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FINAL REPORT

SHAPING THE FUTURE OF MONETIZATION

An Evaluation of the P.L. 480 Title II Monetization Program

March 29, 1996

Office of Food for Peace
Bureau for Humanitarian Response
U.S. Agency for International Development

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A

TITLE II MONETIZATION EVALUATION

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

EXECUTIVE SUMMARY i

RECOMMENDATIONS xii

I. INTRODUCTION 1

- A. Purpose of the Evaluation
- B. Composition of the Team
- C. Methodology
- D. Desk Review

II. OVERVIEW OF TITLE II MONETIZATION 4

- A. The History
  1. Definition
  2. Legislative History
  3. Program Growth
  4. Regional Trends
  5. Use of Proceeds
  6. Identifying and Reporting Impacts on Food Security
  7. The Logistics of Monetization
- B. The Current Program Context
  1. Rising Demand, Declining Supply
  2. USAID's Accountability for Food Security Gains
  3. Food Versus Money

III. LITERATURE REVIEW: CRITICAL ISSUES IN MONETIZATION 11

- A. Cost Recovery
  1. Cost Recovery Benchmarks
  2. The Administrative Costs of Monetization Versus Direct Distribution
  3. Subsidies
  4. Timing of Sales and Commodity Mix

B

B. **Ancillary Impacts**

1. Defining Ancillary Contribution
2. The Need for Flexibility When Monetizing
3. Adequacy of Market Analysis

C. **Disincentive Effects**

1. Bellmon Requirements
2. Market Distortions and Disincentives to Agricultural Production
3. Disincentive Effects in Emergency Situations
4. Absorptive Capacity

D. **Coordination**

E. **Monetization Process**

F. **Programming Proceeds**

1. Maintenance of the Value of Proceeds
2. Alternative Uses of Proceeds

IV. **MONETIZATION IN THE FIELD** 19

A. **Bangladesh Field Review**

1. Introduction to Monetization in Bangladesh
2. Cost Recovery
3. Ancillary Impacts
4. Disincentive Effects
5. Programming Proceeds for Food Security
6. Relationship with Non-Title II Programs
7. Roles and Responsibilities
8. Proceeds Monitoring

B. **Ethiopia Field Review**

1. Introduction to Monetization in Ethiopia
2. Cost Recovery
3. Ancillary Impacts
4. Disincentive Effects
5. Programming Proceeds for Food Security
6. Relationship with Non-Title II Programs
7. Roles and Responsibilities
8. Proceeds Monitoring

C. **Ghana Field Review**

1. Introduction to Monetization in Ghana
2. Cost Recovery
3. Ancillary Impacts
4. Disincentive Effects

5. Programming Proceeds for Food Security
6. Relationship with Non-Title II Programs
7. Roles and Responsibilities
8. Proceeds Monitoring

D. Mozambique Field Review

1. Introduction to Monetization in Mozambique
2. Cost Recovery
3. Ancillary Impacts
4. Disincentive Effects
5. Sales Procedures
6. Programming Proceeds for Food Security
7. Relationship with Non-Title II Programs
8. Roles and Responsibilities
9. Proceeds Monitoring

E. Peru Field Review

1. Introduction to Monetization in Peru
2. Cost Recovery
3. Ancillary Impacts
4. Disincentive Effects
5. Programming Proceeds for Food Security
6. Roles and Responsibilities
7. Proceeds Monitoring

V. ANALYSIS OF CRITICAL ISSUES 58

A. Issues Related to Cost Recovery

1. Comparative Costs of Converting Food Versus Dollars to Local Currency
2. Current Cost Recovery Guidelines
3. Increased Emphasis on Cost Recovery
4. FY 94 Cost Recovery Results
5 Recovery of Selling Costs in FY 94
6. Problems Related to Determining Cost Recovery
7. Cost Recovery and the Different Forms of Monetization
8. Strengthening Management and Administration to Improve Cost Recovery

B. Issues Related to Determining Ancillary Impacts

1. The Distinct Feature of Monetization
2. The Supply Impact
3. Understanding the Market
4. Current Efforts to Understand Markets
5. Constraints and Opportunities
6. Striking a Balance Between Achieving Ancillary Impacts and Realizing Cost Recovery Goals

C. **Issues Related to Programming Proceeds for Food Security**

1. USAID's Food Aid and Food Security Policy
2. Monetization and the Relief - Development Continuum
3. Overview of Monetization-Supported Title II Activities
4. Implications of the Food Aid and Food Security Policy on Future Uses of Title II Local Currency
5. The Status of 100 Percent Monetization Projects
6. Resource Integration and the Demand for Monetization Funds
7. The "Pipeline"
8. Emergency Monetization
9. The Proper Role of USAID Missions

VI. **APPENDICES**

A. **List of Interviews**

B. **FY 94 Title II Monetization Portfolio**

C. **Monetization Standard Reporting Formats**

D. **Bibliography of Monetization Literature**

TITLE II MONETIZATION EVALUATION

LIST OF ABBREVIATIONS

ADRA	Adventist Development and Relief Agency International
AIDAB	Australian International Development Assistance Bureau
BGD	Government of Bangladesh
CARE	Cooperative for American Relief Everywhere
CRS	Catholic Relief Services
BIDS	Bangladesh Institute of Development Studies
CEFIS	CARE/Ethiopia Food Information System
CFW	Cash for Work
CIDA	Canadian International Development Agency
CIF	Cost, Insurance and Freight
CS	Cooperating Sponsor
CSP	Country Strategic Plan
DA	Development Assistance
DPP	Development Project Proposal
EEP	Export Enhancement Program
EOC	Ethiopian Orthodox Church
EU	European Union
FAS	Free-Alongside-Ship
FEWS	Famine Early Warning Systems
FFP	Office of Food for Peace
FFW	Food for Work
FHI	Food for the Hungry International
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade
GAO	United States Government Accounting Office
GIEWS	Global Information Early Warning Systems
GR	General Relief
GRM	Government of the Republic of Mozambique
IFFD	Integrated Food for Development Project (Bangladesh)
IFPRI	International Food Policy Research Institute
IPP	Import Pricing Parity
ISG	Institutional Support Grant
ITSH	Internal Transport, Storage and Handling
LGED	Local Government Engineering Department (Bangladesh)
LOP	Life of Project
MCH	Maternal and Child Health
MT	Metric Tons
MWITE	Merchandise Wholesale and Import Enterprise
NGO	Non-Governmental Organization
OCF	Other Child Feeding

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OFDA	Office of Foreign Disaster Assistance
PCF	Pre-School Child Feeding
PFDS	Public Food Distribution System (Bangladesh)
P.L. 480	Public Law 480
PVO	Private Voluntary Organization
REDSO	Regional Economic Development Support Office
SCF	Save the Children Federation
SF	School Feeding
SNI	Sociedad Nacional de Industrias (Peru)
TGE	Transitional Government of Ethiopia
USAID	United States Agency for International Development
WFP	World Food Program
WVRD	World Vision Relief and Development

EXECUTIVE SUMMARY

TITLE II MONETIZATION EVALUATION

EXECUTIVE SUMMARY

I. INTRODUCTION

The Title II Monetization Evaluation was conducted by Mendez England and Associates. Field work was carried out in the first half of 1995, while analyses and preparation of the full report continued during the balance of the year. The study included interviews with representatives from the United States Agency for International Development (USAID) and the Title II Cooperating Sponsors (CSs), a review of recent monetization literature, a desk review, and monetization field reviews in five countries located in three geographic regions.

II. OVERVIEW

For the purposes of this evaluation, monetization refers to the sale, under Title II of Public Law 480 (P.L. 480), of U.S. agricultural commodities in developing countries by Private Voluntary Organizations (PVOs) and cooperatives acting as Title II CSs to generate local currency for use in development and emergency food aid activities sponsored by USAID.

Since 1986, there has been a dramatic growth in Title II monetization. In 1987, commodities for monetization valued at $21 million supported 21 projects in 19 countries. By 1994, the program was valued at over $80 million and supported 43 projects in 24 countries. Africa has received the bulk of this support and its share is likely to increase. The Asia and Near East region has also seen increases in monetization, primarily due to the growth of monetization in Bangladesh. The use of monetization in the Latin America and Caribbean region, as well as food aid in general, has been declining steadily due to food security improvements in the region.

Although the use of proceeds has evolved and expanded beyond the logistical costs of food distribution, the primary use of these funds continues to be to support food distribution and related development activities. The use of Title II monetization proceeds for emergencies has been limited due to the difficulties of conducting commodity sales in an emergency environment, and to the fact that funds for the logistical costs of food delivery and distribution are often available from other sources

Recently, USAID has paid heightened attention to demonstrating the impact of food aid in addressing food security. In February, 1995, USAID issued a *Food Aid and Food Security Policy Paper* which notes that food aid, in general, and monetization proceeds, in particular, should be integrated with other USAID assistance resources and directed to support the programming priorities of increased agricultural productivity and improved household nutrition.

In the field, many developments have improved the effectiveness and efficiency of monetization. For example, umbrella monetizations, where one CS monetizes on behalf of all CSs operating in-

country, have proven effective and efficient in several countries. More careful commodity selection, with consideration of local market preferences, has improved cost recovery. Improved financial management has helped to maintain the value of the proceeds generated.

Yet, numerous challenges continue to confront CSs, which view monetization as an important financial resource. These include the decline in the availability of P.L. 480 commodities compared to rising needs; the increased pressure on USAID and the CSs to demonstrate concrete progress toward food security goals; and the continuing debate over whether the distribution of food or the monetization of the commodities for use in projects serving needy populations is the most proper and effective use of the food aid resource. The fact is that USAID monetization policy has evolved as a programmatic response to issues encountered since the start of the program. A new and more definitive set of policies and guidelines is now required so that monetization can contribute more directly to food security objectives.

III. CRITICAL ISSUES IN MONETIZATION

Several key issues were identified during the literature review, as well as during interviews, field work and the desk review. The evaluation does not attempt to address all of the issues raised below. Rather, it clarifies some and highlights others that are worthy of further discussion.

A. Cost Recovery

What is an appropriate, reasonable, and realistic benchmark for determining cost recovery?

- Is it more cost effective to distribute commodities directly to food insecure populations or to monetize and use the proceeds to support other forms of assistance to this same population?
- When commodities are sold in food deficit countries at a reduced or subsidized price, who benefits from the subsidy?
- What implications do commodity selection and timing of sales have on cost recovery?

B. Ancillary Impacts

- Beyond supplying food, what are the other, or "ancillary," impacts of the monetization process?
- Can such ancillary impacts of monetization be gauged in emergency situations?
- Can increased flexibility be given to CSs when monetizing without compromising accountability or cost recovery potential?
- How can the ability of CSs to perform market analyses be improved?

C. Disincentive Effects

- To what extent can Title II monetizations have disincentive effects on the local economy or food system?
- Do Title II imported commodities decrease or increase incentives to buy domestically produced foods?

D. Sales Process

- How effectively and efficiently do most CSs carry out the monetization process?
- How can CSs participate more competitively in the local market?

E. Use of Proceeds

- What is the best way to maintain the value of the local currency generated?
- What are the most effective and innovative uses of local currency proceeds in both partial or full monetization projects?

IV. MONETIZATION IN THE FIELD

A. Bangladesh Field Review

In Bangladesh, the Cooperative for American Relief Everywhere (CARE) carries out the largest Title II monetization activity sponsored by a single CS anywhere in the world. Between 1994 and 1999, approximately 365,000 metric tons (MTs) of wheat will be monetized as part of CARE's Integrated Food for Development (IFFD) Project.

For a variety of reasons, including consideration that the project is in its early stage; confusion over the proper method of calculating shipping costs for the purposes of determining the Cost, Insurance, and Freight (CIF) value of the commodity monetized; and extensive use of commodities already in the country, it is too soon to determine accurately CARE's monetization cost recovery record. Costs incurred in conducting the monetization sale are limited to a 2.5 percent handling charge imposed by the Government.

The Government's Public Food Distribution System (PFDS) is the only vehicle through which monetization sales can be made in Bangladesh. All donor food aid is imported and distributed through the PFDS, a government entity which aims to stabilize the prices of staple foodgrains and assure that sufficient supplies are available to needy populations. The food security impact of the supply of food and the process of monetizing on the local market system is limited.

Imports of Title II wheat are considered minuscule in comparison to the overall foodgrains system. However, total wheat imported by all food aid programs could have a negative impact

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on domestic wheat prices and production. The USAID Mission and not CARE is responsible for conducting the Bellmon analysis and regularly monitoring market trends.

Monetization proceeds are very much integrated with Development Assistance (DA) and host government contributions to achieve the food security objectives of CARE, the Mission, and the Government. Monetized funds have provided CARE with greater programming flexibility to correct problems associated with previous Food for Work (FFW) projects. The rural road improvement activity of the IFFD project aims to increase agricultural productivity by promoting the cost-effective movement of food from farm to market and by improving on-farm utilization of water resources. It also expects to demonstrate nutritional impact at the household level through increased farmer income and access to health services. The disaster management component of the project also addresses food security by promoting a rapid return to productive activity after the onset of a natural disaster.

The PFDS pays CARE for the commodities within 120 days regardless of whether or not the food has been distributed through the PFDS. This "timely" delivery of the proceeds enables CARE to avoid the disruption in project implementation that has plagued other Non-Governmental Organizations (NGOs) in Bangladesh. CARE provides quarterly financial and audit reports to the USAID Mission controller. No issues or concerns have developed with regard to accounting for the use of funds.

B. Ethiopia Field Review

Between 1989-1994, USAID provided 190,000 MTs of food aid for monetization to support the relief and development efforts of six CSs in Ethiopia. This has generated over $29 million in local currency in a country with some of the worst indices of malnutrition in the world.

CARE currently monetizes vegetable oil for all CSs under an umbrella approach. CARE has constantly recovered the CIF value of the commodity, and the prospects for recovery even above CIF remain promising. CSs in Ethiopia in Fiscal Year 1995 (FY 95) began to advertise for tenders in small lots in the open market to encourage the participation of small traders. However, most of the lots from the first tender were purchased by the parastatal that will distribute the vegetable oil through its distribution outlet with the intent to stabilize prices. Given the difficulty of producing vegetable oil in Ethiopia, various CARE studies indicate that imports, even total donor imports, of this commodity do not create disincentives to local production.

Food security is a priority for USAID/Ethiopia and an integral part of it's country strategy. CSs use Title II monetization proceeds for the following purposes: in-country administration; indirect costs of supporting FFW and other activities; logistical costs of transporting, storing, and distributing Title II commodities used for FFW activities; salaries of project implementation staff; project materials; contractor payments for construction costs related to project activities; and funding for revolving loans. With regard to increased agricultural productivity or improved household nutrition, most of the activities supported by Title II monetization relate directly to

food security, although some activities, such as revolving loan funds and school construction, are accorded lesser priority in the Food Aid and Food Security Policy.

The World Food Program (WFP) assists in coordinating USAID, European Union (EU), and WFP monetization efforts and distributes a weekly food aid status report. Title II programs are also well coordinated with Title III efforts.

CSs and the USAID Mission have formed an Executive Committee to guide the monetization program. CARE reports to the Executive Committee and to USAID. CSs report directly to USAID on the use of funds on a quarterly and annual basis. While local currency accounts cannot generate interest due to local banking restrictions, the proceeds generally do not suffer significantly from devaluation. The Mission delegates appropriate responsibility to CSs and provides diplomatic support when issues with the Ethiopian Government arise.

C. Ghana Field Review

The Adventist Development and Relief Agency International (ADRA), Catholic Relief Services (CRS), and TechnoServe monetize approximately 30,000 MTs of commodities per year. This constitutes a major resource, estimated to be 20 percent of the Mission's FY 95 development portfolio.

Each CS monetizes bulk wheat individually. Since much of the bulk wheat is currently purchased on concessionary terms rather than at world market prices, and since the market consists of only four potential flour millers, it is difficult to achieve full cost recovery. Due to this limited number of buyers and the oligopolistic nature of the market, monetization sales also have a very limited ancillary impact on the market. Some assert, however, that Title II monetization plays a small role in keeping prices for wheat flour and bread at relatively modest levels. Mission-funded market studies have been conducted for both Title II and Title III commodities. These show that food aid imports have not had major negative macro-economic effects on the market nor have they created significant disincentives to domestic production.

Although most of the activities funded by Title II monetization are consistent with Mission or USAID food security objectives, not every activity contributes to both sets of objectives. Some activities are not directly linked to USAID's Food Aid Food Security Policy and appear to be less integrated into the overall Title II project. Nevertheless, these activities are either carefully targeted or are in the process of undergoing significant refinement and are deemed by both the Mission and CS to be achieving important development goals. The Mission is supportive of the current direction of the Title II activities.

Relationships between CSs and the Mission are generally positive. However, greater informal communication between the Mission, FFP, and the CSs at critical points could have mitigated problems that arose over the past couple of years. Mission questions as to whether FFP is

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seeking a decreased or increased Mission role in Title II program management need to be clarified.

Local currencies are kept in interest bearing accounts, but inflation is generally greater than the interest earned. Devaluation of monetized funds has been a problem, and a special concern to TechnoServe, which suffered losses from inflation of approximately $475,000 over the past four years from a trust fund created from Title II local currency proceeds.

D. Mozambique Field Review

Civil war and drought have made Mozambique one of the world's poorest countries, despite a favorable population-to-resources ratio. Levels of international aid to Mozambique, most of it food aid, have reached $1 billion annually. Prior to FY 95, monetization of Title II food has been carried out only by World Vision Relief and Development (WVRD), although other CSs are currently monetizing.

Cost recovery by WVRD has illustrated the difficulties of obtaining CIF, at least from the sale of rice and yellow maize. Free-Alongside-Ship (FAS) values were reportedly not available. Vegetable oil may be a more promising commodity. Customs duties are paid on food imports for monetization in Mozambique. Even though monetization in Mozambique will sometimes obtain FAS, it is clearly a higher cost method of obtaining local currency than a cash transfer. However, in its support of food security objectives, monetization is clearly preferable in the absence of the availability of cash.

There has been considerable impact of monetization on the private market, especially among traders, transporters, and contractors. Also, an informal marketing system and a small scale milling industry have been created, and local currency has been used to encourage the production of local crops. There were no disincentive effects of Title II rice and yellow maize imports in FY 94. However, some observers believe that more extensive imports of yellow maize could have a negative effect on local production. Most agencies point to vegetable oil or wheat flour as commodities that are less likely to create disincentives to local production.

Sales are based on sealed bids, and parastatals are not eligible to bid. The Maputo market is largely competitive in terms of both quality and costs. In fact, the sale of U.S. rice was negatively affected by the presence of high quality, Asian rice. Sales procedures by WVRD are well-developed and fully satisfactory.

WVRD activities are specifically linked to the objectives of the USAID Food Aid and Food Security Policy, as well as to specific food security objectives of the Mission. WVRD focuses on food security at both global and household levels through improved agricultural productivity, increased employment and income generation, and improved household nutrition levels, with concentration on female-headed families and vulnerable children. WVRD plans to shift from the

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primarily relief orientation of prior years to a development thrust, as evidenced by the interventions supported by FY 94 monetization proceeds.

During the Southern African drought, delayed and over-lapping arrivals of food aid caused local prices to gyrate rapidly and led to considerable spoilage. This illustrated the need for the creation of a donor coordination committee, which is now functioning under the WFP.

Working relationships between the Mission and WVRD are excellent, with the Mission involved in approving and auditing CS activities and the CS responsible for project implementation. WVRD financial management and accounting systems are reportedly well-designed and functioning.

E. Peru Field Review

In FY 94, Peru's Title II program was the second largest non-emergency program in the world. ADRA, CARE, Caritas, and Prisma monetized Title II commodities to generate approximately $18 million. However, the program was significantly reduced in FY 95.

Since the program's inception in FY 89, CARE has acted as designated sales agent for all CSs. Monetization in Peru has consistently brought in proceeds in excess of CIF, and CSs have been successful in maintaining the value of these proceeds. This is due to an extremely favorable market context for monetization. The sale of wheat, for example, has been privatized and is no longer controlled by government monopolies. Millers pay commercial prices, including taxes, and the taxes are then returned to the CS as a counterpart contribution of the Peruvian government. Interest free, 90-day financing of wheat purchases by millers is also available. Finally, the Peruvian sol is now a convertible currency.

Neither the choice of commodities nor the marketing arrangements for monetization in Peru have a positive impact in promoting competition or other improvements in the food marketing system. Nor does monetization have a "disincentive" effect on local production. The Bellmon analysis, prepared by CARE, helps assure that disincentives are not created.

Food security is a priority in the Mission's country strategy. Local currency proceeds support direct distribution activities, all of which are related directly to agricultural productivity and household nutrition. In addition, all four CSs are currently using Title II local currency to fund income generation activities as part of a multi-year food security strategy shared with the Mission. Whether these credit activities will receive priority in light of the Food Aid and Food Security Policy's emphasis on agricultural productivity and household nutrition remains a critical issue.

CSs in Peru are sometimes confused as to the proper roles and responsibilities of FFP and the Mission. Also, CARE has occasionally viewed its role of designated sales agent as expanding beyond the sale of the commodities.

