to five year period contributed significantly to its success.

Recently, Yemen's food aid program has also been used effectively to support various studies and related activities needed by the YARG to understand more clearly their policy options. It is noteworthy that A.I.D. was able to reach agreement with the YARG on undertaking such work despite resistance to donor involvement (including the IMF and World Bank) in policy matters. Similarly, the Pakistan Title I program supported studies of the edible oilseeds industry that led to identification and enactment of significant reforms.

The case studies show considerable variation in the extent to which self-help measures are used to promote policy reform. For example, Tunisia's self-help measures have generally consisted of funding targets, in effect constituting a local currency program. More recently, the mission has consolidated previous measures into several priority funding areas.

In other programs, such as Egypt's, self-help measures have been too vague and general. This complicates determining whether the GOE has complied with the measures under the terms of the program. However, Egypt's recent agreements have become somewhat more specific about self-help measures, reversing the previous pattern.

In contrast, USAID/Morocco has substantially increased the policy content of the program's self-help measures designed to encourage agricultural production. Prior to 1982, self-help measures were largely directed at the use of local currency generations. In the FY 1984 program, the shift to policy-oriented measures began with a major study of pricing and subsidy policies in the agriculture sector. The study heightened the GOM's awareness of the interactions of producer and consumer prices and very likely facilitated the GOM reaching agreement with the World Bank on a major structural adjustment program in the agriculture sector.

Subsequent self-help measures have been linked to this structural adjustment program. The measures have supported institutional and private sector development objectives in addition to specific policy reforms, such as eliminating or reducing fertilizer and seed subsidies. Progress has been made; however, the same measures are part of the Bank's program. Consequently, the "additionality" of the self-help measures cannot be determined (i.e., the progress made on implementing the reforms might have occurred irrespective of the food aid program).

In conclusion, the case studies indicate the clear potential for using food aid as a policy dialogue tool through the self-help measures. However, the extent to which ANE missions have used self-help measures to support policy reform varies widely. Several missions have made effective use of these measures to support reforms that have produced important economic improvements, particularly in respect to market efficiency. Where self-help measures have been effective in improving economic efficiency, continued support over several years was critical, illustrated by the PL-480 programs in Pakistan, Bangladesh and the Philippines. Self-help measures in other programs have been somewhat vague or very general; others have consisted simply of targeting local currency generations. Though missions argue that such "low key" approaches support policy reform indirectly, they nonetheless create the appearance of inadequate use of food aid's potential for stimulating self-help measures. In conclusion, some ANE missions seem to have underestimated the value of self-help measures as a vehicle for supporting policy reform.

6. Local Currency Programming

Local currency programming in ANE's Title I/III programs ranges from essentially none to very specific targeting on development projects or budget line items in the recipient country's budget. Egypt represents the minimal case where sales proceeds are not separately tracked, but go to the central budget. The GOE does not report on specific uses. On one occasion, the GOE did report (vaguely) that the funds contributed to food subsidies (especially wheat and flour), other agricultural subsidies, debt servicing and housing projects. Though the sales proceeds are a relatively small part of GOE revenues and expenditures (3% and 2% respectively in FY 86), local currency proceeds are equivalent to 20% of direct subsidies.

Other missions program local currency generations to a much greater extent involving special accounts, specified uses and reporting by the recipient country to A.I.D. on actual use on a semi-annual basis. For example, in Morocco local currency is used for counterpart funding of A.I.D. development projects, other agricultural production and research programs, and other GOM development activities. In Indonesia, local currency generations are included as part of the funding for the Agriculture and Rural Sector Support Program, providing funding for specific GOI budget line items (e.g., agricultural research and extension). In other programs, local currency has been programmed to cover costs entailed with implementing self-help measures.

A third approach used in the Philippines and Pakistan, for example, is simply to attribute local currency proceeds to development activities or general budget categories specified in the program agreement.