The size and complexity of Peru's monetization program make it more vulnerable to financial management irregularities than other Mission activities. For this reason, a private accounting firm has been hired for regular monitoring and auditing. This mechanism has proved to be satisfactory. CSs believe their program management performance would be facilitated if they were given greater authority to "carry over" funds generated from one fiscal year to the next.

V. ANALYSIS OF CRITICAL ISSUES

Three central issues critical to the evaluation are the issues of recovering costs; achieving ancillary impacts, including avoiding possible disincentives to local markets and producers; and programming proceeds for food security. The following is a précis of the evaluation's major findings with regard to these key issues.

A. Issues Related to Cost Recovery

- When monetization and direct dollar funding are compared in relation to the achievement of food security goals, properly executed commodity sales can be more cost-effective and efficient, depending upon the market environment in which a monetization occurs.

- Current FFP guidelines related to determining cost recovery are confusing and unclear.

- Although efforts have been made by FFP to enforce existing cost recovery guidelines, further review of cost recovery results, common constraints to achieving cost recovery, and the appropriateness of the current guidelines is warranted.

- For numerous reasons, which are identified in this report, cost recovery results have not been reported or monitored consistently. Nonetheless, figures available for FY 94 sales show that monetization sales recovered CIF in 24 percent of the participating countries, and recovered FAS in 52 percent of the participating countries. In the remaining 24 percent of the countries, the sales price failed to reach even FAS.

- In every instance in FY 94, the amount of local currency generated through Title II monetization did not exceed the full cost incurred by the U.S. Government and selling costs incurred by the CS. The appropriateness of requiring recovery of full costs of the U.S. Government and the CS is questionable. In addition, CSs do not consistently report on selling costs, nor does FFP have a standardized format for reporting selling costs.

- Sales to private buyers in competitive markets appear to provide the most successful combination for achieving or exceeding cost recovery.

- Several management techniques have emerged as ways of improving cost recovery, including:

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- umbrella sales;
- training and technical assistance to improve CS sales capabilities;
- triangular monetizations;
- increased coordination with other food aid donors and USAID Title III programs;
- improved understanding of commodity specifications, grades, and prices;
- improved commodity selection;
- timely approvals and shipments; and,
- maintaining the value of the proceeds through dollar-denominated accounts.

B. Issues Related to Achieving Ancillary Impacts

- A distinct feature of monetization is that, beyond generating revenues for development activities, it has an added potential for contributing to food security by improving local, regional, or national markets. However, the supply of Title II food to a market may also have neutral or negative effects on food security.

- Very few Title II CSs and Missions currently approach monetization as a means to address a defined food security problem. Even fewer have succeeded in quantitatively documenting the food security results achieved through the process of monetizing.

- To maximize positive impacts and avoid disincentive effects, a careful market analysis is essential. Depending upon the way commodities are sold, monetization can influence market structures, improve the way the market functions, and increase competition. It can help stabilize prices and increase the ability of new groups to become players in the market. On the other hand, monetization can damage markets through unfair competition or sales below local market prices.

- While most CSs will not be able to afford the costs associated with understanding the entire food market, they should develop the capability to identify possible opportunities and understand the implications of the monetization on the market system. A good market analysis allows a CS to avoid ill-informed actions that could result in negative effects.

- Presently, CS project proposals and Mission endorsements typically justify monetization through over-simplified statements of need that neglect to consider the potential impact of the import on the national market; the potential impact of global food imports, including other donor food aid; or possible disincentives at local or regional levels.

- A constraint to achieving ancillary impacts is that CSs often sell Title II commodities through negotiated contracts to parastatals, government agencies, monopolies, or oligopolies instead of through auctions or tenders targeted to food insecure areas.

- Despite enormous constraints on CSs to achieve a full understanding of markets, opportunities do exist for improving market analysis skills. Some USAID Missions have extensive technical capabilities in agricultural production and marketing available to CSs. Institutional Support Grants (ISGs) and Section 202(e) grants can be used to build expertise. There are untapped sources of information available in-country. Finally, CSs themselves are often in a unique position to acquire an intimate understanding of the food marketing system at the local level.

- While creating disincentives to local production or markets is never acceptable, there are likely to be trade-offs between achieving cost recovery and obtaining an impact on the market. Whenever full costs are not likely to be recovered, the distinctive benefits of monetization on improving the market system assume an even greater importance.

C. Issues Related to Programming Proceeds

- A great concern of CSs and Missions is the issue of whether monetization proceeds can be used to support income-generation activities. The new policy allows for consideration of such projects as long as they link directly to improved food security. However, it does not assign a high priority to such projects.

- Local currency proceeds support a range of activities from the purely humanitarian to more sustainable development. A large portion continues to support direct food distribution and related development activities.

- A comparison of the uses of Title II local currency proceeds in FY 94 to the objectives of USAID's Food Aid and Food Security Policy indicates the need to:

  - more specifically describe FFW activities to determine the relation to food security;
  - orient Institutional Feeding more closely to long-term food security;
  - more specifically describe credit activities to determine the relation to food security;
  - address the benefits of local food purchases on food security; and,
  - identify more innovative approaches to school feeding projects in order to justify the use of monetization proceeds for this activity.

  This review of uses of proceeds in FY 94 also confirms the relevance and importance of water and sanitation, disaster preparedness, Maternal Child Health (MCH), and natural resource management activities to food security, as articulated in the Policy.

- It is anticipated that 100 percent monetization projects will be approved only where the monetization itself and proceeds generated would have a greater impact on food security than cash financing. The dynamics of this emphasis, as well as the pressure created by

food distribution activities, will limit the proceeds available for non-food distribution activities and require that they be programmed more precisely and narrowly.

- With greater CS and Mission dependence on monetization as a financial resource and food security programming tool, it is reasonable to expect Missions to integrate other dollar resources to support food aid activities and to integrate Title II activities into Mission strategies.

- In general, sales proceeds should be spent in the year for which they have been programmed. However, the uncertainties of international shipments and local commodity sales suggest that greater flexibility be given to CSs to maintain proceeds "in the pipeline" from one year to the next.

- There is widespread agreement among CSs that monetizing in a rapid-onset emergency is not the best vehicle for efficiently generating cash resources. In addition, monetizing without having the time or resources to do the necessary market and price analysis could be damaging to an already fragile situation. However, monetization can be effective in slow-onset emergencies and transitional situations.

- There is a need for clarification from FFP as to the proper role of USAID Missions and FFP in defining, modifying, and monitoring CS activities.

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RECOMMENDATIONS

TITLE II MONETIZATION EVALUATION RECOMMENDATIONS

A. GENERAL POLICY

1. Given Congressional and CS backing of monetization and the likelihood that Missions will increasingly seek to access this resource as dollar funding declines, FFP should take further steps to ensure that Title II monetization is used to promote food security objectives by:

   a. defining monetization not only as a means for generating local currency for food aid activities but as a means for achieving food security impacts through the process of supplying food. Monetization proposals should be reviewed against the following: (1) impact of the supply of food or process of monetizing on food security; (2) ability to generate the maximum amount of funds; and (3) impact of these funds on food security.

   b. recognizing that, with regard to the process of monetizing, cost recovery and food security goals are interrelated. These three factors cannot be analyzed separately, and there are likely to be trade-offs involved;

   c. providing new operational guidelines that pay particular attention to the following: cost recovery benchmarks, methods of determining costs and tracking cost recovery results, appropriate forms of monetization, and market analysis requirements;

   d. encouraging training of CS field staff to enhance their ability to effectively execute monetizations. Training topics might include: conducting a market analysis; ongoing monitoring of the local market; improving commodity selection; introducing new sales techniques; understanding commodity grades, specifications, and pricing; and conducting negotiations with traders; and,

   e. paying closer attention to the uses of local currency proceeds to insure consistency with the Agency's Food Aid and Food Security Policy.

2. FFP should maintain an on-going "literature search" to remain up-to-date on both USAID and non-USAID studies, issues, concerns, and developments regarding monetization. In addition, FFP should consider the following areas for further review and more in-depth analysis:

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a. cost-effectiveness of direct feeding interventions versus monetizing to promote food security objectives;

b. impact of monetization on food security, particularly the sustainability of these impacts in comparison to other methods of program financing, dollars or direct distribution; and,

c. impact of monetization in emergencies.

B. COST RECOVERY

1. FFP should establish a clear and reasonable benchmark for cost recovery that accepts that there are likely to be trade-offs between recovering costs and achieving ancillary food security impacts but explicitly discourages monetizations that fail to do either sufficiently. In establishing new operational guidelines for monetization, the details for determining cost recovery in this manner would require further discussion, but the following operating principles are recommended:

   a. A CS would propose and the Mission and FFP would formally agree upon a cost recovery benchmark that is appropriate for the objectives and expected outcomes of the individual monetization. This approach would underscore the importance of CSs and Missions carrying out the necessary market analysis to be able to defend their proposed benchmark.

   b. Regardless of the benchmark proposed, the actual sales price should be compared against two values:

      - prevailing local market value of the commodity to be sold
      - CIF value of the commodity.

   c. Approval of benchmarks for sales below prevailing local market prices would be highly unlikely. Approval of benchmarks for sales below CIF may be justifiable if specific benefits of the increased supply of food on food security and the impact of the activities on improving household nutrition and/or improving agricultural productivity are identified and deemed achievable.

   d. If the legislated minimum allocation of commodities for monetization is not achieved through the approval of monetizations with strong supply rationales and/or proposed sales above CIF, priority should then be given to those remaining proposals in which the use of the funds has the strongest potential food security impact for vulnerable people. These proposals should be approved through some type of waiver mechanism whereby it is explicitly stated that cost recovery and

ancillary impacts are not anticipated. Nonetheless, the proposed food security benefits of the activities to be supported by the proceeds generated should be highlighted.

2. To establish more consistent cost recovery parameters, FFP should always provide a formal and timely price quote at the time of submission of the call forward request by the CS for the CIF value (instead of the FAS value) of the commodity to be monetized. The CIF value would be determined as follows: the FAS value of the specific commodity for a specific date of export, plus an estimated shipping rate for the commodity, which would be obtained by FFP from an agreed upon freight forwarder. The shipping rate would reflect the cost of shipping on foreign flag carriers even though the shipment may be transported on U.S. vessels as a matter of U.S. Government policy.

3. This price quote should be used to determine cost recovery against the CIF value; changes in prices between the time of the quote and the purchase by United States Department of Agriculture (USDA) will be considered transaction costs.

4. In comparing sales price to CIF values, FFP should communicate more successfully its policy that a CS's ability to achieve cost-recovery is not affected negatively by the legislative mandate to use U.S. shippers.

5. FFP should be aware that any published benchmarks for cost recovery can easily become known to potential buyers and serve as an impediment to obtaining a higher price.

6. FFP should work with USDA to expedite the transmission of accurate price information on a daily basis to the field through information systems such as the Internet.

7. As FFP encourages well-planned sales where commodities are sold when prices are highest and disincentive risks are minimal, it must also attempt to avoid unnecessary delays in project approvals or processing calls forward that undermine a CS's ability to do the above.

8. For accounting, reporting, and budgeting purposes, there should be a more formal system of tracking cost recovery results against the established benchmarks and, if different, the CIF and prevailing market values for the commodity to be monetized. Within 30 days of the sales transaction, CSs should report the amount of revenues generated and the actual sales price, compared against the agreed upon benchmark, the CIF price quote provided by FFP, and the prevailing local market price at the time of the sale.

9. CSs should be required to provide information on anticipated and actual administrative costs incurred in the monetization process through a standard reporting format.

10. More attention should be given to the effects of payment or non-payment of taxes, in terms of limiting the proceeds available for programming, in the case of the former, and disrupting the local market, in the case of the latter. In countries where tax practices are deemed problematic, FFP should work with Missions and CSs to encourage the negotiation of an agreement similar to that which exists in Peru, where CARE pays the same amount of taxes as that of a commercial purchaser, but the Government of Peru then allows the monetization program to retain those taxes and duties as a host country contribution.

11. Because monetizing commodities is a complex and complicated business transaction, FFP, USAID Missions, and CSs should re-double their efforts to assure that those involved in the monetization process have the technical knowledge, skills, and training required to become effective sales agents to ensure the best prospect for cost recovery. USAID resources in the form of Section 202(e) grants, ISG grants, and Title II local currency are available and should be used to improve CS capabilities in managing sales.

C. ANCILLARY IMPACTS AND DISINCENTIVE EFFECTS

1. FFP should insist that CSs demonstrate an understanding of the local market within which a monetization will take place prior to approval of funding for monetization. FFP should also encourage Mission and CS collaboration in this effort. By conducting a market analysis, CSs are able to fine-tune their commodity selection, identify appropriate sales mechanisms, and schedule sales to avoid disincentive effects and maximize the supply impact of the sale. As part of this process, CSs should be required to monitor the effect of the monetization on the local market system.

2. As FFP places increasing emphasis on conducting market analyses, it must also:

    a. increase its own capacity, through technical training of staff or the use of consultants specializing in this area, to recognize when a CS has sufficiently demonstrated an understanding of the local market and how its monetization will affect that market;

    b. provide more technical guidance on performing market analysis to CSs, especially in countries where Mission support for this type of activity is limited; and,

    c. encourage CSs and Missions to invest Section 202(e), Mission, ISG, local currency, or other funds and technical resources for the purpose of using monetization to achieve food security objectives.

3. In countries where more than one donor or NGO is importing food aid, FFP should require that the Mission facilitate regular coordination of activities and exchanges of

information with regard to market issues and encourage the participation of Title II CSs in these coordination activities.

4. FFP should consider the impact that a shrinking Title III program will have on Title II monetization, especially with regard to CS and Mission ability to conduct thorough market analyses and influence host country agricultural policy.

5. FFP should consider the negative implications of the high number of Title II monetization sales to government parastatals, monopolies, or oligopolies on the ability to use monetization as a means to achieve ancillary food security impacts.

D. TYPES OF MONETIZATION

1. In light of pending changes to Farm Bill legislation, FFP should consider triangular monetization when there is demonstrable potential for recovery of costs at or above CIF, with no risk of creating disincentives in either country. FFP should work with Missions and CSs to explore possible country combinations where a triangular approach not only might be cost-efficient but also effective in terms of achieving ancillary food security impacts.

2. Where more than one CS is monetizing in the same market, umbrella monetizations should be encouraged since they can save costs, avoid duplications of effort, and strengthen the ability of CSs to negotiate more competitively in the market place. The role of the designated sales agent, however, should be clearly defined and limited to the sale of commodities on behalf of the CSs. The responsibility of the sales agent should terminate with the deposit of funds into the bank accounts of each CS. If a monetization committee is established, the roles, responsibilities, and structure of the committee must be clearly defined at the outset.

3. Emergency monetizations should not be distinguished from monetizations that occur in development settings, and the criteria for approval should remain the same for both. If CSs cannot meet the established criteria in an emergency setting, then the risk of monetizing is probably greater than the advantages.

E. PROGRAMMING PROCEEDS

1. FFP should require that monetization budgets be linked to specific activities so that a determination can be made as to whether the local currency proceeds are being utilized in ways that promote integration and support food security objectives, as defined by the Food Aid and Food Security Policy.

2. FFP should provide additional guidance regarding when monetization proceeds can be used to support income generation activities.

3. FFP should clarify that local food purchases are an appropriate use of monetization resources, provided that the CS demonstrates clearly the economic and/or food security benefits to be gained, the ability to avoid disincentive effects, as well as the administrative capability for managing such transactions.

4. FFP and CSs should establish standardized procedures and formats for reporting local currency pipeline and assuring that CSs have adequate cash flow funds to avoid unnecessary disruptions in project implementation.

5. Guidance for proposals and reporting should be received earlier to allow CSs adequate time to prepare proposals.

F. PROCEEDS MONITORING

1. FFP should continue to encourage CSs to state local currency sales prices in U.S. dollars in negotiated sales agreements to guard against the effects of local currency devaluation.

2. FFP should clarify the circumstances under which a CS can convert local currency proceeds back to U.S. dollars in order to maintain the value of the proceeds generated.

G. ROLES AND RESPONSIBILITIES

1. Especially in light of USAID's reengineering efforts and emphasis on partnership, FFP can improve program administration by clarifying the roles and responsibilities of USAID Missions, CSs, and FFP, with respect to both selling Title II commodities and approving, implementing, and monitoring the project activities supported by Title II local currency. A collaborative approach that respects the strengths of each entity participating in the process will best serve project implementation.

2. FFP should reconsider the policy that line-item budget changes in excess of ten percent be approved by FFP instead of the Mission, which has first-hand knowledge of why such changes may or may not be necessary.

H. COORDINATION

1. In countries where more than one donor or NGO is importing food aid, FFP should encourage Missions to facilitate regular coordination of activities and exchanges of information, especially with regard to market information. CSs should also be encouraged to actively participate in country coordination efforts.

2. As Title III is reduced, FFP should be alert to how a Mission's decreased ability to affect policy change or to negotiate with a host country government may negatively affect its Title II program.

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3. FFP should make a concerted effort to develop better lines of communication between USDA's Export Enhancement Program (EEP) and the Title II program, so that potential future conflict areas can be identified as they develop. To the degree possible, Missions should also work to develop better information links with the EEP counterparts in country.

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CHAPTER ONE

INTRODUCTION

AB

TITLE II MONETIZATION EVALUATION

I. INTRODUCTION

A. PURPOSE OF THE EVALUATION

The Office of Food for Peace (FFP) of the United States Agency for International Development (USAID) engaged Mendez England & Associates to undertake an evaluation of the Title II monetization program. The field work was carried out in the first half of 1995, while analyses and preparation of the full report continued during the balance of the year. The purpose of the evaluation was to:

- Analyze the comparative advantages and disadvantages of various types of Title II development and emergency monetization processes.

- Compare the relative cost-effectiveness of monetization versus the use of dollar funds to generate local currency for project purposes.

- Identify critical issues and recommend changes to legislation, guidance, review criteria, and program administration and management in order to strengthen Title II development and emergency projects supported by monetization.

B. COMPOSITION OF THE TEAM

This evaluation was conducted by Mendez England and Associates. Sheila Royston and Tom Scanlon prepared this report with the assistance of many others. The following consultants conducted the individual country field reviews: Robert MacAlister (Bangladesh and Ethiopia), Janet Lowenthal (Peru), James Pines (Peru), and Paul Wenger (Mozambique). Ian McCreary of the Canadian Foodgrains Bank contributed significantly to Section V.B of this report. Ina Schonberg of Mendez England and Associates conducted both the Ghana field review and the literature review. Kelly O'Keefe of Mendez England and Associates contributed to the desk review and to the overall preparation of this document.

C. METHODOLOGY

In accordance with the scope of work, the methodology for conducting this evaluation included:

- Conducting a limited literature review of selected documents to identify key monetization issues, some of which became the basis for further analysis in both the desk and field reviews;

- Reviewing information available at Cooperating Sponsor (CS) headquarters and FFP;

- Collecting pertinent data about individual Title II monetization-supported projects worldwide through the review of annual reporting documentation and the use of a survey;

- Developing a framework for analyzing monetization proposals, based on the information collected during the literature, desk, and field reviews;

- Interviewing officials involved with Title II monetization at CS headquarters, USAID/Washington, USAID Missions, CS field offices, other donor organizations, and host country public and private agencies. For the list of questions and those interviewed, see Appendix A; and,

- Conducting field reviews of Title II monetization-supported projects in Bangladesh, Ethiopia, Ghana, Mozambique, and Peru.

The five countries chosen for the field reviews were intended to be representative of Title II monetization, given the time and cost constraints involved. In addition to spanning three geographic regions, the activities in the countries visited reflect the various forms of sale and approaches to the process of monetizing, as well as the diverse ways of programming the local currency generated from Title II monetization sales. For example, umbrella sales are carried out in Peru and Ethiopia; TechnoServe implements a 100 percent monetization activity in Ghana; CSs in Mozambique monetize in an emergency setting; and, the market environments varied significantly from one country to the next. In addition, the country selection allowed FFP to look at monetization in countries that are a significant part of its monetization portfolio in terms of the dollar value of the monetized commodities allocated to these five countries. Also, ten out of the 14 CSs participating in Title II monetization worldwide in Fiscal Year 1994 (FY 94) were also represented in the countries selected.

D. DESK REVIEW

The tables and narrative in Section V of this report are based on data obtained during the comprehensive desk review of individual Title II monetization projects. The tables illustrate the most critical elements of CSs' Title II projects and are based on FY 94 data, as this is the last year for which reasonably comprehensive and complete figures are available. Wherever possible, however, this evaluation also includes FY 95 and FY 96 data.

The FY 94 Title II portfolio includes projects that monetized Title II commodities in FY 94 to support FY 94 activities as well as projects that did not monetize in FY 94 but utilized monetization proceeds generated in previous fiscal years to support FY 94 activities. The list of projects that comprise the FY 94 Title II monetization portfolio is contained in Appendix B.