In Indonesia and Morocco, local currency proceeds are reported to have increased government expenditures for development activities beyond what would have been spent without a food aid program. By targeting local currency on specific development projects that were then incorporated in the host countries' budget, food aid enabled the missions to influence expenditures for activities that are likely to produce development results.

Assessment of the actual development impact of activities funded with local currency is difficult, if not impossible, due to a lack of monitoring and evaluation above the project input/output level. In other cases, it was not possible to determine whether the local currency raised development expenditures above what they would have been without the program funds.

An important issue raised by the Sri Lanka case study is that food price controls set the local market price for wheat below world market levels. This reduces the amount of local currency generated by food aid. In such cases, supporting price policy changes through food aid self-help measures can improve production incentives as well as increase local currency generations.

The establishment of a special account for local currency generations has generally functioned well, ensuring adequate documentation of funding uses. However, in the case of Bangladesh, a large shortfall of deposits of sales proceeds occurred, estimated to be approximately 45% of projected local currency generations. The mission and the BDG are attempting to expedite the deposit of these funds to make up the shortfall.

In the past few years, ANE missions have increased the extent to which local currency is programmed. In part, this reflects the growing importance of food aid as a Bureau resource and the need to try to maximize the development results of these resources. But whether increased programming actually produces greater development impact remains to be seen in many instances. In the absence of properly conducted evaluations, it is only possible to assert that the potential for positive development results is greater when funding has been directed to projects with higher rates of return than would have been achieved through the host country's own programming of funds.

How much farther local currency programming can or should go was raised as an issue by several of the case studies. As programming increases, the management demands on the USAID mission and the recipient country correspondingly increase. A critical point at which management demands increase significantly appears to be when local currency programming moves from generic, categoric uses to detailed lists of specific projects of priority to A.I.D.. Instead of "ex post" attribution of local currency expenditures, more detailed accounting of funds becomes necessary to verify compliance. Some cases, such as Bangladesh, concluded that the present programs are already highly staff intensive.

In addition to staff intensity, greater programming may exacerbate the contentious issue of who "owns" the local currency and whether such programming will be acceptable to the recipient country, as in Morocco. In effect, detailed programming constitutes a form of conditionality that some countries, such as Sri Lanka, flatly reject. The additional expenditure accounting and reporting requirements may also be unacceptable to the recipient country. Furthermore, to the extent that food aid resources are viewed as a form of support for larger structural adjustment efforts, detailed programming of local currency may be counterproductive to A.I.D.'s policy dialogue, undermining its ability to influence the reform process. It can also interfere with the host country's budget process, preventing policy makers from optimizing the allocation of resources.

7. Additionality: Did Food Aid Resources Produce Additional Reforms?

The additionality of reforms supported by Title I/III self-help measures was questioned by several of the case studies. At issue is whether the self-help measures of the program represent reforms that were additional to what the recipient country would have done on its own or as part of another donor funded program.

Current legislation pertaining to self-help measures [Section 109(d 2)] states "...to the maximum feasible extent, self-help measures identified in the agreement represent an expanded effort undertaken by the purchasing country that would not have been implemented in the absence of the agreement or amendment."

For several of the ANE programs, predicting with any degree of certainty the "counterfactual" case - i.e., what actions would have been taken without food aid resources - is very difficult. The issue is even more speculative when the self-help measures reiterate elements of major structural adjustment programs funded by the IMF or World Bank. Were the actions taken due solely to the Bank's funding? Did the additional support and resources A.I.D. provided through food aid produce additional incentive for action? Or would the host country have taken actions on its own irrespective of any donor?

Implicit in the legislation is that A.I.D. should distinguish its support for policy reform from other donor funded policy initiatives. Further, the reforms enacted with A.I.D.'s assistance should add to or expand what the host country would have done on its own, or at least accelerate the process.