Initial data for this evaluation was collected during a comprehensive review of FY 94 Title II Annual Progress Report submissions. Due to inconsistencies in reporting methods, certain data presented required further verification. In other instances, monetization data simply was not provided by the CS. Given these factors, the evaluation team developed three standardized worksheets and requested CS field offices involved in monetization to complete them. Of the 43 programs included in the FY 94 Title II portfolio, 37 completed the monetization worksheets. Not all programs, however, furnished all of the information requested. This was especially true with regard to sales price information. Revised versions of these worksheets, which could be modified to serve as standardized reporting formats, are located in Appendix C.

CHAPTER TWO

OVERVIEW OF TITLE II MONETIZATION

II. OVERVIEW OF TITLE II MONETIZATION

A. THE HISTORY

1. Definition

Monetization refers to food sales by Non-Governmental Organizations (NGOs) and the World Food Program (WFP) to generate revenues in local currency and to support local vendors, markets, and food import capacities, or to stabilize prices and augment food supplies during famine. Monetization also refers to program food sales or bilateral food aid that is sold by a recipient government. Monetization sales can be conducted by direct negotiation with government parastatals or private buyers or through sealed or open-bid auctions to wholesalers and mid-level merchants.

For the purposes of this evaluation, monetization refers to the sale, under Title II of Public Law 480 (P.L. 480), of U.S. agricultural commodities in developing countries by Private Voluntary Organizations (PVOs) and cooperatives acting as Title II Cooperating Sponsors (CSs) to generate local currency for use in USAID development and emergency food aid activities. P.L. 480 legislation currently requires that a minimum of ten percent of Title II development food aid be monetized each year. It is anticipated that the new Farm Bill legislation will increase this minimum requirement to 15 percent.

2. Legislative History

Monetization was introduced by Congress in FY 86, in response to repeated requests by CSs for additional funding to cover the local currency needs of P.L. 480 food distribution projects. In recognition of these needs, Congress mandated that USAID monetize annually at least five per cent of the total value of their non-emergency commodities. Putting CSs in charge of the actual sales process was an untried approach, adopted to ensure CS control over the proceeds. Initially, these proceeds were to be used exclusively for the logistical costs of feeding programs.

In 1988, at the urging of CSs, Congress raised the minimum requirement for monetization from five to ten per cent of the total value of Title II non-emergency commodities. At the same time, Congress also expanded the permissible uses of proceeds to include "income generating, community development, health, nutrition, cooperative development, agricultural programs, and other development activities."

The 1990 amendments to P.L. 480 brought a heightened focus on the food security objectives of all U.S. food aid programs to comply more fully with the legislative mandate to "feed hungry people." Section 402 of P.L. 480 defined food security as "access by all people at all times to sufficient food and nutrition for a healthy and productive life" [and the importance of economic access to food is emphasized in the legislative history]. One of the 1990 amendments under

Section 202(e) of Title II enabled CSs to obtain dollar funding for the hard-currency needs of their Title II programs overseas and for strengthening their managerial ability to administer such programs.

Several years after these changes were put into practice, Congress requested an audit of all U.S. food aid programs by the Government Accounting Office (GAO). The resulting report, *Food Aid: Management Improvements Are Needed to Achieve program Objectives (GAO/NSIAD-93-168)*, was issued in July 1993. It recommended that USAID 1) give greater priority to food security, while also defining it more specifically, 2) begin to give serious emphasis to cost recovery, and 3) more comprehensively evaluate the development impact of all food aid activities, including those financed by monetization.

3. Program Growth

The growth of monetization has been dramatic, whether measured in terms of total commodity value, metric tonnage, number of participating CSs, number of countries with monetization programs, or number of projects supported with monetization proceeds.

Thanks to the legislative changes in 1988, together with USAID's publication of a *Monetization Field Manual* in August of that same year to clarify monetization policies and procedures, CSs began to take increasing advantage of monetization as a flexible economic resource. Additional factors fueling the program's steady expansion include: increased enthusiasm for monetization by USAID Missions as their dollar funding declined, the drop in financial support (e.g. for inland transport) by many host governments, the erosion by inflation of the purchasing power of revenues generated from commodity sales, and increased CS mastery of monetization's complexities.

The results speak for themselves. From 21 projects in 19 countries totaling $21 million in FY 87, Title II monetization increased to 28 projects in 19 countries totaling over $39 million in FY 90, and to 43 projects in 24 countries totally over $80 million in FY 94. Figure 1 on the following page illustrates Title II monetization trends by CS for FY 92-95. By FY 90, the original five CSs had been joined by seven more, and in FY 94, the total number of CSs stood at 14. As of FY 95, the Cooperative for American Relief Everywhere (CARE) is clearly the largest recipient of monetization sales proceeds, followed by Catholic Relief Services (CRS) and the Adventist Development and Relief Agency International (ADRA).

4. Regional Trends

Since FY 88, Africa has usually been the region with the largest number of countries participating in monetization, the largest number of CS country programs, and the highest total dollar value of monetized commodities. The dollar value of Africa's participation appears to continue to rise the most steadily and is reflective of the severity of its food security problems, as well as the region's high costs of inland transport. In addition, FY 95 was a year in which an

unusually large increase in monetization occurred in the Asia/Near East region, due to the size of the new Bangladesh/CARE monetization program. Monetization in Latin America is experiencing a steady decline, consistent with the overall improvement in the food security of this region.

FIGURE 1

Figure 1 shows approved Title II monetization funding levels by CS during FY 92-95.

APPROVED MONETIZATION FUNDING LEVELS BY COOPERATING SPONSOR FY 92-95

Cooperating Sponsor	FY 92		FY 93		FY 94		FY 95	
	Dollar ($000)	Percentage %	Dollar ($000)	Percentage %	Dollar ($000)	Percentage %	Dollar ($000)	Percentage %
CRS	17,158	26	10,987	19	10,982	15	11,813	15
CARE	13,313	20	9,518	16	23,121	31	31,749	40
ADRA	7,089	11	7,858	14	8,411	11	6,978	8
CARITAS	6,774	10	7,435	13	8,401	11	6,216	8
ACDI	6,813	10	8,249	14	5,233	7	5,798	7
PRISMA	3,112	5	4,323	7	5,159	7	2,804	3
FHI	2,890	4.5	2,869	5	3,711	5	6,154	8
JADF	2,715	4						
WVRD	1,625	2	1,493	3	4,667	6	1,984	2
TECHNOSERVE	1,124	2	1,752	3	1,697	2	1,476	2
AFRICARE	661	1	724	1	571	1	2,220	3
AJJOC	416	1					552	1
EOC	513	1	459	1	421	1		
SHARE	519	1	459	1			986	1
OIC	430	1	446	1				
SCF	261	.5	1,043	2	1,051	1	829	1
PCI					885	1	879	1
CHF					628	1		
Monet. Target		10		10		10		10
Monet. Actual		14.2		13.2		16.8		20.9

*Funding levels for umbrella monetizations in Peru and Ethiopia were, to the extent possible, proportionately distributed among participating CSs.

5. Use of Proceeds

The use of monetization proceeds by CSs has changed in response to evolving USAID and Congressional goals. Given the original legislative emphasis, CSs initially viewed monetization as a way to meet the cash requirements of their existing food distribution activities. Once the legislative mandate was broadened, however, monetization proceeds were also used to support income-generation, agricultural, and other development activities not involving food distribution. These are often referred to as 100 percent monetization activities. In addition, in accordance with USAID and CS desires to strengthen the development impact of food distribution projects, CSs began using monetization proceeds to fund the complementary costs of making such projects more developmental.

In April of 1992, USAID issued Policy Determination 19, which formalized its definition of food security to include economic as well as physical access to food. In this context, CSs continued to implement new monetization projects, such as small credit programs, to improve the purchasing power of beneficiaries.

By FY 95, monetization proceeds were still being used primarily to fund the logistical costs of food distribution, including headquarters backstopping and other administrative expenses, as well as various food-related development activities. Monetization funding of development activities unrelated to food distribution also occurred but lagged behind monetization funding in support of food distribution. In FY 94, the seven 100 percent monetization projects represented only 16 percent of the total dollar value of Title II commodities allocated for monetization and 26 percent of the total tonnage allocated for monetization[1].

To a lesser extent, Title II commodities were also being monetized to fund emergency activities, such as distribution, repackaging, and "wet feeding" in refugee camps. In emergency situations, other resources are often more readily available and less complicated to obtain since they do not require, for example, a market analysis or the negotiation of a sales contract. For this reason, CSs tend to tap other funding mechanisms first before considering monetization as a means to support emergency activities.

6. Identifying and Reporting Impacts on Food Security

In 1990, USAID commissioned a review of monetization experience to date. The resulting report, *Monetization Comes of Age,* determined that valuable food security objectives were being achieved through both development activities using direct food distribution and development activities using local currency generated through monetization. "Depending on the use of

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[1]The seven 100 percent monetization projects in FY 94 included Cape Verde/ACDI, Ecuador/CARE, Ghana/TechnoServe, Guinea Bissau/Africare, Honduras/CHF, Kenya/FHI, and Uganda/ACDI.

proceeds," it concluded, "commodity sales can be as effective as direct distribution for long-term, non-emergency feeding of needy people."[2]

Throughout the 1990s, heightened USAID attention to the goal of food security led the Agency and its partners to look more closely at the food security impacts of monetization-funded activities. In February 1995, USAID's Deputy Administrator issued a Food Aid and Food Security Policy Paper ("Policy Paper"), to provide more specific guidance on program development and resource allocation for all USAID-administered food aid activities. The paper noted that food aid should be integrated to a greater extent with other USAID assistance resources and that monetization proceeds should be used to complement feeding programs to enhance agricultural productivity and improve household nutrition. The paper noted that performance monitoring and evaluation systems should be strengthened, enabling USAID and CSs to demonstrate more clearly the food security impact of food aid programs. FFP then issued its Interim Guidelines for Title II Development Project Proposals (DPPs), which states that henceforth "field managers and CSs will be expected to ... justify program proposals in terms of food security results."

7. The Logistics of Monetization

It took some time for all concerned to learn the ropes of monetization. As the program has become more institutionalized, however, CSs and USAID Missions have evolved creative models for selling commodities and have struggled with the challenges of recovering full costs and protecting the value of the local currency proceeds, often in difficult environments. The mechanics of payment and deposit have also been dealt with unevenly.

Some of the approaches adopted to achieve economic efficiencies include:

- umbrella monetizations, in which a lead CS (most often CARE) sells Title II commodities on behalf of all participating CSs within a given country;
- simulation of commercial sales, such as in Peru, where the government levies taxes to avoid giving CSs unfair advantages over commercial buyers but then contributes these tax revenues to net sales proceeds;
- selecting commodities expressly for their cost-recovery potential; and,
- the use of dollar-denominated accounts, to prevent inflation from eroding the value of local currency proceeds.

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[2]Pines, J., *Monetization Comes of Age: a Review of U.S. Government PVOs and Cooperative Experience*, PN-ABF-701, document prepared for USAID (Washington, D.C.: USAID, 1990), p.39.

Due to the diversity of local conditions and sometimes the lack of information, these administrative improvements are not universal, but some, such as umbrella monetization, have become widespread.

B. THE CURRENT PROGRAM CONTEXT

Monetization has become a critical resource for both CSs and USAID Missions. This is despite the fact that monetization presents special challenges and even some disadvantages compared to converting dollars to generate local currency. In the future, CSs and Missions that propose monetization to support their projects will face additional challenges.

1. Rising Demand, Declining Supply

The availability of P.L. 480 commodities in general is in sharp decline. The U.S. is no longer generating the huge agricultural surpluses of years past. Section 416 (b) surplus commodities are expected to be eliminated altogether, and appropriations for Title II purchases are unlikely to make up the difference. Furthermore, emergencies that will draw upon existing stocks are increasing in both number and duration, while allocations for other forms of foreign assistance are being cut back. In addition, the decrease and possible elimination of funding for Titles I and III of P.L. 480 will also create additional pressures on Title II. Finally, transfers from these other titles have frequently been used to augment the amount of funding available under Title II; this transfer option will become increasingly limited.

It is likely that direct food distribution for development activities will remain at current levels. Given that monetization often supports the operational costs associated with these activities, coupled with increased CS and Mission interest to use monetized proceeds for other development purposes as well, the demand for monetization will clearly grow more rapidly than the supply.

2. USAID's Accountability for Food Security Gains

At a time when both food aid and dollar resources, such as Development Assistance (DA) funding have decreased, USAID has come under increased pressure to demonstrate that its programs are achieving concrete impacts in terms of food security, in particular, as well as broader developmental impact. The 1993 GAO Report concluded that "although some Missions have begun to try to evaluate the food security impacts or efficiency of their food aid programs, USAID has not systematically evaluated the food security impacts of its food aid programs." The GAO urged USAID to develop methodologies for acquiring and reporting empirical evidence of such impacts.

3. Food Versus Money

Competition for increasingly scarce resources is forcing closer attention to the most effective forms and uses of all funds appropriated by Congress. In addition, CSs and Missions choosing to monetize are confronted with another efficiency issue in today's context: whether food or money is the proper resource for the situation. The trade-offs between using commodities or money to improve the food security of low-income people in food insecure countries pose complex questions. The P.L. 480 experience worldwide suggests that no either/or answer is likely to be satisfactory. Issues involved include the impact of "food as food" compared to cash; the causes and extent of food insecurity; the production, pricing, and distribution of food; the availability and uses of foreign exchange; and the interactions among all these factors within host countries.

CHAPTER THREE

LITERATURE REVIEW: CRITICAL ISSUES IN MONETIZATION

III. LITERATURE REVIEW: CRITICAL ISSUES IN MONETIZATION

The broad issues outlined below were identified during the literature review and used to inform interviews with USAID and CS staff, the portfolio review, as well as the field reviews. These issues are not necessarily exhaustive but represent the range of topics related to monetization, many of which are highlighted in available non-USAID literature. Not all of the issues are explored in-depth in this evaluation, but all are worthy of further consideration by USAID. Appendix D provides a bibliography of the documents assembled and reviewed during the course of the evaluation. These reports are now on file in the FFP evaluation library.

A. COST RECOVERY

1. Cost Recovery Benchmarks

What benchmark should be used to measure the recovery of U.S. Government commodity and shipping costs? USAID requires, at minimum, that the Free-Alongside-Ship (FAS) value be covered by sales price, and preferably the Cost, Insurance, and Freight (CIF) value. FFP is placing increasing importance on recovering CIF. Others have argued that a world or local market price at the time of sale is a more appropriate measuring factor. Shifting local circumstances, such as local exchange rate fluctuations, local market changes, and emergency situations, as well as a knowledge among potential buyers of the FAS benchmark, can make it difficult for CSs to achieve even the current FAS minimum. Another factor to consider is the cargo preference requirement of P.L. 480, which states that commodities supplied by the U.S. Government must be shipped on U.S.-flag vessels.

2. The Administrative Costs of Monetization Versus Direct Distribution

From an administrative perspective, the costs of monetizing may be less than the costs of carrying out a direct distribution activity, to the extent that internal transport, storage, and handling costs are reduced. This would be true especially in countries that are landlocked or where food distribution sites are in hostile or geographically difficult areas. Nevertheless, only limited cost-benefit analyses of monetization versus direct distribution have been conducted.

While FFP has focused on the U.S. purchase cost of the commodity and shipping, the full cost of the monetization process in-country is generally not measured. Complicating matters is the fact that these costs vary considerably, depending upon the type of sale, i.e. single buyer, auction, or joint monetization. Auction sales, for example, may be as administratively burdensome as direct food distributions.

Extensive research on the cost-effectiveness of monetization in Ethiopia is planned by Simon Maxwell and his staff and is scheduled for completion by the end of 1996. This research will

focus on the value of a food aid transfer to the recipient and its cost to the donor. Such analyses have been done before, by comparing the costs of different commodities in a food basket, but none have compared the relative costs of monetization and direct distribution. These studies will provide a sophisticated analysis, including not only donor but also in-country distribution costs. They will allow for cost and price variations over time. Simon Maxwell's *Cost Effectiveness Study, 1994* has an excellent summary of the general cost issues, which are based on a WFP meeting held in May of 1993.

3. Subsidies

Another cost recovery issue centers around the sale of a commodity at a price that is lower than the standard commercial price or below import parity. In such cases, there is, in effect, a subsidy. The issue is whether these subsidies are being provided to the appropriate parties. The result may be that development resources are sacrificed without reducing prices to poor consumers. A subsidy for wheat, for example, may be passed on to the consumer in the form of lower bread prices. On the other hand, the buyer may benefit from this subsidy, without passing on the savings to the consumers. Furthermore, the consumers of bread may be the middle or upper classes, rather than the poor. These issues are of the greatest relevance to the Title I and Title III programs, which are generally larger in volume. However, where Title II monetizations are large or carried out alongside other donor sales of the same commodity, the joint effect on the market may be significant.

Another form of subsidy results when monetization provides a foreign exchange reserve benefit for the national economy. Scarce foreign exchange reserves are saved because a needed import is obtained without negatively affecting the balance of payments. This also benefits the buyer, who does not have to pay a premium for obtaining foreign exchange and may save on bank fees. An issue to consider is whether the foreign exchange savings are significant, and, if so, whether it can be reflected in a higher selling price. A second consideration is whether there are other elements of the monetization arrangement that might act as subsidies to the buyer, such as payment by the CS of port fees and in-country warehousing prior to the sale.

4. Timing of Sales and Commodity Mix

An issue of concern is whether commodities are being sold at the time of year to obtain the highest price. What are the main considerations for determining when commodities are sold? To what degree are shipment delays having a negative impact on price? To what degree do other donor or commercial imports affect prices?

B. ANCILLARY IMPACTS

1. Defining Ancillary Contribution

How should a monetization's contribution to food security be defined? The obvious, but not always measurable, contribution is bringing in a commodity to a country that has a significant food deficit. This has the potential to increase the food available to vulnerable groups. In some instances, however, other effects of the monetization, such as promoting better distribution to vulnerable groups, may have greater relevance. An auction monetization process, for example, can enhance market operations, making more food available at reasonable prices to needy households. In still other cases, even where there is not a significant food deficit, monetization proceeds can be used to support other food security objectives.

Large scale monetizations, including those that occur during emergencies, can act as a tool, under certain economic circumstances, to reduce price inflation and break local monopolies. Open market monetizations in Nicaragua and Somalia attempted to achieve this. If successful, such monetizations can improve the population's purchasing power and increase the food supply. However, it has generally been concluded that the following is needed to bring about desired ancillary impacts: in-depth knowledge of target markets, market actors, trading patterns, and price cycles; good inter-agency coordination and knowledge of regional food distribution stocks and plans; and, the flexibility to quickly react to market fluctuations by, for example, changing timing of the monetization and commodity mix. Essential conditions include the continued functioning of the basic commercial system and the possession of cash among the general population for food purchases.

2. The Need for Flexibility When Monetizing

Recent literature addresses the issue of greater flexibility to changing local conditions. Greater flexibility to choose when, where, and how to monetize has been requested at the local level. If the monetization process is well managed, increased flexibility may enable NGOs to respond to local production and market fluctuations, gain a higher price, and minimize negative local impacts. If poorly managed, it might be abused, and appropriate market opportunities may be missed. The issue, then, is how the current system can be made more flexible while clearly defining cost recovery benchmarks, accountability for proceeds, and resulting roles and responsibilities.

Significant variation in local production levels and prices for commodities can occur on a seasonal basis, especially in areas with variable rainfall or other weather factors. It has been argued that there is a need for flexibility, for food aid can help stabilize a market in one year and impede market operations in the next. The joint World Bank and WFP report, *Food Aid in Africa: An Agenda for the 1990s,* states that "Donors should make longer-term, multi-year food aid commitments to provide stable and well-timed supplies, and should be prepared to substitute financial aid for food when appropriate."

The Government of Eritrea reports that it would like the flexibility to determine the timing of the monetization, the commodity mix, and the appropriate combination of FFW and Cash for Work (CFW), so as to minimize disincentives to local food production. It is proposed that an umbrella monetization committee be established to help with such decisions.

Lessons from emergency monetizations showed that coordination of donor and commercial imports were essential, and that "flexible" food aid could be used to facilitate effective market, rather than direct donor, responses to emergency situations, such as using dollar resources for CFW to increase purchasing power and incentives to bring commercial food into the region.

3. Adequacy of Market Analysis

Some of the most important questions that require further clarification relate to the adequacy of market analysis. What are the critical steps in conducting an adequate market analysis? How should the quality of the analysis be judged?

Market analysis and the determination of sale parameters result in the commodity choice and the setting of price policy. In particular, the market analysis should include a solid assessment of market structures, trading patterns, and national and local absorptive capacity for sales of a selected commodity. Generally, commodities are chosen that have a high commodity cost relative to transport, a high local value, and provide minimum perceived disruption to local markets.

C. DISINCENTIVE EFFECTS

1. Bellmon Requirements

Disincentive effects of monetization on the local economy or food system are much more likely to be significant in larger-scale monetizations such as Title I, Title III or a WFP monetization. However, to the extent that Title II monetizations are carried out alongside these programs, Title II monetizations exacerbate the effects of the broader monetizations and become significant in their own right.

The 1985 guidance for performing Bellmon analysis[3] instructs Missions to include in their Action Plans a statement as to whether food aid, including Titles I, II, and III, represents ten percent or more of the relative share of total staple food consumption. If it is greater than ten

[3] An analysis required by US Federal law to determine that a) adequate storage facilities are available in the recipient country at the time of exportation of the commodity to prevent the spoilage or waste of commodity and b) distribution of the commodity in the recipient country will not result in a substantial disincentive to or interference with domestic production or marketing.

percent of the total or if there is a suspected disincentive problem, then a more detailed analysis is required.

Among the potential disincentives noted is that food aid, including monetization, can depress agricultural prices, leading to a decrease in agricultural production. Monetization can also affect consumption patterns if benefits accrue to the wrong group. A disincentive is created if increased demand does not offset potential price drops due to the additional food supply.

It would be unusual for Title II commodities to reach ten percent of the total food consumption of a given commodity, except possibly in an emergency situation. Nevertheless, the potential for disincentives and market distortions to a particular region and to producers, traders, or consumers is significant.

CS reports on individual Title II programs indicate that disincentives are analyzed on the basis of production of the identical commodity. For example, wheat is not grown in country "X"; therefore, there are no agricultural disincentives to monetizing wheat. While it may be the case that the agricultural disincentives to local production of cereals or their substitutes are nonexistent, the reason is not because wheat is not grown in country "X," but that the amount of wheat brought in by the Title II program does not affect the price or demand for locally produced substitute commodities. This lack of sophistication indicates that inadequate analysis is being conducted on disincentives to production of local commodities.

2. Market Distortions and Disincentives to Agricultural Production

Food aid, including monetization, is generally inflationary in that additional resources with a monetary value are being injected into the economy. Unless there is an equivalent "demand" for an additional level of food, thus spurring farmers to increase production, or unless related project activities meet the created demand for other products or services, the import can have a destabilizing effect on the economy. These effects are difficult to measure, however, and are discussed in the literature primarily in theoretical terms rather than specific studies or even anecdotal examples.

In *Food Aid in Africa: An Agenda for the 1990s,* it is noted that, "At the local level, there is concern that supplies of wheat and rice (and large direct and indirect consumer subsidies on these commodities) have shifted consumers' preferences, and thereby decreased the incentives for domestically produced foods."

Simon Maxwell also argues for a trade-off between FFW and CFW projects, depending on the short-term horizon for local agricultural production.

3. Disincentive Effects in Emergency Situations

In situations of economic and political instability, monetizations are not only difficult to manage, but also particularly prone to disincentive effects such as exacerbating inflations and destabilizing an already fragile market. In recent years, Title II emergency monetizations have been few in number, and the effects of large-scale monetizations in emergency settings have not been fully studied. They are likely to vary significantly from one situation to another and are worthy of further study.

4. Absorptive Capacity

A country's absorptive capacity for donated commodities coincides with the amount that would be imported without food aid or even the equivalent financial aid. How to evaluate absorptive capacity for a commodity in a particular country by estimating a "border" price is explained in the report, *Food Aid in Africa: An Agenda for the 1990's*. Normally, the level of imports should be set so that domestic prices are equal to the real border price (import price multiplied by the shadow exchange rate), adjusted, if necessary, for price stabilization objectives, fluctuations in domestic supply, worker prices, and exchange rates. However, it also explains how the amount of food aid that can be absorbed will not necessarily be equal to the current level of commercial imports. Due to obligations to purchase the commodity commercially, current imports may not be adequate to maintain the desirable price regime, and demand for food and food imports changes over time.

D. COORDINATION

The literature does not discuss in detail the roles and responsibilities of the operating partners in-country. It is noted that coordination among donors and implementing partners is often lacking and that the ability to obtain benchmark prices can be seriously impeded by "competition" among players involved in food aid.

E. MONETIZATION PROCESS

While guidance messages and manuals have been produced on how to monetize, there is no comprehensive review of how the NGOs are actually carrying out the monetization process.

It is known that a variety of economic factors can affect the sales process and resulting prices. These issues include local or national political changes, banking deregulation, import regulation changes, commodity price fluctuations on world markets, and local exchange rate fluctuations. The following specific challenges faced by CRS in the Philippines in carrying out their monetization provide an illustrative set of problems encountered when monetizing:

- donor regulations contrary to normal commercial practices may disadvantage an NGO in a competitive market;
- monetization may compromise NGO duty free status;
- market fluctuations can significantly reduce the amount of funds generated;
- NGOs lacking experience in grain marketing must develop in-depth expertise, the ability to react swiftly to dynamic markets, and the capability of competing on equal footing with buyers regarding nomenclature, price, and terms;
- NGOs may not be well-structured to provide the kind of centralized, flexible, and expeditious management that monetizing requires;
- The cost in time and money of the monetization process may not be recoverable from proceeds and may represent an investment that the NGO cannot afford;
- NGO staff may not be suited to or interested in negotiating or conducting commercial sales; a separate staff may need to be hired; and,
- the maintenance of local currency proceeds present investment problems, with which NGO staff are often times not familiar.

F. PROGRAMMING PROCEEDS

1. Maintenance of the Value of Proceeds

An important operational issue for monetization programs is how to maintain the value of the local currency generated. How long are local currency proceeds generally held before being expended? What is the attending inflation rate? Should hard currency accounts be permitted where commodities can be sold in a convertible or alternative currency? How should third country monetization funds be handled?

2. Alternative Uses of Proceeds

The literature tends to categorize the various types of monetization programs, projects, and activities as follows:

1. Full monetization for extra cash resources
2. Full monetization for complementary (non-food) inputs
3. Monetization for internal transport, storage, and handling (ITSH)
4. Project monetization where cash is more appropriate
5. Closed monetization where commodities are sold directly to beneficiaries
6. Commodity exchange
7. Monetization for market development

Title II monetizations tend to fall into categories 1-4 and 7. Closed monetizations and commodity exchanges are generally not carried out. The literature notes that, in a number of instances, complementary inputs, such as equipment and materials, were considered to be key components to Title II project success. Title II local currency proceeds provide support primarily for distribution in-kind. They are generally not used as a substitute. Advocates of the "greater flexibility" argument maintain that there are instances where monetization should be used as a substitute.

There are cases, for example, where job creation and rural infrastructure development are appropriate food security responses, but local impacts on the food system of FFW commodities are too risky. In this situation, using monetization to support a CFW activity is a possible variation. Monetization funds are used to pay workers in cash to avoid the potential FFW risk of depressing the value of food and encouraging the sale of worker rations to traders at extremely low prices, thereby possibly creating an artificially low price for imported similar or substitute commodities. This was reported to have happened in Eritrea.

A second example of an innovative use of local currency proceeds highlighted in the literature is the purchase of local commodities. Food aid is traded for other "locally" produced commodities, which are then distributed in another food-deficit area in need of the commodities purchased. In programming "along the continuum," the purchase of local goods or commodities can be useful in maintaining production levels. This, in turn, helps prevent or stabilize deteriorating incomes, and support local economies, especially during crisis. In addition to maintaining agricultural production, such programs can save on ITSH costs.

CHAPTER FOUR

MONETIZATION IN THE FIELD

IV. MONETIZATION IN THE FIELD

A. BANGLADESH FIELD REVIEW

1. Introduction to Monetization in Bangladesh

Title II monetization in Bangladesh is carried out by CARE as part of its five-year Integrated Food for Development (IFFD) Project. It is the largest Title II monetization activity carried out by an individual CS worldwide. Project implementation began on July 1, 1994; therefore, only one work season had been completed under the project at the time of the review. A life-of-project (LOP) total of approximately 300,000 MT of Title II wheat is programmed as follows:

	FY 95	FY 96	FY 97	FY 98	FY 99	TOTAL
FFW	0	0	12,000	12,000	12,000	36,000
Monetization	81,971	80,000	68,000	68,000	68,000	365,971

The IFFD project is an outgrowth and restructuring of former FFW projects implemented by CARE. The original FFW project initiated in 1974 was strictly a relief activity. The follow-on Integrated Food For Work (IFFW) project, which began in 1983, contained elements of both relief and development. The new IFFD project stresses development; in fact, it no longer works through the Ministry of Relief but instead forms a partnership with the Government of Bangladesh's (BGD) Local Government Engineering Department (LGED). The project has two components: rural road and disaster preparedness. The FFW activity is no longer the project focus. The project switches to Title II monetization as its primary resource, with FFW commodities representing only ten percent of the food resource available for the project.

2. Cost Recovery

a. Cost Recovery Results in FY 94

There are three factors affecting a determination of CARE's success in achieving cost recovery. Firstly, CARE used a CIF value that is unnecessarily high since it includes the actual costs of shipping the commodities and does not adjust the CIF cost downward to what it would be had the commodities been shipped on foreign flag carriers. CARE and the Mission were not aware that FFP allows for such a downward adjustment. Secondly, CARE's first sale of wheat for the IFFD project came from in-country stocks held in the Public Food Distribution System (PFDS). Because the wheat came from various shipments over the years, no data was available to determine FAS and CIF values. Thirdly, rising U.S. wheat prices further complicated CARE's cost recovery efforts. While the sales price received in Bangladesh remained stable, the U.S. price for wheat increased substantially during a 13-month period between two monetizations, for which cost recovery data are available.

CARE has made three monetization sales under the IFFD project. The results are as follows:

DATE	AMOUNT	PRICE/MT	TOTAL $ Available *
05/93	43,971 MT wheat	$170.00	$ 7,216,562
11/93	38,000 MT wheat	$189.00	$ 6,929,551
12/94	80,000 MT wheat	$187.00	$14,589,077
		Total	$28,735,190

* Figures represent the amount available for project use, after deducting a 2.5 percent handling charge.

As stated above, the first sale of 43,971 MT consisted of in-country wheat stocks. The second (38,000 MT) consisted of wheat approved in FY 93 under a previous project. The third monetization used commodities approved specifically for the IFFD project in FY 95.

Cost recovery data for the two sales for which original cost data is available is as follows:

AMOUNT	FAS	CIF	PRICE	%FAS	%CIF
38,000 MT	$118	$184	$189	160%	103%
80,000 MT	$162	$216	$187	115%	87%

The FAS and CIF values provided above are the actual values at the time of sale, as per shipping documentation. Because of the size of CARE/Bangladesh's Title II shipment, the commodity is always shipped on the more expensive U.S. flag carriers to satisfy the legislative requirement that 75 percent of all Title II commodities be shipped on U.S. flag carriers.

b. In-Country Costs of the Monetization Process

CARE's in-country costs associated with the mechanics of the sale are limited, leaving more local currency available for project implementation.

CARE is exempt from the 7.5 percent import duty normally placed on wheat shipments. This amount is absorbed by the BGD. CARE pays the Ministry of Food a handling charge of 2.5 percent of the total amount of local currency generated, and this charge is lower than the fee imposed on some of the other donors. This fee covers internal transportation, storage, and handling costs and is deducted from the amount of local currency paid to CARE by the BGD.

The only other cost to CARE for carrying out the monetization process is staff salaries. It is difficult to separate the amount of staff time allocated to the monetization process from the amount of staff time allocated to project implementation. Although a substantial amount of staff time is spent monitoring the transfer of monetization funds from one Ministry to another, CARE

staff costs associated with the sales process appear to be relatively low for two reasons. First, the sales agreement has been negotiated for the life of project, thereby decreasing the effort and money spent every year on renegotiation. Second, because of the well established set of sales channels administered by the BGD's Ministry of Food, there is little need for staff or consultants who are experienced with commodity trading and who often carry a high price tag.

c. Establishing the Sales Price

The PFDS price for wheat is oftentimes higher than the free market price; the reality of having to sell through the PFDS does not necessarily limit CARE's ability to obtain the highest price.

Through the PFDS, a fixed price is established for the sale of wheat or rice via monetized channels. This price is referred to as the Open Market Price, although the term is misleading. The sales price that CARE receives is tied to this Open Market Price. The sales agreement reads that the BGD will pay CARE ". . . the local-currency value of the commodity equal to the PFDS's highest sale price of the shipped commodity prevailing on the day CARE turns over the commodity to the BGD." Although CARE receives the highest prevailing PFDS price for wheat, in reality, there is only one price established at a given time. In general, the PFDS price for wheat has remained fairly stable in recent years and has only increased over the long term. Price adjustments for wheat may occur once or twice a year, but there is no set schedule. The Mission tracks the BGD-controlled wheat and rice prices as compared to the prevailing free market price. Exhibit E presents this data in graph-form and illustrates that the PFDS price is often higher than the free market price.

3. Ancillary Impacts

There is only one sales mechanism in Bangladesh for monetizing donor food aid, that is, to monetize via the PFDS. In so far as the PFDS stabilizes prices and makes wheat available to the most vulnerable who have little purchasing power, monetizing Title II through the PFDS is addressing food security objectives. On the other hand, if it were possible to monetize directly into a truly free market, a more efficient and transparent sales process would help liberalize such a market, and thus have even greater impact on long-term food security objectives.

All donor food aid in Bangladesh is imported and distributed through the PFDS, which is managed by the Ministry of Food. The purpose of the PFDS is to stabilize the price of staple foodgrains and to make sufficient foodgrains available, especially during the lean season. Donor food aid accounts for approximately 80-90 percent of all PFDS food. The PFDS distributes approximately 1-1.5 million MT of commodities annually. About 60 percent of this is distributed through non-monetized channels while the remaining 40 percent is distributed through monetized channels. Non-monetized channels refer to the distribution free of cost of government wheat or rice through programs like FFW or other general relief programs targeting the most vulnerable. Monetized channels refer to the distribution of government wheat or rice at

a minimum price through rationing systems to government employees, sales to large employers, "open market sales," and sales to flour mills.

Bangladesh is a food deficit country. As of early April 1995, the estimated shortfall in foodgrain availability was estimated at 1.9 million MT. This amount is the estimated foodgrain requirement not met by domestic production, PFDS and private sector stock balances, and commercial or concessional imports. Moreover, in a subsequent donors meeting, WFP announced that the situation had worsened and projected a foodgrain shortfall of five million MTs, due to the impacts of national fertilizer distribution problems and the drought in the Northwest of Bangladesh. WFP publishes and distributes to food aid players a monthly Foodgrains Digest that provides a detailed analysis and update of the foodgrains situation in the country.

Ancillary contributions of the Title II monetization process on host country institutions or the economy are modest. Broadly speaking, Title II wheat has a positive impact on the economy, in that its importation contributes to the availability of public foodgrain stocks and stabilizes the price of wheat in a food deficit country. Although CARE does not monitor the distribution of the low-grade Title II wheat after it enters the PFDS, the wheat probably reaches the most needy since it is a less preferred, "targeted" commodity.

4. Disincentive Effects

The 80,000 MT of Title II wheat imported is minuscule when compared to the overall foodgrains system in Bangladesh. However, the total amount of food aid being imported by all donors is significant. Although recent studies have concluded that food aid imports have had little impact on domestic foodgrain prices and production at the macro level, some argue that if the wheat market is segregated from the rice market, there could be a negative impact of food aid wheat imports, namely FFW wheat, on domestic wheat prices and production.

USAID/Bangladesh assumes the Title II CS responsibility of conducting a thorough Bellmon analysis. CARE views the analysis of macro-level disincentive issues as a Mission, not a CARE, responsibility. The IFFD does have a food policy component that focuses on these issues, but this activity is implemented by USAID/Bangladesh's Office of Food and Agriculture, which is heavily involved with Title III programming and has a staff with significant technical expertise and knowledge of market issues. Thus, CARE is alleviated from having to concentrate on disincentive concerns and Bellmon issues and concentrates on project implementation.

Total donor food aid imports represent about 1 million MT, and this level is gradually decreasing. Although the IFFD project is the largest Title II monetization project worldwide, it only represents about 11 percent of the total commodities distributed through the monetized channels of the PFDS. Title II wheat represents only one-quarter of one percent of the total domestic consumption of cereal grains: 80,000 MT of a total of 18 million MT. The issue of the impact of the PFDS wheat on the market, therefore, is much greater than Title II wheat only.

The impact of food aid on domestic foodgrains prices and production has been the subject of studies by the International Food Policy Research Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS). General conclusions are that food aid imports have had little impact on domestic foodgrains prices. However, some argue that although this may be true of the aggregate rice and wheat market, there is a disincentive effect of wheat at the local level during certain periods of the year. This is especially true of the impact of FFW wheat on post harvest wheat prices. The problem is that the FFW season coincides with the domestic wheat harvest. FFW wheat (leakage and recipient sell-off) competes with the domestic harvest.

The foodgrains market in Bangladesh is complex and fragile, and much greater than the Title II program itself; further study should be given to the effects of overall donor wheat impacts on the market in Bangladesh.

5. Programming Proceeds for Food Security

The IFFD project is an excellent example of how the integration of resources and activities can enhance the impact of Title II food aid in addressing food security. The fact that the IFFD project is supported by approximately $10 million in DA funding and by host country resources is indicative of the fact that the Mission and the BGD see the project as contributing to important food security and host country objectives.

Approximately 75 percent of IFFD project activities are financed through Title II; eleven percent through a DA grant; and the remaining fourteen percent through host-government contributions. The BGD supports the IFFD project by providing key personnel; through a grant to CARE totaling $3.8 million in local currency over the LOP; through local government contributions equal to ten percent of the cost to build each road structure; and by paying for the costs associated with the internal transport, storage, handling, and distribution of the wheat.

a. Serving Food Security Strategies

The project's goals and objectives are closely tied to the food security strategies of CARE, USAID/Bangladesh, and the BGD. The project supports CARE/Bangladesh's overall country strategy of poverty reduction. It also falls under the Mission's sub-goal of food security for the poor. The Mission operates on the premise that because food insecurity is a real, every day threat to a large number of Bangladeshis, sustainable development is not possible in Bangladesh without a food security focus.

The IFFD project is further founded on the belief that rural infrastructure development in Bangladesh has far-reaching implications on poverty alleviation, and, more specifically, on improving food security. A study by the IFPRI and BIDS in October 1990, entitled *Development Impact of Rural Infrastructure in Bangladesh,* reported several findings that support this belief. Specifically, the study reports that infrastructure development increases the speed of diffusion of agricultural technology and decreases marketing costs; indirectly affects employment

opportunities by making off-farm employment more accessible; increases household income by 33 percent; improves access to institutional credit seven-fold; and, positively affects health. CARE's monitoring and evaluation system will attempt to further contribute to and refine this type of data analysis and the information available on the effects of road infrastructure development on food security.

b. Off-Setting the Limitations of Food for Work

The IFFD project, by using local currency generated by monetization as its primary resource, attempts to eliminate some of the problems encountered in CARE's former FFW projects. Both CARE and USAID/Bangladesh maintain that monetization gives CARE the additional flexibility that allows it to correct problems encountered under the former FFW projects. Both CARE and USAID/Bangladesh believe that monetization makes the activity more development-oriented, sustainable, and food security focused. Also, the IFPRI/BIDS study found that well-located and constructed rural roads yielded positive developmental benefits. The use of local currency generated by monetization allows for the funding of management and planning/control systems to ensure that these roads are properly located and constructed. This, in turn, increases the sustainability of the Title II activity.

The main constraints under the former FFW projects that the IFFD project attempts to address are summarized below:

- FFW roads fall short of realizing a development impact because of the numerous holes and gaps that make the roads impassable. The unsophisticated methods used in FFW make it difficult to produce technically sound and durable roads that survive the monsoon season.

- Due to political pressures and poor planning, road construction and rehabilitation were often not strategically coordinated. Providing wheat to local government for FFW activities and allowing them unguided discretion in selecting roads often resulted in too much road rehabilitation, often on roads with little socio-economic merit. FFW activities were undertaken just to use the wheat, regardless of whether the activity itself was necessary.

- FFW roads can pose an environmental threat by the sheer number of them; by the lack of bridges and culverts; and by the cutting down of trees in order to widen the roads.

- While the most vulnerable group in Bangladesh is women of child bearing age and children five and under, 98 percent of FFW laborers are men.

- The FFW season does not coincide with the lean season when the food is most needed.

c. Monetization and the IFFD Project Serve Key Food Security Goals

The rural road improvement activity of the IFFD project aims to increase agricultural productivity by promoting the cost-effective movement of food from farm to market and by improving on-farm utilization of water resources. It also expects to demonstrate nutritional impact at the household level through increased farmer income and increased access to health services due to improved, passable roads in all seasons. The disaster management component of the project also addresses food security by promoting a rapid return to productive activity after the onset of a natural disaster. A quick and organized community response to natural disaster contributes to food security by preventing against increased malnutrition and decreased agricultural productivity.

d. Monitoring and Evaluation Plans

The IFFD project intends to demonstrate the impact that the road itself will have on the food security situation of those people living in the "road catchment area," i.e., those people who utilize the road as their primary means of transport. With the support and guidance of USAID/Bangladesh, CARE has spent a significant amount of time, money, and energy in developing an impressive M&E system. CARE will attempt to determine whether improvements in roads to make them passable year round will contribute to lower agricultural input prices, higher produce prices, increased rural commercial activity, increased employment activities, increased use of basic health services, and improved household nutrition.

It is believed that investments in disaster preparedness have more lasting benefits than resources used exclusively for disaster recovery and rehabilitation by enabling disaster victims to return more quickly to productive activity.