The idea of isolating A.I.D.'s contribution to the policy reform process is more an analytic convienence (i.e., it facilitates assessing A.I.D.'s assistance and impact) than a reflection of how the policy reform process actually works. A.I.D.'s experience to date with donor assisted policy reform programs makes one point very clear. Under the best of circumstances, A.I.D. only exerts limited influence over a part of the reform process. It does not have "leverage" in the sense of causing policy changes that the host country does not want to make or is unwilling to maintain once U.S. assistance ends. Further, where policy reforms are purely the result of donor leverage, they are rarely effectively implemented and maintained. The reality is that A.I.D. is merely one among a number of players in the policy reform process and often a small player at that.

Using self-help measures to extract additional reforms is also problematic as a mission strategy. Any country has a limited capacity for making policy changes; and similarly so for the pace at which reforms can be enacted. As several of the case studies observe, if the country is making reasonable progress (measured against the country's economic situation and goals) in enacting important reform measures, it makes little sense for A.I.D. to push for more or try to accelerate the process. A far more realistic approach to the additionality issue is to view the policy reform process as a collaborative effort among the donors and the host country. A.I.D.'s concern about the additionality of self-help measures should not be whether they are somehow distinct, but rather, that the mission has made a concerted effort to use them constructively as part of the overall process. In other words, whether the mission used the resources provided through food aid effectively to contribute to the policy reform process should be how the additionality question is answered.

8. Improving Program Analysis, Monitoring and Evaluation

The case studies clearly show that significant monitoring and evaluation of the development impact of Title I and III programs has not been a high priority. Given that in the ANE region these programs largely constitute economic resource transfers that in some cases effectively support policy reforms, the same standards for analysis, monitoring and evaluation that apply to other modes of non-project assistance should, in principle, apply to Title I and III programs.

The foreign exchange and/or food made available through Title I/III programs are resources that flow through markets. Their contribution to economic growth and development depends on how efficiently the markets function - particularly on the efficiency of resource allocation - that in turn depends on policies and institutions that affect market performance. It is desirable and feasible to analyze and evaluate the combination of food and foreign exchange that food aid programs make available in the context of market performance.

Similarly, the local currency generated by some food aid programs supports development activities. Where these resources are significant contributions to the host country's budget, the development impact of these activities could be estimated and later evaluated to assure that program resources are contributing to social and economic development. Finally, the most important and enduring impact may come from the policy reforms forwarded by the program's self-help measures and there is ample room for improvement in evaluating these impacts.

Increasing monitoring and evaluation requirements for all aspects of Title I and III programs would obviously intensify the management demands of these programs further. Therefore, any improvements in analysis, monitoring and evaluation should be targeted on just those program elements that are most likely to have a significant or measurable development impact.

The contribution to economic development of the foreign exchange element of the programs will depend on the efficiency of the foreign exchange regime and other macroeconomic policy and institutional factors affecting how productively the additional foreign exchange is used. The efficiency with which the foreign exchange made available by the food aid program is used should be carefully assessed at the planning/justification stage, monitored during program implementation and be reviewed in any program evaluation. In some cases, the mission's on-going monitoring of the foreign exchange regime may be sufficient. But in most missions, additional analysis of the foreign exchange system will probably be necessary.

The development impact of local currency generations used for counterpart project funding or budgetary support for government functions (e.g., extension, agricultural research) will be determined by the productivity of the individual activities for which they are used. Monitoring sales proceeds and their use for activities specified in the program agreement is already a routine management function. However, monitoring and evaluating the development effectiveness of the individual activities funded by local currency generations is, in most cases, impractical or unnecessary. Monitoring and evaluation information generated by the individual projects should be sufficient to assess the effectiveness of these activities.

One area where better monitoring and evaluation could improve program management is the implementation and effectiveness of the self-help measures. The purposes for doing so are: a) to provide mission management with periodic assessments of progress in enacting the self-help measures and, to the extent possible, the effects of those measures, b) to document the mission's efforts to support policy reform in the host country and how food aid resources are being used as a part of this overall effort, and c) the effectiveness of program resources to support policy and institutional reforms and other related activities covered by the self-help measures.