6. Relationship with Non-Title II Programs

Both CARE and the Mission coordinate regularly with other donors and organizations implementing similar activities, as illustrated by the monthly food aid donors meetings, sponsored by WFP.

Most, if not all, of the key food aid players in Bangladesh, including the Canadian International Development Agency (CIDA), WFP, CARE, and USAID, are involved in distributing wheat through FFW or monetizing commodities in order to build, repair, or maintain roads. All food aid donors must work within the PFDS in order to do the above. Because of this, the exchange of information regarding food policy initiatives, food aid programming, or commodity logistics is critical. The monthly food aid donors meeting is a helpful mechanism for the exchange of information on issues relevant the Title II project such as the level of donor imports, the timeliness of these imports, and the level of PFDS stocks.

The ongoing Title III policy dialogue to encourage the liberalization of the PFDS has implications for Title II monetization in Bangladesh. Examples of policy initiatives include the recent development of a more transparent auction process for the PFDS and a recent study regarding alternative commodities for monetization.

7. Roles and Responsibilities

CARE and Mission roles and responsibilities are clearly defined and carried out effectively. The Mission delegates adequate authority to CARE to implement the project. In addition, it provides the necessary support to CARE, i.e., entering into discussions with various government agencies on behalf of CARE, in order that the project is implemented and managed most effectively and efficiently. The high level of confidence and trust on the part of both partners is not only clearly visible but provides a solid foundation from which to carry out the largest Title II monetization project.

8. Proceeds Monitoring

Because of the unique sales mechanism in Bangladesh where Title II commodities are sold to the BGD via the PFDS, careful proceeds monitoring actually begins at the time of the sale. CARE and USAID/Bangladesh have successfully negotiated a sales agreement with the BGD, which stipulates that the transfer of local currency by the BGD to CARE must occur within 120 days of the transfer of the bill of lading to the Ministry of Food, regardless of whether the commodities have been sold. Because the BGD may store the wheat for an extended period of time in anticipation of the lean season, this stipulation in the sales agreement ensures CARE that the local currency generated will be deposited into its account in a timely manner. The significance of this arrangement should not be underestimated. It protects CARE against cash-flow problems experienced by other donors. Not only can delays in payments result in a potential loss on interest on deposits, but they can decrease the confidence level of counterparts participating in the project. This clause is evidence of the Mission and CARE's hard work and success during the extensive sales negotiations. It is also evidence of the BGD's legitimate interest in the IFFD project. To the Mission's knowledge, CARE is the only organization to benefit from this type of arrangement.

Upon arrival of the wheat shipment at the port, CARE transfers title of the bill of lading, signed by CARE, to the BGD's Ministry of Food. The date of this transaction signifies receipt by the Ministry of Food of the Title II wheat. As such, this date is used to determine the sales price of the wheat. Upon completion of the draft survey of the ship, CARE informs the LGED of the actual amount of wheat to be monetized. A series of payment transfers among various government ministries entails, with the final transfer coming from the LGED's Chief Engineer Account into CARE's interest-bearing special monetization account. CARE's staff has been successful in carefully monitoring the movement of funds from one ministry to the other and documenting the "paper trail" to ensure that monetization sales are completed without complications or delays.

CARE's financial management system to track local currency disbursements was fully reviewed by the Mission as it was being developed. Since CARE advances local currency generated through Title II monetization to the LGED to finance bridge and culvert construction, it was especially important that detailed guidelines for making such advances were developed with CARE and Mission coordination. CARE provides quarterly financial reports for the Mission Controller's review. Annual audit reports are also shared with the Mission Controller. No issues, concerns, or misunderstandings were expressed by CARE or USAID/Bangladesh with regard to proceeds monitoring. The Mission uses current USAID local currency guidelines as the basis for any decisions related to the monitoring of CARE's financial management systems.

B. ETHIOPIA FIELD REVIEW

1. Introduction to Monetization in Ethiopia

Food and food security are paramount concerns in Ethiopia. Half of the country's citizens cannot produce or purchase enough food to meet minimum requirements. This situation stems from a number of factors such as high population growth rates, low economic growth rates, self-defeating agricultural policies, under-developed rural infrastructure, environmental degradation, rapid deforestation, and lack of access to improved agricultural inputs. The failure of Ethiopia's agricultural economy has resulted in some of the worst indices of malnutrition in the world.

Since 1985, USAID has provided Title II food assistance to support the relief and development activities of CARE, CRS, Food for the Hungry International (FHI), Save the Children Federation (SCF), the Ethiopian Orthodox Church (EOC), and World Vision Relief and Development (WVRD). Total Title II food assistance provided by USAID through CSs since 1989 is as follows:

1989	1990	1991	1992	1993	1994
21,423 MT	33,669 MT	15,975 MT	29,828 MT	32,876 MT	55,500 MT

Since 1989, USAID has been providing an annual allocation of Title II vegetable oil for monetization. CARE, acting as lead agent in an umbrella monetization, has been handling the process of monetization for all of the CSs. Each CS submits its own call forward, but the timing is coordinated through CARE so that a single shipment arrives in Ethiopia for monetization. As of FY 94, the monetization program has generated a total of over $29 million dollars worth of Ethiopian Birr.

The U.S. dollar value of Title II local currency received by each CS in FY 94 totaled $7,024,760 and is allocated among CSs as follows:

CARE	$ 1,665,300	**CRS**	$ 1,798,280
FHI	$ 1,039,440	**EOC**	$ 456,280
SCF	$ 884,500	**WVRD**	$ 1,180,960

Title II projects in Ethiopia address the cause of food insecurity in many of the most famine-prone areas of the country and directly support the Transitional Government of Ethiopia's (TGE) National Disaster Prevention and Preparedness Strategy. The TGE is discouraging free food distribution, except in cases of dire emergency, and has promoted the use of FFW wherever appropriate. Title II maize, wheat and sorghum is programmed in FFW interventions targeting food deficit areas to avoid competing with local production in areas of the country where enough food is available. All project activities are approved through formal project agreements with relevant local and regional authorities. CSs are registered with the Relief and Rehabilitation Commission.

2. Cost Recovery

In FY 94 and in previous years, the monetization took place through a government parastatal, the Ethiopian Domestic Distribution Corporation, at a price fixed by the parastatal. CARE has historically recovered the CIF value of the monetized vegetable oil.

Beginning in FY 95, CARE is monetizing in the free market by advertising for tenders. At the time of the review, there had been only one call forward of 1,500 MT of vegetable oil, to be sold in one MT lots. The CIF cost of vegetable oil, including internal transport to CARE's Addis warehouse, was $1,108/MT. The average sale price for each lot offered in the free market was $1,441/MT. Thus, by selling in the free market, CARE is exceeding the CIF benchmark. In terms of cost recovery, vegetable oil is clearly one of the most appropriate commodities for monetization in Ethiopia.

3. Ancillary Impacts

Vegetable oil is a deficit commodity in Ethiopia. Since domestic production of vegetable oil does not meet the consumption needs of Ethiopia, vegetable oil imported for Title II monetization represents a substantial savings of scarce foreign exchange for the TGE. In addition, the new process of monetizing vegetable oil in the open market through small lot tenders instead of selling through a parastatal is intended to encourage the participation of small private traders. If CARE continues efforts to diversify the number and types of purchasers of these lots, the contribution of the Title II monetization to liberalizing the vegetable oil market will be even greater. Especially given the fact that CIF is consistently obtained during the sale, simply converting DA dollars to local currency would not make a contribution to food security equivalent to that of monetizing food.

There are also indications that the monetization of Title II vegetable oil can directly influence market price. For example, when customs impounded a recent CARE importation and prevented it from reaching the market, the price of vegetable oil rose in the open market. Conversely, it is expected that when the vegetable oil is delivered to successful bidders, prices will go down. The Merchandise Wholesale and Import Enterprise (MWITE), the successor government agency to the Ethiopian Domestic Distribution Commission, purchased most of the lots offered by the first tender. MWITE is among Ethiopia's most important wholesalers and has country-wide distribution outlets. Since one of MWITE's objectives is to stabilize prices, CARE should carefully monitor how the disposal of its lots affects the price of vegetable oil in the market .

4. Disincentive Effects

CARE has engaged consultants to carefully study the vegetable oil market. These studies have clearly shown that Ethiopia does not produce enough vegetable oil to meet total demand. A study done for CARE in January of 1994 by the former General Manager of the Agricultural Marketing Corporation estimated a gap of over 23,000 MT annually to be handled by imports.

According to WFP, total donor oil imports projected for 1995 are 8,660 MT. Given the annual gap of 23,000 MTs, these joint imports do not represent a threat to local production.

In addition, as the USAID/Ethiopia Director pointed out to the Minister of Finance in a recent letter, the cost of producing vegetable oil domestically remains below the price being offered in the marketplace. Thus, there is ample incentive for domestic production to increase.
It should be noted, however, that the CARE consultant recommended that the vegetable oil be monetized at two specifically selected times during the year to minimize competition with domestically produced oil.

5. Programming Proceeds for Food Security

Food security is a priority for USAID/Ethiopia and an integral part of its country strategy. Enhanced food security is one of the three sub-goals, and increased staple food production is its food security-related strategic objective.

Title II monetization proceeds are used by CSs for the following purposes: in-country administration; indirect costs of supporting FFW and other monetization supported activities; logistical costs of transporting, storing, and distributing Title II commodities used for FFW activities; salaries of project implementation staff; project materials; contractor payments for construction costs related to project activities; and funding for revolving loans. With regard to increased agricultural productivity or improved household nutrition, the activities supported by Title II monetization relate to food security to varying degrees.

a. Project Activities Supporting Agricultural Productivity

- Improved farm to market roads, making them passable year round. This activity not only improves ability of farmers to get goods to market, but also facilitates the movement of food into food insecure areas during emergencies;

- Soil conservation activities to preserve top soil and prevent erosion;

- Forestry activities including the distribution of seedlings and the promotion of private woodlots;

- Demonstrating improved methods of crop cultivation, using inputs such as improved seeds and insecticides;

- Improved water systems such as gravity fed irrigation and small dams for irrigation;

- Vaccination of livestock used for plowing; treatment of parasites in draft animals; and training of "vet scouts," who serve as links between veterinary extensionists and herders, to promote better animal health;[4] and,

- Pond and hand-dug well construction to provide water for animals.

b. Project Activities Supporting Improved Household Nutrition

- Constructing latrines, hand-dug wells, and capping springs for potable water;

- Rebuilding health clinics;

- Introducing cultivation of vegetables to improve household nutrition;

- Training of community health workers and health education activities;

- School health education;

- Training of traditional birth attendants in improved sanitation and methods of family planning and distribution of contraceptives.

c. Activities Indirectly Related to Increased Agricultural Productivity and Improved Household Nutrition

CRS, FHI, SCF, and WVRD all implement revolving loan activities with funds obtained from monetization. While not all loans made from these funds are directly related to food security, both the CS and USAID/Ethiopia emphasize the importance the activities have on the food security objectives for Ethiopia. For example, farmers in Ethiopia often have to purchase food during the lean season, just before harvest. By participating in activities that make credit available, farmers are able to provide food for their households during the lean season and repay their loans when crops are harvested. CARE's school rebuilding and urban infra-structure activities are also less directly related to USAID food security goals, as articulated in the new policy.

d. FFW Versus Cash For Work

CSs and the Mission in Ethiopia have found that using wheat in monetization-supported FFW activities in areas where domestic wheat production is sufficient can be a disincentive to local production. Because of this, CSs would prefer to substitute CFW for FFW in order to respond properly to the food security reality of the target area. CSs and the Mission advocate for more flexibly to program food or cash, as deemed necessary at the time of project implementation.

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[4] In Ethiopia animals are if fact a form of "savings" for their owners and are considered a "safety net". During hard times, they can be sold to purchase food grains if necessary.

In addition, CSs report that project implementation has been affected by delays in project proposal approval, the subsequent delay in the arrival of commodities, and even delays in the receipt of guidelines for proposal development and annual reporting. CSs also emphasized that a steady supply of FFW commodities and monetization funds are necessary to ensure the timely implementation of food security activities.

6. Relationship with Non-Title II Programs

There are only three donors supplying vegetable oil for monetization in Ethiopia: USAID, EU, and WFP. A weekly meeting of working-level food program personnel is held in WFP's Office of the Director. These meetings give participants the opportunity to exchange information. Also, a Food Aid Status Report is distributed each week and provides a detailed comparison of deliveries against pledges.

Under its Title III program, USAID/Ethiopia has been importing sorghum and wheat, but not vegetable oil. Title III conditionality has promoted agriculture policies designed to increase agricultural production for poor farmers. This objective complements the objectives of the Title II program.

This review found no evidence of conflict or lack of coordination between the Title II program and the programs of other donors or the USAID Mission.

7. Roles and Responsibilities

Project implementation requires close collaboration and consultation among the USAID Mission and CSs. In Ethiopia, the roles of the CSs and the Mission are clearly defined and carried out in accordance with USAID guidance. The Mission delegates adequate authority to CARE to implement the monetization sale. Recently, an Executive Committee composed of CS country directors was established to provide oversight of CARE's management of the monetization process. The Mission's FFP Officer, who promoted the organization of this committee, serves as an ex-officio member. The CSs appear to be pleased with the functioning of the Executive Committee. In addition to the increased individual contact between the CSs and the Mission FFP Officer, the Committee affords a structure for consultation among all participants in the monetization program and a forum for discussion of matters of general interest.

When required, the Mission provides support to CARE, especially during negotiations with the TGE. When the Ministry of Finance impounded CARE's first FY 95 shipment of vegetable oil and placed a duty on the commodity, the Mission intervened on behalf of CARE. As a result, the shipment was released by the Ministry of Finance without CARE having to pay duty. However, the issue is not completely resolved, as the TGE would like to continue negotiation regarding the exemption of monetization imports from payment of duty.

The Mission also delegates adequate authority of the CSs to implement activities financed directly or indirectly by the Title II monetization. In light of increased TGE oversight of CS activities, the Mission consistently works to promote a better working relationship and understanding between the CSs and appropriate government agencies.

8. Proceeds Monitoring

CARE provides a monthly statement of accounts to the Executive Committee, including sales receipts, bank deposits, and disbursements made to CSs from the central monetization account maintained by CARE. USAID's internal and external auditors have the right of access to the books and accounts maintained by CARE. Each CS submits a quarterly financial accounting report of its local currency to the USAID Mission as well as an annual financial report. The financial management systems used by each CS for tracking local currency generated as a result of monetization have been reviewed by USAID.

Each CS keeps its Title II monetization proceeds in a separate account. The account is not interest-bearing since banks in Ethiopia currently do not pay interest on bank accounts unless the depositor agrees to keep the funds in the account for at least one year. Devaluation of local currency has not been a problem in Ethiopia since 1992, when the Birr was devalued in relation to the dollar.

C. GHANA FIELD REVIEW

1. Introduction to Monetization in Ghana

Monetization in Ghana is carried out by three CSs. Approved shipping tonnages for FY 94 are as follows:

ADRA	10,000 MT bulk wheat
CRS	10,710 MT bulk wheat
TechnoServe	8,000 MT bulk wheat

In FY 94, Title II commodities monetized in Ghana comprised approximately ten percent of the total commodities approved for monetization worldwide. The dollar value of these same commodities represented approximately eight percent of the total estimated dollar value of approved commodities for monetization worldwide. In FY 94 and FY 95, respectively, the overall Title II program in Ghana made up approximately 15 and 20 percent of the Mission's portfolio. Title II activities are now linked to the Mission's health, human resources, and private sector development thrusts.

2. Cost Recovery

a. Sales Environment

Each of the three CSs in Ghana currently carries out its own monetization, negotiating its own sales agreement with one of the four flour millers. Some informal coordination among the CSs does occur. Each CS submits a single call forward for its monetization shipment.

Because each CS individually handles a single sale of a single shipment of goods to one buyer, the in-country costs of carrying out monetization in Ghana are negligible. They consist primarily of troubleshooting any problems that may occur during the arrival and unloading of commodities. While the Government of Ghana no longer controls or subsidizes prices of bulk wheat or wheat flour, much of the bulk wheat is currently purchased on concessionary terms, rather than at world market prices. Thus, Title II commodity price benchmarks used by millers are usually at below-market. Compounded by an oligopolistic market structure, it is difficult to achieve full cost recovery in Ghana's bulk wheat market. However, cost-recovery has improved considerably over the past three to four years, due to U.S. dollar-denominated contracts, standardized sales agreements, reduction in wheat subsidies by the United States Department of Agriculture's Export Enhancement Program (USDA/EEP), and increased familiarity between CSs and millers.

There are currently only four buyers (millers) for bulk wheat in Ghana. They are estimated to have the following shares of milling capacity, overall flour shares, and Title II sales:

FY 95 WHEAT MARKET IN GHANA

Miller	Ownership	Share of Milling Capacity	Flour Sales	Title II Purchases
Takoradi Flour Mills	Bakalian Family	48%	40%	None
Irani Brothers, et al	Irani Family - 60% Bakalian Family - 40%	26%	35%	65%
Golden Spoon Flour Mills	Ghanaian	13%		35%
Tema Food Complex	Private, previously GOG	13%	10%	None

Prior to 1992, the Ghana National Procurement Agency purchased bulk wheat and sold it to one of the government-owned or private millers. All sales were stated in local currency and at fixed prices, which did not always cover costs, and each miller was apportioned wheat based on its milling capacity. With the deregulation of the market in 1992, each miller was authorized to import bulk wheat and sell flour at whatever price they felt was appropriate. Although a certain degree of information sharing reportedly takes place, clearly the market has become more competitive, as seen by estimated market share percentages differing slightly from milling capacity.

b. Experience with FY 94 Sales Process

Given that sales agreements were historically written with prices in local currency, millers did not agree to a dollar-denominated or like agreement. A standard price in Cedis, which was equivalent at the time to approximately $170/MT, or the world market price, whichever was higher, was agreed upon by ADRA and TechnoServe. CRS negotiated the same standard price, but without the "world market price" clause. The price was based upon the CS's best estimate of CIF at the time. The CIF estimate comprised of a FAS estimate received from USDA, plus an average shipping cost to Ghana. It was initially anticipated that this would meet, or come close to, the CIF value of the commodity to be monetized.

However, sharply increasing U.S. wheat prices, due to massive flooding in the mid-west, and a dramatic devaluation of the Cedi negatively affected the CSs ability to recover costs. In addition to these two factors, the pre-negotiated price was based on a lower grade of bulk wheat than was actually called forward. The pre-obtained price was considerably less than FAS. ADRA, TechnoServe, and the Mission were unable to come to an agreement with the buyer as to what constituted a "world market price," as the millers were receiving EEP-subsidized wheat at a price lower than FAS, as well as wheat from the Canadians who met the EEP price of approximately $131/MT. In other words, the highest acceptable price, in principle, to the buyer with the world market price clause was the heavily subsidized EEP equivalent. Furthermore, given that the history of "equal pricing" practices of the Ghana National Procurement Agency was coupled with

the fact that one buyer was a Ghanaian-owned, recently privatized miller, while the other was a private miller, it was considered politically prudent by the Mission to allow both sales to go through at the lower original contract price to avoid perceptions of favoritism.

The above events spanned approximately eight months and involved a long stream of communications among FFP, the Mission, CS field offices, and CS headquarters. A series of lessons was learned from Ghana's FY 94 monetization experience. The Mission has worked with the CS to develop standardized contracts to be denominated in dollars. In addition, FFP has taken steps to more clearly define policies on monetization.

c. Experience with FY 95 Sales Process

In FY 95, after much negotiation among the Mission, FFP, and USAID's Regional Economic Development Support Office (REDSO) in Abidjan, the Mission conveyed to each CS that a local currency equivalent to FAS plus $30 was considered an appropriate sales price. In a joint meeting with the previous years buyers, Takoradi, and Golden Spoon, the CSs agreed upon price estimates of $187-$195/MT with the millers based upon the formula of the FAS value plus $30. Because the millers claimed that these prices were significantly higher than what they could obtain from other sources, primarily through the EEP, each CS again resorted to carrying out its own negotiations.

ADRA was able to agree to again sell to the Golden Spoon Flour Miller at a price of $197/MT. This price was equivalent to the estimated FAS value plus $10, based on USDA price estimates and exchange rates at the time. The commodity was delivered in early January of 1995, and the resulting price was the FAS price. TechnoServe and CRS initially understood that each CS would use the same "contract." They negotiated on this basis with Irani Brothers, who understood that each miller would receive the same price. The price negotiated was the local currency equivalent of the FAS value plus $20.

The Mission, after extensive consultation with FFP, accepted any sales price that was above FAS. At the time that FFP reviewed the two versions of the contract, it was not clear which one would yield a higher final price because both depended upon the actual FAS at the time of sale.

Upon delivery, the Golden Spoon Flour Mill paid the local currency equivalent price, which was less than that of Irani Brothers, leading to some disgruntlement on the part of Irani Brothers. CRS and TechnoServe appeared frustrated that the three CSs had been unable to coordinate sufficiently to keep to the same terms of agreement. Thus, efforts by the Mission to coordinate the sales assisted the CSs in obtaining higher prices relative to previous years, but their effects did not result in standard agreements with millers.

A further complication arose when CRS' FY 95 shipment, which had been anticipated in March, arrived *earlier than anticipated* in December because FFP had processed the call forward early, unbeknownst to CRS and the Mission. The miller had arranged for other shipments during this

period, and alternate warehousing had to be paid for by CRS until the miller could process the commodity. This problem, although it appears to be a special case as opposed to a recurring dilemma, has fueled miller impressions of shipping unreliability.

d. Timing of Commodity Sales

There is a conflict between what is the most appropriate time for purchase of wheat in the U.S. and the appropriate time for wheat sales in Ghana. Reportedly, the best time for USDA to buy wheat in the U.S. is March through May, while the best time to sell wheat in Ghana is October. This is because increased flour sales occur in November through December during the Christmas season when there is an increased demand for bread, cookies, and cakes. Many people reported that there is a high demand for wheat flour not just in Accra but throughout the country, although the highest proportion of sales is in urban areas. The optimum time to sell wheat in Ghana also coincides with the preferred period for generating local currency to maintain a positive cash flow at the end of the first quarter of the fiscal year.

e. Accurate and Timely Price Information

All three CSs and USAID/Ghana agree that better and more timely information on prices for the specific commodity grades are essential to obtaining the best price possible. They have found that, as they demonstrate more accurate knowledge of the market and pricing to the millers, the greater leverage they have when carrying out negotiations.

In FY 93-95, FAS estimates from FFP and USDA generally did not prove helpful in determining an appropriate sales price to meet the established benchmarks for monetization. The actual FAS of the shipped commodities relating to the FY 94 monetizations were significantly higher than the estimate. Partly, this was due to the difference between the estimates for "free distribution" grade commodities, and the higher quality specifications generally called forward for monetization purposes. In part, it was also due to rising prices of wheat over the course of the year. In March, USAID's Office of Procurement produced an E-mail estimate of prices for specific quantities of bulk wheat, which was forwarded to the Mission. The prices indicated corresponded with the actual FAS values, but these prices were 40 percent higher than the standard quotes routinely provided by USDA. Furthermore, a standard price quote received in December was about 40 percent less than the actual price for a shipment received in December.

3. Ancillary Impacts

Monetization in Ghana is carried out through direct negotiations with a limited number of buyers in an oligopolistic market. Due to this, the contribution of the monetization itself to food security, primarily through market impacts, is very limited. Although Ghana's wheat market is moving towards privatization, the market for bulk wheat most likely is not yet competitive enough for an auction system to work well.

It is reported that monetizing bulk wheat in Ghana plays a small role in keeping prices for wheat flour, and therefore bread, at relatively moderate levels. The monetization also provides a foreign exchange benefit to the millers and the economy as a whole. However, these contributions to food security must be weighed against the following: the monetization competes against subsidized wheat programs and the commodity is sold at below-market prices in a less than competitive market environment. The liberalization of the wheat market in 1992 meant that the government no longer fixed the price for bulk wheat or wheat flour. Since this time, the millers have had considerable access to subsidized wheat programs at significantly less than full commercial prices. The subsidies are compounded by the fact that subsidy levels are inflated by comparison against lower quality soft European wheat prices. Should the miller have to import more wheat at full commercial prices, it is assured that consumer prices would rise. Thus, it is likely that there is a generally positive ancillary impact on the prices that primarily urban, but also rural, consumers pay for bread.

Opinions were mixed among people interviewed as to the advantages or disadvantages of changing the current system or commodity choice. Some saw no advantages, while others felt that an auction process with other commodities, such as wheat flour or rice, might have an impact on lowering consumer prices or encouraging local market development.

4. Disincentive Effects

While project proposals submitted by the CSs to FFP have suggested a lack of understanding of the nature and requirements of disincentive analyses, such analyses have been covered on a national level by regular Mission-funded independent studies. These studies have adequately covered both the Title III and Title II monetization commodities. Discussions with CSs indicate that work is being carried out at the local level to analyze market prices in areas where food distribution occurs. CRS, in particular, noted that its distribution commodities are chosen carefully to avoid dependency, namely those commodities that are similar to items available locally.

Confidence in the national level reviews is also supported by recent historical record, which has shown that food aid imports have generally not had major macro-economic effects on the national level, nor have been found to create significant disincentives to national production. However, these reviews also state that disincentives to local production are quite possible in regions within a country where food is distributed or where local monetization occurs. Reportedly, the World Bank and the Ministry of Agriculture monitor the national food situation and contact WFP to call donor meetings, as needed, to deal with any issues.

Disincentive effects from the monetization of wheat have not been identified and are unlikely to be occurring, given overall demand and the size of the market. Subsidized EEP and Canadian wheat sales are the main competitors. The impact of the reduction by almost 50 percent of the EEP subsidy levels as the General Agreement on Tariffs and Trade (GATT) takes effect should be monitored. For now, the reduction is helping to mitigate the negative effect on Title II

monetization prices. At present, there is significant demand so that both EEP and Title II monetization sales can be accommodated side by side. The Mission is aware of potential future EEP conflict and continues to monitor the situation. However, communications between the two programs appear to be strained.

With regard to alternative commodities, rice has been found previously to be inappropriate due to conflicts with the EEP and significant commercial imports. Vegetable oil was also found to be inappropriate due to local production of palm oil and uncompetitive pricing. More recently, a 1994 analysis commissioned by the Mission for the Title III program covered rice, wheat, corn, and sorghum. Rice and wheat were found to be eligible commodities.

Title III rice is currently monetized via an auction system on behalf of the Government of Ghana. Returns are reported to be higher than anticipated. Monetization of rice as an alternative to wheat would have to be carefully evaluated with regard to impact on local production and other commercial imports. Potential EEP or other donor conflicts would have to be examined as well. Nevertheless, given that further Title III programs are unlikely to be approved, a Title II rice auction might segue appropriately into the small-medium traders market currently supported by Title III rice.

While the Mission reported that flour was considered several years ago, it was found not to be a cost-effective monetization alternative, in that the local price for flour was low due to low labor costs, and in the case of Takoradi, low shipping costs. However, the oligopolistic market that exists for bulk wheat could potentially be bypassed by importing wheat flour.

5. Programming Proceeds for Food Security

The FY 96 Mission Action Plan for Ghana was drafted in July of 1994, prior to the issuance of USAID's Food Aid and Food Security Policy. While the Mission strongly supports and endorses the Title II program, food security is not included in the Mission's goals, strategic objectives, or as a target of opportunity.

The Mission's goal is to promote sustainable, market-oriented economic growth in Ghana. Sub-goals are to 1) improve income and employment in the non-traditional export sector and 2) improve the quality of the human resource base in Ghana. To achieve these sub-goals, there are three strategic objectives: 1) increase private sector non-traditional exports; 2) decrease birth rates; and, 3) improve the quality of primary education. In addition, the Mission notes two "targets of opportunity": natural resources conservation and HIV/AIDs prevention and control. Finally, the Mission Action Plan notes that women in development and democracy and governance are "cross-cutting" issues. Title II and Title III are mentioned in notes as resources in the budget, but are not described as separate projects. An oblique reference is made under the family planning section where family planning and Maternal Child Health (MCH) activities are referred to jointly.

The following chart illustrates how Title II activities in Ghana contribute both to the Mission's strategic objectives as described in the FY 96 Mission Action Plan and the food security goals as described in USAID's Food Aid and Food Security Policy.

PVO	PROJECT	MISSION OBJECTIVES	FOOD SECURITY POLICY LINK
ADRA	Agro-forestry of export production	export promotion	access by increasing ag. prod. and income
ADRA	school construction	primary education	N/A to food security, but would support an education goal
ADRA	reduced post-harvest losses of locally consumed production	N/A	access and availability by increasing usable production/incomes
ADRA	health worms/parasites	N/A	utilization by improving household nutrition
ADRA	institutional feeding	N/A	access under a broad definition
CRS	grain banks	N/A	access and availability by increased usable ag. production and incomes
CRS	primary health care	some directly address Mission family planning, others indirectly	access where local commodity distribution included, utilization via better health in a broad definition
CRS	school buildings	primary education	addresses an education objective
CRS	School Feeding (SF)	primary education	addresses an education objective
CRS	general relief	N/A	access under a broad definition
TNS	cereal inventory, credits for locally consumed production	N/A	access and availability by increasing usable agricultural production/incomes
TNS	oil palm cooperatives	N/A	access and availability by increasing usable agricultural production/incomes
TNS	non-traditional exports	non-traditional exports	access via increased incomes in broad definition
TNS	loans/guarantees for agricultural enterprises	non-traditional exports, if related	availability and/or access

Although most of the projects listed above are consistent with Mission or USAID food security objectives not every activity contributes to both sets of objectives. Some activities are not directly linked to USAID's Food Aid Food Security policy. In addition, some of the activities

appear to be less integrated into the overall Title II project. Nevertheless, these activities are either carefully targeted or are in the process of undergoing significant refinement and are deemed by both the Mission and CS to be achieving important development goals. The Mission is supportive of the current direction of the Title II activities.

All three of the Title II CSs have been undergoing significant positive changes in terms of their ability to more clearly measure and demonstrate impact. CRS has focused its target area to better demonstrate impact, and has relocated much of its staff to be closer to the programming area. ADRA has undergone management changes that have re-invigorated its activities. TechnoServe is in the second year of implementing a detailed monitoring and evaluation system. Over the course of the next year, CRS and ADRA should be working on impact indicators for their activities.

According to ADRA, generating needed local currency in the first quarter of the fiscal year coincides with the best time for them to carry out their community works activities, which is during the dry season from November-January. ADRA works primarily with small farming communities in the north. Once the rains start and people return to their farming activities, it is difficult to obtain maximum participation. ADRA reported experiencing frustrating delays in project start-up and completion due to delays in program approvals, which often meant that monetization commodities did not arrive until the second quarter of the fiscal year rather than the first quarter, resulting in delays in project start-up, as well as in slower project completion.

CRS noted that up to 40 percent of its monetization proceeds are used for local commodity purchases, which are used in their distribution programs. Some of these local commodities are actually purchases from TechnoServe cooperatives; purchases that stimulate local production of palm oil and maize.

6. Relationship with Non-Title II Programs

EEP information has been hard to obtain, and the Mission does not report a strong relationship with the USDA's Foreign Agricultural Service office in Lagos, which oversees the Ghana program.

WFP plays a role in tracking information regarding planned and actual food imports of various donors, although it admits that it is often unable to disseminate updated information in a timely manner. WFP reports that it had some contact with the USAID Mission previously, but not much in the past year or two, except when WFP staff approached the Mission for the purpose of borrowing commodities from CRS. There is little cooperation with the Canadian embassy regarding exports, due to direct competition between Canadian and U.S. commercial sales.

The European Commission uses EuroNaid in Brussels to allocate surplus commodities to NGOs. In addition, commodities are made available to WFP. Approximately $1.3 million worth of rice and corn soy blend were made available for distribution in Ghana in 1995, channeled to refugee

programs through WFP and CRS. It was noted that their main contact with the USAID Mission was through sectoral donor meetings, held on health issues on a monthly basis, and on educational issues less regularly. Extensive statistical bulletins on the EU's worldwide food aid are prepared by the Direction Generale du Development and sent to USAID/Washington on a monthly basis.

In conclusion, while coordination with non-U.S. government food assistance is not extensive, it does occur. Better information-sharing between USAID and EEP would be especially helpful and could improve the monetization sales process.

7. Roles and Responsibilities

Each CS reports a generally positive relationship with the USAID Mission. TechnoServe's activities are linked most closely with a range of Mission strategic objectives. They also receive funding from several Mission sources. Because of this, TechnoServe is the most interactive with the Mission.

The Mission's management plan notes that it "informally discusses proposed programs with the PVOs and formally reviews the program submitted for compliance with AID guidelines and the Mission's development strategy, certifies the management capabilities of the PVO and recommends program approval to AID/W. Once the program is operational, the Mission plays an oversight role, makes periodic checks on the PVO's monitoring, and conducts overall evaluations of program effectiveness."

Mission staff noted that it was the CS's responsibility to conduct the Bellmon analyses. CRS and TechnoServe have clearly conducted disincentive and marketing analyses, although this is not reflected in documentation submitted to FFP. The CSs have also relied upon periodic reviews conducted or commissioned by the Mission.

The Mission plays a significant role in facilitating the fit between CS programming strategies and USAID objectives and policies, in determining appropriate commodities for monetization, and in troubleshooting problems encountered. However, greater informal communication between the Mission, FFP, and the CSs at critical points could have mitigated problems that arose over the past couple of years. Mission concerns as to whether FFP is seeking a decreased or increased Mission role in Title II program management need to be addressed.

Although all parties recognize the importance of greater coordination of the sales process, not all CSs favor a formal joint arrangement. They cite concerns about retaining control over cash flows and other aspects of their monetization program.

8. Proceeds Monitoring

a. Effects of Inflation

Monetization funds are held by each individual CS in interest-bearing accounts or treasury bills. Inflation is generally a few percentage points higher than the interest earned. CRS and ADRA reported modest revisions in budget line items to accommodate inflation. Devaluation of monetized funds is of greatest concern to TechnoServe, which has considerable local currency held in a trust fund. Approximately $475,000 was lost to the devaluation of the currency over a three-year period between 1992 and 1994, in comparison to approximately $3 million monetized. This is equivalent to 16 percent over the period, despite an average devaluation rate of 30 percent between 1992 and 1994, being offset by investments. TechnoServe anticipates that investments will earn more than the rate of inflation by 1997, assuming that inflation and local currency devaluation against the dollar are roughly equal, and that local currency devaluation continues to decrease steadily from 1993 levels.

b. TechnoServe's Trust Fund

TechnoServe has responsibly managed the funds invested in the trust through a particularly difficult period in the Ghanaian economy. However, the original intent of the fund was to serve as both a future funding source for operations, as well as an on-going fund for loan guarantees and potential equity investments in agricultural enterprises. It was not until FY 95 that one loan guarantee and one equity investment was made. Thus, the fund serves primarily as a "forward funding" mechanism for operations. Although the trust fund itself is serving as a useful institutional "investor" for Bank of Ghana treasury bills and as a participant in the Ghanaian financial system, these benefits may be of greater interest to financial sector development than to food security concerns.

The priority within FFP for forward funding TechnoServe's programs by several years should be re-examined. This is true even though the project activities carried out by TechnoServe are believed to be high quality sustainable agriculture programs, and extensive monitoring and evaluation systems were put in place over the past two years. Additionally, FFP may wish to consider examining the level of trust-funding needed to meet planned lending and agricultural investment activities. Moreover, FFP may also want to consider providing additional monetization funds on an as-needed basis for operations, or once the trust is shown to have a record of earning a level of interest that is greater than the local currency devaluation.

D. MOZAMBIQUE FIELD REVIEW

1. Introduction to Monetization in Mozambique

Mozambique has a more favorable population-to-resource ratio than most developing countries. Nevertheless, the World Bank has rated it the world's poorest country. The reason for this disparity lies in the long, brutal civil war that began soon after independence in 1975, a war estimated to have claimed over a million lives and resulted in massive destruction of the economy in general and rural infrastructure in particular. When peace finally came in 1992, it was just in time for the great Southern Africa Drought, which cut the already diminished agricultural production to barely one-third the level of both the last pre-drought year (1990-91) and the first post-drought year (1993-94).

The response of the international donor community to this series of disasters has been a massive and long-running aid program, frequently running at an annual rate of over $1 billion, or some $70 per capita, which is higher than the "earned" Gross Domestic Product of $64. This assistance naturally concentrated on food aid. During the most active phases of the war and the Southern Africa Drought, some four to six million people were being fed within the country, as well as another 1.5-2 million refugees in neighboring countries. The chief donors have been USAID at just over $1 billion, of which over $700 million was food aid, and WFP, with $535.5 million, primarily in the form of 1.3 million tons of food. Other major donors included the EU, CIDA, the Australian International Development Assistance Bureau (AIDAB), the United Kingdom, France, and the Netherlands.

With almost 70 percent of the electorate having voted in the free and fair elections of 1994 and potentially favorable agricultural conditions on the horizon, Mozambique is attempting to transition from emergency to development assistance. The degree of change from an emergency program feeding half of the population to a development program in a land with considerable potential, but severely limited infrastructure, is going to strain both the Government of the Republic of Mozambique (GRM) and the donor agencies.

This review concentrates on WVRD's monetization activities, as it is the only CS that has carried out Title II monetizations in the recent past in Mozambique. It is recognized, however, that commodities for monetization were approved by FFP in FY 95 for other CS activities.

2. Cost Recovery

a. Cost Recovery Results

It is clear that under the general conditions existing in Mozambique, the best that can be expected from a Title II monetization is the recovery of the FAS value, with recovery of CIF highly unlikely. Thus, a cash grant would generate more local currency by a factor of approximately the cost of insurance and freight.

The FY 94 WVRD monetization of 6,000 MT of rice is hopefully a worst case scenario. Despite strong negotiating efforts on the part of WVRD, the best they were able to generate was $907,923 in local currency. WVRD reported CIF figures in the amount of $2,549,000, which is almost three times greater than the actual realized price. The FAS figures were reportedly not available. Clearly the risk of adequate results from a monetization transaction are large in Mozambique. Despite the financial shortfall, however, WVRD expressed a belief in the importance of monetization. They also noted that the rice shipments were delayed in arrival and inferior in quality, both of which contributed to the low price received from the sale.

WVRD also carried out monetizations of yellow maize in FY 92 and FY 93 to support its emergency distribution activities. The FY 93 monetization of 2,400 MT of maize generated the local currency equivalent of $331,200, or just under $138/ MT. The FAS price was reportedly not available. Specific data on the sales price and revenue generation of the FY 92 monetization was also not available, but it should be noted that commodity prices were dictated by the GRM and presumably included some degree of subsidy.

b. Commodity Selection

Most of the persons interviewed confirmed that vegetable oil is among the most promising commodities in terms of cost recovery, though stiff competition from Asian palm oil is noted. What is particularly important is that local oil production is presently far enough below demand to avoid disincentive effects, although the local potential for growing sunflowers and soybeans is sufficient enough to warrant monitoring.

Wheat and wheat flour are other possibilities, although "competitive" EU wheat is heavily subsidized under the Lome Convention. Another possible problem at present is that CIDA, the principal wheat donor, does not intend to seek Import Pricing Parity (IPP) in the near term for its wheat grain aid program. The third possibility, rice, might be somewhat hindered in its acceptability by the poor quality of the prior shipment, and would face a stiff price challenge to reach FAS. The main threat in terms of cost recovery appears to be Asian commercial imports. As with vegetable oil, local production potential would need to be monitored.

c. Costs

It should be noted that customs duties are paid on food for monetization, though not on food for free distribution. This creates a situation equal to that of a commercial import from the point of view of both cost to the purchaser and tax revenue to the GRM. This reduces, of course, the amount of local currency raised by the monetization, in comparison to that which would result from a straight dollar conversion or a no-duty import.

Even though monetization in Mozambique will sometimes obtain FAS, it is clearly a higher-cost method of obtaining local currency than a cash transfer. However, in its support for food security programs, monetization is clearly preferable in the absence of the availability of cash as an alternative.

3. Ancillary Impacts

The major GRM agencies involved in the sale of Title II commodities are the Ministry of Commerce, the Customs Bureau, the National Executive Committee for the Emergency, and the Department for the Prevention and Mitigation of Natural Disasters. The effects of participating in the monetization process upon these GRM agencies have been rather limited in scope, but Title II CSs report some increase in efficiency flowing from the demonstration effect.

The impact of monetization on participating private sector institutions, traders, transporters, and contractors has been considerable. They have learned a great deal about how to conduct their affairs, both administrative and operational, in accordance with modern business practices.

Perhaps the most important ancillary contribution has been the encouragement of both an informal marketing system and a small-scale milling industry. These initiatives are the results of an emphasis under both the USAID food aid program and, to a somewhat lesser degree, other donor programs, to break up the monopolies of parastatals and large millers. The widespread availability of low-cost hammer mills for processing maize, for example, has been of particular benefit to low-income households, which can save both money and shopping time. They also receive the increased nutritional benefit of less processed food.

Another important but more indirect contribution has been the encouragement of local production as a result of the purchase by WVRD, WFP, and others of food crops in production surplus areas, utilizing local currency proceeds generated from the monetization.

WVRD reported that it has brought in wheat flour under another donor's program partly to pressure a milling parastatal to privatize. This has been done, and if the new management works out, WVRD will consider bringing in wheat grain as a reward.

4. Disincentive Effects

PVO and host government officials located in the more rural areas of Mozambique have strong and often differing opinions regarding possible disincentives of Title II commodities on local production and marketing than their counterparts located in the urban areas. Opinions differed depending upon local production capabilities. It is therefore important for USAID to keep its finger on the rural pulse through its PVO partners.