In particular, the expected impacts of the reforms should be carefully identified in the program's justification, and then subsequently evaluated at the conclusion of the program. In large programs, such as Egypt, Bangladesh, and Pakistan, a special evaluative study might be needed to address these issues. Other programs could incorporate such information into their existing reporting.

As with other policy reform programs, the implementation of the self-help measures should be monitored on the basis of a series of interim benchmarks. This is feasible only if the self-help measures are clearly stated and, where possible, quantified. Several cases studies noted that the vague, ambiguous language used for self-help measures in some programs complicated determining what constituted compliance and whether the host country satisfied these measures.

Improving the monitoring and evaluation of the self-help measures should be treated as an integral component of the program. As is required for other modes of assistance, an information plan that specifies benchmarks, types of data to be reported by the recipient country, additional data to be collected or obtained from other sources (e.g., IMF or World Bank reports) and evaluation scheduling should be developed and included in the program budget.

P.L. 480 Papers

A. Purpose: To examine critically PL-480 programs in light of the recipient economic situation.

B. Data (1975-1987)

1. PL-480 Commodities, by value and volume.
2. (a) Other or total food imports, by major commodity, value, and volume.

   (b) Food Imports required to meet ERS defined deficit.
3. Agricultural Production, by major commodity, value, and volume.
4. Agricultural Export, by major commodity, value and and volume.
5. Total exports, imports, trade deficit, and current account deficit; current account deficit/GDP.
6. Growth in agriculture (value added) and GDP.
7. Government revenues, expenditures, and current deficit; current deficit to GDP.
8. Value of local currency proceeds by sources and uses. (Include data on prices at which commodities are sold, transport and distribution margins, and subsides if possible.)

C. Question to be addressed (PL-480 I).

Basic Objectives

1. What are the basic objectives of the program? What is the program supposed to accomplish? (Please look beyond boilerplate statements.)
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?

3. Does the PL-480 program provide additional food to the economy? Or does it provide food that would have been imported anyway and thereby essentially provide foreign exchange? (Do food import levels fluctuate mainly in response to domestic production, implying a supply target? Do food import levels in volume terms fluctuate in response to price, implying some demand sensitivity to availability of concessional food assistance?)

4. If it basically provides foreign exchange, to what extent is foreign exchange used productively in the economy? Are trade and exchange policies conducive to effective use of foreign exchange? (In the "market" for foreign exchange, are foreign exchange resources allocated efficiently?) More broadly, do the overall BOP situation and adjustment efforts merit BOP support?

Incentives for Agricultural Production , Distribution and Consumption.

5. How are PL-480 commodities marketed? How do the prices compare with the appropriate international prices equivalent? ("Appropriate" having to do with medium-to long-term international price levels, taking into account exchange rate distortions.) How does the marketing arrangement affect the role of the private sector?

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, including both food and export crops.

7. How appropriate from an efficiency standpoint 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 subsides have a significant impact on the balance of payments and/or on the budget.

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 where the policy changes attributable to the PL-480 program?

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?

10. If programmed through the budget, do the local currency proceeds contribute to increased expenditures or to a smaller deficit, i.e., additional revenues to finance a given level of expenditures. (Are the revenues counted as current or capital revenues)? Is there an IMF program that places effective limits on total expenditures? If the local currencies don't alter the level of expenditures, do they nonetheless affect the composition? Or would the specific expenditures have taken place anyway.

11. What can be said about the productivity of these expenditures?

12. Apart from policy changes and budgetary expenditures described above, what self-help measures are provided for? How has performance been? What can be said about the developmental impact of these self-help measures.

13. 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?

14. Can tangible, developmentally meaningful impacts of the program be identified? In quantifiable terms? How do these impacts relate to the basic objectives discussed under 1?

D. Programmatic Issues

1. Basic Objectives.
2. Levels/Commodity Composition Issues
3. Balance of Payments Issues
4. Disincentive/Agricultural Policy Issues
5. Policy Dialogue Issues
6. Local Currency Issues, Other Self-Help Measures
7. Staff
8. Evaluation/Impact Issues.

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