The following is a discussion of possible disincentive effects of commodities currently available on the Title II docket for monetization in Mozambique:

a. Rice

The bagged rice monetized by WVRD in FY 94 neither interfered with local production, which is inadequate to meet local demand, nor with the commercial imports from Pakistan and other Asian countries, which enjoyed major price and quality advantages that made it impossible for the Title II monetization to attain the FAS minimum. Although domestic production of rice is not yet adequate to meet demand, growth in production should be monitored in the future to avoid possible disincentives.

b. Yellow Maize

Prior monetizations of small quantities of maize were sold during times of severe shortages and helped, rather than hindered, the domestic agricultural economy, by selling imported commodities in areas of shortfall and purchasing locally in regions of surplus.

Insofar as the commodity selection for future Title II monetizations is concerned, the most contentious issue in the commodity disincentive debate is the possible use of yellow maize. While some experts highlight the high productivity and low cost potential of yellow maize, others warn of the danger of using monetization to introduce a new commodity without consideration of the complex issues surrounding the endeavor. All parties accept, however, that there is a substantial substitution crossover between the white maize, the preferred and locally grown crop, and the imported yellow maize, a component of food aid interventions.

Some experts, the Michigan State University team in particular, contend that yellow maize has a greater productivity potential, if and when local farmers begin to produce it, coupled with a lower cost potential due to the hammermill process used. With the taste preference for white maize having been partly overcome by the aid programs, this price differentiation would make yellow maize a self-targeting food item for lower income groups, while resulting in no worse than a shift of local productive capacity rather than a diminution. A Michigan State University study has indicated that even a small difference in price between white and yellow would cause the lowest income quintile to shift, with a more substantial price break reaching up into the next quintile.

Others argue that an independent study would have to verify potential local production cost savings, to avoid any hint of a U.S. "market development" strategy at the expense of indigenous white maize production. Opponents argue that if the taste and production cost assumptions are incorrect, maize should not be imported or, as a last resort, be imported only at the IPP to minimize disincentive effects. It should also be noted that maize imports in the upcoming program might face opposition from the WFP, which has projected increases in domestic production for the ongoing crop year. This projection has engendered considerable controversy,

with many experts finding evidence of potentially serious drought and resulting production losses.

c. Vegetable Oil, Wheat, and Wheat Flour

All organizations interviewed primarily favored vegetable oil and wheat or wheat flour, because wheat is not produced in Mozambique, while vegetable oil is presently produced only in limited quantities. They also agreed that over time local vegetable oil production may increase substantially, causing a disincentive question to arise eventually.

5. Sales Procedures

The sales procedure used by WVRD in its Mozambique monetizations involves sealed bids, generally followed by an attempt to negotiate for a slightly higher price. A strictly negotiated contract with a private sector trader is deemed acceptable only in the absence of any other traders interested in the commodity. Parastatals are not accepted as bidders.

The results of WVRD's FY 94 sales experience provide an interesting insight into the problems of a poorly integrated market, caused in large part by extremely high internal transport costs. In the competitive Maputo market, there was initial strong trader interest in the Title II rice and a significant number of bidders responding, such that the possibility of major collusion appeared unlikely. The best offer received was $246/MT and occurred at a time when Asian rice was obtaining about the same price. However, when the U.S. rice sample arrived, it was of such poor quality that the high bidder withdrew, and WVRD had to negotiate hard to get the next bidder to pay $166/MT, which was well below IPP. This indicates that in Maputo, the primary market for rice in Mozambique, both quality consciousness and the presence of low-cost, high-quality rice from Asian countries have created a highly competitive situation.

In the thin Quelimane market, on the other hand, only a single trader responded, yet because of the differentiated market and the substantially better quality of the sample submitted for that particular rice shipment, WVRD was able to obtain a price of $241/MT, almost 50 percent higher than the price for the Maputo shipment and roughly equal to IPP.

Nevertheless, despite the anomalous results of that particular process, it has already been made clear from the shortcomings of the GRM that sales through several private traders is the only acceptable method in Mozambique. The sales and deposit arrangements for Title II commodities appear to be satisfactory and include the following:

- It is explicitly stated that FAS prices will be the minimum acceptable and that the successful buyers will be determined by closed bid;
- Detailed commodity specifications, as well as agreed terms, are set out in the invitations for proposals;

- Payments are through letter of credit or bank guarantee established at the time of signing the agreement;

- The buyer(s) must have adequate storage capacity;

- The buyer(s) must agree not to export the commodities from Mozambique;

- The buyer(s) must agree to acceptance of the report of an independent surveyor concerning the quantity and fitness of the commodities;

- The buyer(s) must agree to pay all customs duties levied on the commodities; and,

- All proceeds of the commodity sale will be deposited by WVRD in a separate bank account at the time of receipt, and all expenses will be coded to designate the source of their funding. The account will be interest bearing, if available, and all accrued interest income will be applied to approved project activities.

6. Programming Proceeds for Food Security

USAID/Mozambique's FY 96 Country Strategic Plan (CSP) includes food security considerations in two of its three main strategic objectives. Regarding food security, the following points in the CSP should be highlighted:

- The CSP discusses the potential goals of growth, food security, and human productivity, concluding that "food insecurity is becoming more a lack of income resulting from slow growth than an issue of production constraints."

- The proposed program was designed consistent with Strategic Objective 1.0, which states that "increasing household income will contribute to alleviation of food insecurity."

- CSP Strategic Objective 3.0 deals with the effects of maternal-child health on both women in development and food security: "Primary health care is a critical tool for enhancing human productivity ... Women are the hub of the productive unit ... As food production and consequently national food security is primarily done by smallholders, productive women are essential for Mozambique's food security and economic growth." The proposed program was designed accordingly.

- Further, the CSP established the following target of opportunity: addressing major droughts using a combination of Title II emergency and Office of Foreign Disaster Assistance (OFDA) responses.

- The CSP addresses the food security needs of the absolute poor in the capital city, Maputo.

Both ongoing and proposed WVRD activities in Mozambique are specifically linked to the objectives of the USAID Food Aid and Food Security Policy and USAID/Mozambique's CSP.

WVRD activities are also linked to GRM policy decisions and development program initiatives in agriculture, transportation, health and education. The WVRD Title II monetization activity is considered an integral component of the far larger, multi-donor WVRD project.

WVRD's project in Mozambique focuses on food security at both global and household levels through improved agricultural productivity, increased employment and income generation, and improved household nutrition levels, with concentration on female-headed families and vulnerable children. The present focus of WVRD is to shift from the primarily relief orientation of prior years to a development thrust, as evidenced by the interventions supported by FY 94 monetization proceeds.

Through local food purchases totaling 4,590 MT and carefully selected development activities, both of which are supported by Title II monetization, WVRD has accomplished the following:

- Approximately 450 km of roads were repaired and/or maintained, employing 680 laborers, using both food, equipment and materials purchased locally under the monetization program and additional food from its Title II distribution program;

- Irrigation and drainage systems covering 1,132 ha of prime agricultural land were similarly repaired and/or maintained, employing some 800 laborers;

- Two schools were rehabilitated and one constructed by private sector contractors, who were furnished 106 laborers as part of their work force under FFW;

- Some 1,340 patients, their caretakers, and hospital workers were furnished two meals per day under the institutional feeding portion of the program;

- 1,222 displaced students and street children were fed two meals a day in special hostels, also under institutional feeding;

- 15,000 school children were provided with one meal per day at ten different schools, and a number of community-based nutrition education programs have been established; and,

- WVRD has distributed "Survival kits" (plastic sheeting, kitchen utensils, etc.), "agpaks" (farm implements and seeds), and "vegpaks" (household garden tools and seeds). These are funded by a variety of sources, including Title II monetization, to help improve household food security among recent returnees.

CARE and ADRA are two other prospective participants in the Title II monetization program. Both CSs desire to use monetization to enhance existing development activities. CARE proposes to use local currency generated from monetization to support its community-based agricultural production systems, its FFW/CFW construction projects consisting mainly of roads, and its off-farm employment projects. ADRA proposes to use monetization to support its community-based training in health, nutrition, sanitation, and population, and its FFW/CFW construction of health centers, woodlots, and roads.

Partly as a result of the many advances being made toward attaining food security through the monetization of commodities under Title II, it is agreed among all agencies that in the absence of some new disaster, Mozambique's potential for food self reliance, though not absolute self-sufficiency, is such that the probable outside limit of food aid as a developmental tool of major importance is five years.

7. Relationship with Non-Title II Programs

The present relationships among all of the food aid players in Mozambique are shaped to a considerable degree by an unfortunate situation that occurred during the Southern Africa Drought. Delayed and overlapping arrivals caused prices to gyrate rapidly, to the detriment of consumers and traders alike, and ultimately resulted in the spoilage of a considerable quantity of food in a country of hunger. This experience underscores the importance of creating a donor coordination committee.

Communication between players involved in the Title II monetization program and other food aid donors now begins with the Coordinating Committee headed by the WFP in Maputo, and continues with informal meetings and discussions at the local level. This is especially important to Title II monetizations, since they are so small in relation to the Title III-type monetizations of USAID and the other donors. Undoubtedly, an effective food aid coordination process is essential for the avoidance of market disruptions, with their consequent harmful effects upon food security.

This revised and improved coordination procedure appears to have worked well to date; however, one party interviewed noted that very few changes, if any, take place in individual donor activities and management of commodities as a result of discussions emanating from the Coordinating Committee.

WVRD received roughly one-third each of its food and non-food commodities from the WFP and USAID in FY 94, with the final third supplied from a number of mostly European donors. WVRD feels that the overall effectiveness of the more recent emphasis on cooperative approaches has been largely successful, and this appears to be the case. A final example of coordination with non-Title II programs is WVRD's participation in the Mission's PVO Co-Financing program. Resources from this program are assisting PVOs in their pursuit of food security objectives.

In light of Mozambique's unstable situation, there have not been any Title I or EEP programs, nor has the Mission had any indication of any being considered.

8. Roles and Responsibilities

Much interaction and coordination between the Mission and the CS takes place during the selection of the commodity proposed for monetization. The USAID Mission, in turn, coordinates this process with both the GRM and the WFP-headed Coordination Committee. Once those processes have taken place and the activity is approved by FFP, the CS is fully in charge of project implementation while USAID/Mozambique focuses on the standard USAID auditing and oversight procedures. While this is not quite a blank check, it at least theoretically removes the Mission from exercising authority, while not fully absolving it from responsibility.

In practice, however, both the WVRD and ADRA commodity program managers interact on a frequent basis with the USAID Mission FFP Officer on implementation issues and share ideas to lay the groundwork for future innovations. The CSs indicate that they plan to continue this interaction.

Of particular note is the possibility of WVRD undertaking additional responsibilities as lead agent of a proposed future joint monetization to include up to three additional PVOs. Currently, each CS is responsible for obtaining GRM concurrence for the commodities and planned quantities to be monetized. This area of responsibility is presently also subordinate to the WFP-headed Coordinating Committee. However, as the country is beginning to get on its feet, some of the parties interviewed felt the GRM was beginning to become more pro-active.

These roles and responsibilities as they presently exist appear satisfactory, both functionally and bureaucratically. The present roles and responsibilities should be largely maintained, with the caveat that as the GRM demonstrates both the willingness and the ability to play a larger role, its sovereign right to do so should be honored.

9. Proceeds Monitoring

Field staff in each Province are managed and overseen by a qualified Provincial Representative, supported by technical and administrative cadres. The Provincial Representatives have primary monitoring responsibility, and are required to measure achievements against goals, as well as to insure proper utilization of commodities for distribution, funds generated by monetization, and goods and services purchased with those funds. WVRD has developed rigorous systems of commodity tracking and management to assure prompt and targeted delivery of all goods and services covered in their programs, and of cash control to insure against diversion. Regular reviews and audits are used to insure effective operation of this system.

Complete financial reports are produced and maintained by WVRD, which has standardized the accounting software in all of its field programs and trained appropriate personnel in its use. Financial reports, including the use of monetized funds, are provided to the Ministry of Finance and USAID on a regular basis. The Coopers & Lybrand audit, dated August 1, 1994, found WVRD's "commodities and cash disbursements systems to be well-designed from a control perspective and functioning as designed. We had no findings or questioned costs to report."

E. PERU FIELD REVIEW

1. Introduction to Monetization in Peru

Peru's Title II program is the second largest non-emergency Title II program in the world, valued at approximately $76 million in FY 94. Of this amount, the four CSs - ADRA, CARE, Caritas, and Prisma - received approximately $18 million from monetization during FY 94. In FY 95 and FY 96, however, Peru's Title II program is experiencing significant reductions. Although CSs requested 105,000 MT of wheat in FY 95, USAID/Washington approved only 57,000 MT, due, in part, to in-country pipeline. In addition, the Mission's Title III program, valued at over $8 million during FY 95, has already been eliminated for FY 96. Although the CSs have been able to increase funding from other sources, their capacity to support food distribution at current levels remains under considerable pressure, and they continue to depend heavily on monetization proceeds for this purpose.

Monetization in Peru evolved from USAID/Peru and CSs' efforts to provide resources to support the direct distribution of Title II commodities during an era of rapidly increasing transport and logistics costs and the declining capacity of the Peruvian government to cover these costs as it had done previously. After sporadic earlier monetization efforts, the Mission's Title II program in 1989 institutionalized monetization as the major support mechanism, although CSs continue to receive funds for resources such as Title I, Title III, Section 202(e) grants, and various Mission and centrally-funded grants.

Early monetization support was limited to the financing of logistical costs related specifically to direct distribution of Title II commodities. However, CSs in Peru have continued to broaden the permissible uses of monetization proceeds to include ancillary services related to food distribution, building staff and institutional capacity to support commodity distribution, and the purchase of local commodities for direct distribution.

CARE and the other participating CSs appear to be well-satisfied with the program. In addition, the Ministry of Foreign Affairs and the Sociedad Nacional de Industrias (SNI), which coordinates Peruvian purchases of the commodities, also express appreciation of the program's smooth functioning and positive national impact. Although the CSs "complain" about monetization, close analysis shows that their concerns emerge largely from the reduced availability of monetization funds. Although the program is not without flaws, interviews and examination of correspondence confirm that the grievances expressed are minor, given the complexities and uncertainties associated with such a large-scale monetization.

Since the program's inception in FY 89, CARE has been the designated sales agent on behalf of itself, ADRA, Caritas, and Prisma.

2. Cost Recovery

Peru's monetization program has been consistently successful in the generation of proceeds above the CIF value of the commodities monetized and in the maintenance of the value of the proceeds generated. Only in one FY 94 monetization of rice did the price fall below CIF values, and this was due to a market anomaly in the U.S. This success depends heavily on some special conditions that currently exist in Peru. For example, the sale of wheat, previously monopolized by the government, is now carried out by private corporations, such as Transcontinental and Gramil, and by CARE.

The purchase of wheat is then coordinated by the SNI, on the basis of an auction with sealed bids. SNI, which is much like a trade association, buys Title II monetization commodities according to a formula intended to "simulate" regular commercial transactions. The wheat is determined by the market price for Argentine wheat, Peru's major supplier, and all other costs *including taxes* are then added. Market disruption is thereby avoided, and the purchasing millers pay just what they would have paid commercially. In addition, USAID/Peru has successfully used the costs charged by private companies as a yardstick for negotiating fair and reasonable fees with CARE.

The Peruvian government allows the Title II monetization program to retain the taxes collected, as a counterpart contribution to the program. Because of this, total proceeds reflect a return per MT that routinely exceeds the CIF value of the commodity. In effect, the counterpart contribution compensates for the higher cost of American wheat as compared to the Argentine product.

In addition, the program has developed credit arrangements that compensate for the uncertainties involved in Title II sales. For example, CARE allows the millers up to 90 days free of interest charges before they must begin paying for the wheat. In other words, these special arrangements and relationships have permitted USAID/Peru and CARE to market U.S. wheat competitively in a situation where it would otherwise not be sold. Similar considerations affect the sale of unrefined vegetable oil, corn, and rice, which have also been monetized through the Title II program.

Peru's monetization program also benefits from the services of the Banco de Credito, a private bank with nation-wide facilities, substantial computer capability, and familiarity with USAID and NGO needs. In addition, the Peruvian sol is now a convertible currency, and the U.S. dollar has become virtually a "local currency." Major commercial transactions, including monetization sales, are denominated in dollars. All monetization proceeds are received and then remain in dollar accounts, until transferred to Peruvian sol accounts shortly before disbursement.

Few food-deficit countries can provide such a favorable context for monetization. Nevertheless, one challenge to CARE is the infrequency and inaccuracy of information from Washington regarding U.S. purchase prices for Title II commodities. This situation challenges CARE's

ability to decide which commodities to monetize in order to maximize the amount of monetization proceeds to be generated.

There are several advantages to monetizing in Peru instead of receiving a dollar transfer. First, it allows the country to save foreign exchange. Secondly, the financing of Title II support costs through monetization is a more reliable and efficient funding source than seeking this support from a variety of other limited resources, such as DA dollars and Section 202(e) grants. Also, it should be acknowledged that present budgetary constraints affecting the availability of both commodities and development dollars make it unrealistic to attempt to substitute DA dollars for monetization proceeds, especially given the size of the program.

3. Ancillary Impacts

By monetizing raw materials, such as wheat, instead of finished products, such as wheat flour, the program avoids competition with local millers, permits cost savings through bulk shipments, and allows greater economies of scale in the sales process. However, these advantages also limit opportunities to use the monetization transaction as an independent intervention for improving food security by increasing market competition.

The commodity choice and marketing arrangements for monetization in Peru do not have an independent impact on competitiveness or on other aspects of food marketing. Any effort to increase the impact of monetization on food marketing would involve substantial increases in costs for such needs as storage, administration, and monitoring. Nonetheless, commodity choice and marketing arrangements in Peru are reasonable in the Peruvian context. In the case of Peru, there are explicit trade-offs between attaining ancillary impacts from the monetization process and maximizing net monetization proceeds.

4. Disincentive Effects

As stated above, the monetization program in Peru avoids competition with local millers by monetizing wheat rather than wheat flour. One possible negative effect would arise should the present practice of purchasing local commodities with monetization proceeds be discontinued; under certain conditions, purchase of local commodities with monetization proceeds is an effective way to enhance household food security in Peru. The termination of local purchases may cause severe hardship to local producers, unless adequate provision is made for contemporaneous replacement of effective demand.

CARE has been an effective and efficient sales agent for Title II commodities in Peru. This responsibility includes preparation of the Bellmon Analysis to ensure that Title II commodities are not creating disincentive effects.

5. Programming Proceeds for Food Security

USAID/Peru has a Food Security Strategy, in which food distribution and related activities of each CS form an integral part. Indeed, the monetization program in Peru illustrates well, and could serve as a model for, the integration of Title II and other Mission-sponsored development activities.

The four CSs each have their own project focus, though they sometimes work in the same geographic areas. CARE has a large community soup kitchen program, among other activities; PRISMA has MCH programs throughout the country that target high-risk families; Caritas administers FFW activities nation-wide; and ADRA is implementing micro-enterprise projects.

In Peru, monetization proceeds are used for logistical support of direct commodity distribution activities, all of which are related directly to the improvement of agricultural productivity and household nutrition. It should be noted, however, that all four CSs support strongly the use of monetization proceeds for income-generation activities, with or without accompanying food distribution. They view this as critical to the achievement of sustainable household food security for the poorest population groups. The proposed income generation activities form an integral part of the multi-year food security strategies of both the Mission and each CS. Whether such independent use of monetization proceeds to assist those in "extreme poverty" will receive priority in light of the Food Aid and Food Security Policy's emphasis on agricultural productivity and household nutrition remains a critical issue.

While income-generation is not an efficient intervention for achievement of short-term food security among the poorest target groups, CSs in Peru maintain that it is indispensable for achieving sustainable household food security in the long run. They also maintain that monetization-supported income generation activities in Peru should receive a priority equal to that of agricultural productivity and household nutrition when it is clear that the beneficiaries have previously participated in direct distribution programs or are members of the priority target groups identified in the Mission's Food Security Strategy.

6. Roles and Responsibilities

CSs in Peru do not have a clear understanding of the division of authority and responsibility between USAID/Washington and USAID/Peru. Partly as a result of this confusion, CARE and ADRA are alleged to occasionally by-pass the Mission by seeking U.S.-based headquarters intervention with USAID/Washington. Also, some CSs view FFP and Mission involvement in project approvals as often duplicative.

Another problem related to understanding roles and responsibilities has been the situation where CARE, as designated sales agent for the umbrella monetization program, has on occasion

protested USAID/Peru "interference." CARE appears to view its role as extending beyond the sale of commodities to the approval and monitoring of other CS Title II activities. In light of the above, there is a pressing need for more precise definition of roles and responsibilities among USAID/Washington, USAID/Peru, and the four CSs.

7. Proceeds Monitoring

The dollar value, complex processes, and numerous countrywide transactions make monetization in Peru more vulnerable to irregularities than most other Mission activities. Because of this increased vulnerability, USAID/Peru has obliged CARE to contract with a private accounting firm for regular monitoring of the entire monetization process, including monthly review of all expenditures for conformity to budgets and adequacy of documentation. The Mission Controller's Office finds the system and the firm's performance to be both appropriate and effective. Partly as a result of this close financial monitoring, the regular annual independent audits of the monetization program have found no significant disallowances or irregularities during the program's history. Thus, USAID/Peru and CARE have developed, and are implementing, appropriate and effective financial systems and controls.

There is some CS opposition, however, to the accounting contract, which is funded from monetization proceeds. This, in part, may be due to the assumption that eliminating the contract would thereby increase the availability of monetization proceeds for activity implementation.

It should also be noted that CSs mentioned that inadequate local currency pipeline limits their ability to meet predictable needs from one fiscal year to the next. Because of the complex monetization sales process, the size of the program, and the delays in project approvals, CSs emphasize the need for sufficient carry-over between fiscal years to prevent disruption of project implementation.

CHAPTER FIVE

ANALYSIS OF CRITICAL ISSUES

57A

V. ANALYSIS OF CRITICAL ISSUES

The findings from the five field reviews of monetization in Bangladesh, Ethiopia, Ghana, Mozambique, and Peru undoubtedly confirm the following: the process of monetizing, the rationale for monetizing, the market environment within which monetizations occur, and the programming of local currencies generated vary significantly from country to country and project to project. It is almost impossible to generalize. Yet, despite the complexities encountered and the diverse approaches to monetization, three cross-cutting themes repeatedly presented themselves in all five field reviews, as well as the literature and desk reviews for this evaluation.

The following section analyzes three central issues of monetization: obtaining cost recovery, achieving ancillary impacts, and programming proceeds. Although USAID and CSs have, together, managed to overcome many of the challenges of monetization during the first nine years, the current context presents new and even more difficult questions. Various economic pressures, coupled with political pressure to focus more narrowly on food security impacts, are creating a more constrained environment within which Title II monetization sales will occur. How USAID and its partners decide to address the issues discussed below will have serious programmatic and administrative implications on monetization.

A. ISSUES RELATED TO COST RECOVERY

1. The Comparative Costs of Converting Food Versus Dollars to Local Currency

Excluding consideration of any ancillary benefits of selling U.S. commodities in developing markets, the actual expense of generating local currency through monetization is exactly comparable to the cost of generating local currency by converting dollars, as long as the CS recovers the CIF value of the commodity, as well as the cost of selling the commodity. In this sense, the CS will "break even".

When the selling price exceeds the CIF value of the commodity and the selling costs are recovered, there is an actual cost advantage to monetizing Title II commodities as a means of generating local currency for food security activities. In cases such as this, the U.S. Government, through the CS, profits from the sale, so that a higher net total of local currency can be generated than if a dollar grant were made.

Narrowly viewed, converting dollars is less costly than a commodity sale that fails to recover costs. Nevertheless, when monetization and direct dollar funding are compared in relation to achievement of food security goals, properly executed commodity sales can be more cost-effective and efficient, depending upon the market environment in which the monetization

occurs. When monetization sales proceeds do not cover the full costs of buying, shipping, and selling the Title II commodities, the distinctive food security and humanitarian benefits of monetization must be fully considered in order to determine whether the monetization is cost-effective.

2. Current Cost Recovery Guidelines

Using CIF and FAS values as cost recovery benchmarks has been standard Agency practice for years. Section III.E.1 of the 1988 *Monetization Field Manual* states:

> The Cooperating Sponsor should attempt to set a sales price which represents the fair market value of the commodity and does not depress the price of locally produced commodities or undercut normal commercial practices. Ideally, the local currency yield from monetization will cover the U.S. market value of the commodities, insurance costs and ocean-freight costs; i.e., the c.i.f. costs, after allowance has been made for local handling charges and other costs incurred by the Cooperating Sponsor in connection with the sale. In general, the highest price possible should be sought. At a minimum, proceeds from the monetization will be the local currency equivalent of the f.a.s. dollar value of the commodity.

This guideline, which FFP uses for the purpose of defining cost recovery, is confusing and open to interpretation. It states both an ideal sales price as well as a minimum acceptable sales price. In addition to the FAS and CIF values, a variety of other benchmarks for establishing the sales price are also provided in the *Monetization Field Manual*, including terms such as "most competitive supply", "fair market", and "local market" values of the commodity. Clearly, there is a need for a more definitive benchmark for determining acceptable levels of cost recovery.

3. Increased Emphasis on Cost Recovery

FFP has recently focused greater attention on cost recovery, specifically, on obtaining CIF, as opposed to the lesser FAS value. In FY 95, FFP made efforts to remind the field of the existing cost recovery guidelines and establish administrative procedures to monitor CS and Mission adherence to these guidelines.

First, in November of 1994, USAID issued a worldwide guidance cable entitled *P.L. 480 Title II, Roles and Responsibilities of USAID Field Missions, Cooperating Sponsors, and USAID/W with Particular Emphasis on Monetization.* The cable explains how USAID/Washington determines the minimum acceptable price for monetized commodities. It also describes the procedures for obtaining an official FAS quote from FFP. This FAS quote is provided for a specific commodity at a specific date of export. It then becomes the FAS price minimum against which the actual sales price is measured to determine cost recovery results. Second, FFP approval notifications for FY 95 development programs with monetization components included the cost recovery language quoted above to remind CSs and Missions of the requirements. Finally, FFP guidelines for the submission of FY 94 Annual Progress Reports, which were issued in January

of 1995, requested that CSs report on the prices obtained on monetization sales, as compared to FAS and CIF actuals for the commodity.

Much headway has been made, both on the part of FFP to enforce the established cost recovery guidelines, and on the part of CSs to obtain the optimum sales price. However, a more thorough review of CS cost recovery results and an examination of the appropriateness of the current benchmarks are warranted.

4. FY 94 Cost Recovery Results

FFP has not monitored cost recovery results consistently nor have CSs reported cost recovery results in a standard way. Due to the lack of standardization in reporting, collecting cost recovery data for the purposes of this evaluation proved to be difficult. Inconsistencies in data collection and reporting must be taken into consideration when analyzing the results reported below. Also, the data reported in this section is based on FY 94 monetization sales, which occurred **prior** to FFP's increased emphasis on cost recovery. FY 95 cost-recovery results may be more positive.

During FY 94, a total of 39 monetization sales occurred in 21 countries. Monetization sales recovered more than the CIF price in only five or 24 percent of the participating countries. Monetization sales recovered the minimum acceptable FAS price but did not reach the CIF price in eleven or 52 percent of participating countries. Sales failed to recover even the FAS minimum in five of the Title II countries where monetization took place in FY 94.

The record for cost recovery by individual monetization sale differs slightly. Of the 39 sales in the 21 participating countries, 36 percent of the sales recovered more than the CIF price; 38 percent of the sales recovered the minimum acceptable FAS but did not reach the CIF price; and 26 percent of the sales failed to recover the FAS minimum. A detailed list of FY 94 cost recovery results by country and individual CS sale can be found in Figure 2.

In FY 94, FFP granted only one formal waiver to CSs in Ghana to sell below the FAS value of the commodities approved for monetization. Nevertheless, based on the actual FAS, CIF, and sales prices reported, CSs often struggled to reach the established benchmarks, contrary to what the granting of only one waiver would suggest. Using actual FAS as the minimum acceptable benchmark, 74 percent of the sales successfully met this benchmark. Using actual CIF as the minimum acceptable benchmarks, only 36 percent of the sales that occurred in FY 94 successfully met this benchmark.

FIGURE 2

FY 94 COOPERATING SPONSOR COST RECOVERY RESULTS BY COMMODITY SALE

		Cooperating Sponsor	($/MT) Actual FAS	($/MT) Actual CIF	($/MT) Actual Sales Price	($/MT) Local Mkt Price	Sales Price % of FAS	Sales Price % of CIF
1	Bangladesh	CARE	$118	$184	$189	$184	160%	103%
2	Benin	CRS	$138	$253	$147	$298	107%	58%
3	Bolivia	Umbrella	*	*	*	*	100%	<100%
4	Burkina Faso	CRS	$183	$257	$322	$230	176%	125%
5	Cape Verde	ACDI	$167	*	$137	*	82%	*
6	Dom Rep.	CARE	$480	*	$577	*	120%	*
7	Eritrea	CRS	$948	$1,070	$917	$1,088	97%	86%
8	Ethiopia	Umbrella(1&2)	$958	$1,139	$1,220	$1,545	127%	107%
9		Umbrella(3)	$900	$1,036	$1,220	$1,667	136%	118%
10	Gambia	CRS	$730	$924	$736	$886	101%	80%
11	Ghana	ADRA	$170	$202	$114	*	67%	56%
12	Ghana	CRS	$193	$270	$113	$131	59%	42%
13	Ghana	TECH	$185	$262	$113	$121	61%	43%
14	Guatemala	CARE	$133	$296	$133	$187	100%	45%
15	Guatemala	CRS	$116	$171	$139	$137	120%	81%
16	Guinea Bissau	Africare(1)	$244	$415	$300	$300	123%	72%
17		Africare(2)	$715	$903	$799	$799	112%	88%
18	Honduras	CARE	$128	$153	$128	$128	100%	84%
19	Honduras	CHF	$128	$153	$128	$128	100%	84%
20	Indonesia	CRS	$162	$178	$160	*	99%	90%
21	Kenya	CRS	$123	$199	$160	$119	130%	80%
22	Kenya	FHI	*	*	*	*	*	*
23	Mozambique	WVRD (1)	$242	$419	$221	$442	91%	53%
24		WVRD (2)	$347	$432	$162	$325	47%	38%
25	Sierra Leone	CRS	$155	$225	$141	*	91%	63%
26		CRS	$137	$204	$151	*	110%	74%
27	Togo	CRS	$176	$217	$179	*	102%	82%
28	Togo	OIC	*	*	$152	$152	*	*
29	Uganda	ACDI (1)	*	$1,096	$1,403	*	100%	128%
30		(2)	*	$1,193	$1,357	*	100%	114%
31		(3)	*	$1,214	$1,388	*	100%	114%
32		(4)	*	$1,134	$1,351	*	100%	119%
33		(5)	*	$1,083	$1,361	*	100%	126%
34		(6)	*	$1,165	$1,337	*	100%	115%
35		(7)	*	$1,165	$1,362	*	100%	117%
36		(8)	*	$1,164	$1,401	*	100%	120%
37		(9)	*	$1,271	$1,482	*	100%	117%
38	Peru	Umbrella(1)	$474	$556	$300	*	63%	54%
39		Umbrella(2)	$563	$631	$661	*	117%	105%
40	Philippines	CARE	$156	$167	$156	$150	100%	93%
41	Philippines	CRS	$156	$167	$156	$150	100%	93%

*** Information unknown or not reported by Cooperating Sponsor**

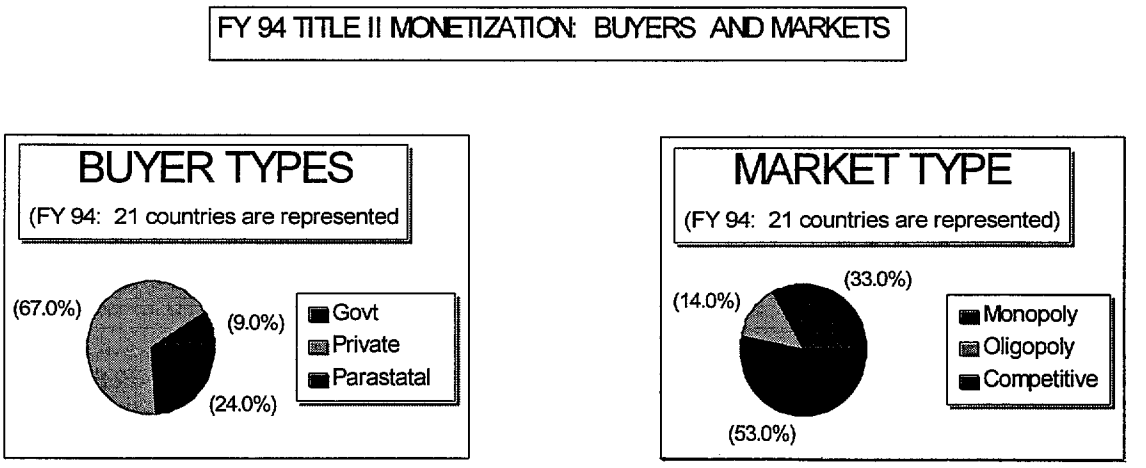
5. Recovery of Selling Costs in FY 94

In addition to FAS and CIF costs, there are also in-country costs incurred by the CS during the process of monetizing. These costs are often commonly referred to as selling or marketing costs. The *Monetization Field Manual* states that, ideally, a monetization sale should generate enough proceeds to cover the CIF costs ". . . after allowance has been made for local handling charges and other costs incurred by the CS in connection with the sale." There is still debate, however, about what factors should be included when calculating the "full costs" of monetization. As a result, current practices vary widely.

Sales and marketing costs differ project to project. Costs can include the following: commodity transport from the port of arrival to the warehouse where the commodity will be stored until it is sold; commodity storage before the sale; loading and handling charges; port fees; duties, taxes, or levies; repackaging; and the costs of actually selling the commodity, including staff salaries and consulting fees. Many CSs do not include in their monetization proposal submissions a separate detailed breakdown of these costs, nor do they compare these costs in relation to both the estimated commodity and freight costs and the expected amount of revenues to be generated.

Figure 3 provides a breakdown of total costs, including U.S. government direct costs (CIF) and CS-incurred selling costs, as compared to total revenues generated from monetization sales in FY 94. In every instance, the amount of local currency generated through Title II monetization did not exceed the full costs incurred by the U.S. Government and the Title II CS. In other words, the ideal situation of recovering CIF plus selling costs is not reflective of the current reality. The benchmark of recovering CIF plus selling costs is still a goal toward which a CS strives but is not necessarily an obtainable benchmark.

FIGURE 3



6. Problems Related to Determining Cost Recovery

Current efforts to collect and analyze cost recovery data and to monitor cost recovery results fall short of what is needed to improve cost recovery reporting, and ultimately, the efficiency of Title II monetization sales. Highlighted below are reporting inconsistencies that were discovered during efforts to determine FY 94 cost recovery results for the purposes of this evaluation:

- It is not clear to all CS field offices and USAID Missions that the FAS benchmark against which a CS is held is the FAS price quote provided by FFP. In reporting FAS values, it is sometimes unclear whether the CSs are using the FFP quote, the FAS value as per shipping documentation, or some other value obtained elsewhere.

- When CSs report CIF values, it is unclear whether the figures reported are based on the cost of transport via more expensive American-flag carriers or the cost of transport via the cheaper foreign-flag carriers. Differences in these rates have significant implications on a CS's ability to recover CIF costs.

- Not all CSs or USAID Missions are aware that FFP allows them to use the cheaper foreign-flag carrier rates in determining CIF.

- In some instances, CSs fail to compare actual sales prices to the estimated and actual CIF values, claiming that the information is not available.

- Other CSs fail to report sales prices in U.S. dollars or in metric tons, making it more difficult to compare the figures reported to FAS or CIF values.

- In some instances, CSs only report the total amount of local currency generated. Due to differences between approved tonnages and actual amounts sold after accounting for losses, it is impossible to calculate exact sales prices.

- Sometimes the sales price includes certain in-country costs, such as handling charges imposed by the host country. In other cases, these costs are not factored into the sales price. This inconsistency makes it difficult to compare cost recovery results.

- FFP does not require, and CSs do not make available, a line-item budget of the in-country costs incurred by the CS in carrying out the monetization sale. Nor do CSs highlight instances where the buyer or host country government absorbs certain costs.

- When CSs are asked to report selling costs, they sometimes fail to include CS-incurred selling costs that are covered by other USAID or private funds instead of by the local currency proceeds generated.

- It is sometimes unclear how exchange rate fluctuations or interest earnings are factored into the equation.

- FFP does not monitor cost recovery results and local currency proceeds generation on an ongoing or individual sale basis.

- FFP does not maintain a project-by-project history of cost recovery results over, for example, a five year period. A historical record would be useful in determining whether monetization may be a viable and efficient mechanism for obtaining resources.

Regardless of which specific benchmark is chosen, the method of calculating cost recovery requires standardization, and the above issues need to be resolved. Standardization will ensure that the statistics collected about country projects will be truly comparable. With increased emphasis on cost recovery, a more reliable method for determining and monitoring cost recovery is needed.

7. Cost Recovery and the Different Forms of Monetization

Title II commodities are sold to government agencies, parastatals, and private buyers. Sales occur in competitive markets as well as in settings where one buyer or a small group of buyers monopolize the market. Commodities are sold via auction, tenders, or negotiated sales.

In the 21 countries where Title II monetization sales took place in FY 94, commodities were sold to either government agencies or parastatals in 7 countries. Commodities were sold to private buyers in the remaining 14 countries. Truly competitive sales to the private sector took place in 8 of these 14 countries. In the remaining 6 countries, however, either one private buyer monopolized the market or was one of three or four major players. See Figure 4 for a percentage breakdown of the types of buyers and markets involved in Title II monetization. Auction sales occurred less frequently than sales by negotiated contract. Sales in 16 countries occurred through negotiated contract while sales in the remaining 5 countries occurred via auction process.

At first glance, there does not appear to be a clear and distinct relationship between the form of monetization and achievement of cost recovery. Commodities were sold both at above CIF values and at below FAS values during FY 94, regardless of the type of buyer, market environment, or form of sale. Cost recovery results from sales to parastatals or government agencies varied greatly. In some cases, CSs were able to recover FAS or CIF costs. In just as many instances, the commodities were sold at below FAS values. This is also the case when commodities were sold to private buyers that either monopolized the market or were one of only three or four major players. However, a closer look at Figure 5 indicates that selling to a private buyer in a competitive market was the most successful combination for obtaining a sales price valued at or above the FAS value for the commodity. In the eight countries where the sale took place under these conditions, CS recovered FAS costs in all but one country. Because CIF costs were recovered in only one country, one cannot conclude that selling in this environment guarantees a sales price equal to the CIF value, but there is strong evidence that this environment best protects a CS from selling of FAS.

FIGURE 4

COST VS. REVENUE ANALYSIS

		Cooperating Sponsor	U.S. Gov't Direct Costs	PVO In-Country Costs	Total Costs	Revenues Received From Monet Sales
1	Bangladesh	CARE	$6,987,533	$154,282	$7,141,815	$6,929,551
2	Benin	CRS	$253,469	$1,505	$254,974	$146,929
3	Bolivia	ADRA	*	*	*	*
4	Bolivia	CARITAS	*	*	*	$2,722,277
5	Bolivia	FHI	$2,036,100	$313,835	$2,349,935	$1,645,671
6	Bolivia	PCI	$883,648	$150,423	$1,034,072	$703,089
7	Burkina Faso	CRS	$514,000	$46,210	$560,210	$322,002
8	Cape Verde	ACDI	$3,251,570	$25,000	$3,276,570	$2,458,389
9	Dom Rep.	CARE	*	*	*	$2,570,776
10	Eritrea	CRS	$106,955	$4,030	$110,985	$91,719
11	Ethiopia	CARE (Umbr)	$8,239,762	$690,602	$8,930,364	$8,634,569
19	Gambia	CRS	$831,207	$2,491	$833,698	$662,783
20	Ghana	ADRA	$2,445,413	*	*	$1,476,701
21	Ghana	CRS	$2,732,933	$4,146	$2,737,079	$1,211,802
22	Ghana	TECH	$2,098,960	$8,417	$2,107,377	$904,000
23	Guatemala	CARE	$2,938,984	$0	$2,938,984	$1,338,407
24	Guatemala	CRS	$427,823	$0	$427,823	$347,500
26	Guinea Bissau	AFRICARE	$669,535	$72,404	$741,939	$667,243
27	Honduras	CARE	$1,196,460	$1,789	$1,198,249	$882,652
28	Honduras	CHF	$503,370	$1,498	$504,868	$432,947
29	Indonesia	CRS	$1,424,000	$3,767	$1,427,767	$1,280,570
30	Kenya	CRS	$1,890,500	$238,271	$81,317,466	$1,529,500
31	Kenya	FHI	*	*	*	*
32	Mozambique	WVRD	$2,549,600	$22,000	$2,571,600	$907,923
33	Sierra Leone	CRS	$1,180,791	$14,312	$1,195,103	$750,574
34	Togo	CRS	$430,528	$1,621	$432,149	$355,105
35	Togo	OIC		$5,627		$314,838
36	Uganda	ACDI (AVG)	$3,982,033	$780,000	$4,762,033	$4,708,316
37	Peru	CARE	$19,747,546	$18,411	$19,765,957	$17,815,154
38	Philippines	CARE	*	*	*	*
39	Philippines	CRS	$27,923	$83	$28,006	$21,628
TOTALS			$67,350,643	$2,560,724	$69,911,368	$54,903,064

*Indicates Information Unknown or Unreported by CS

FIGURE 5

FY 94 COST RECOVERY

NON COMPETITIVE VS. COMPETITIVE* MARKETS

COUNTRY	Cooperating Sponsor	Below FAS	FAS Only	CIF
Bangladesh	CARE	X		X
Benin	CRS		X	
Burkina Faso	CRS			X
Cape Verde	ACDI	X		
Dom Rep.	CARE		X	
Eritrea	CRS	X		
Ethiopia	Umbrella			X
Ghana	CRS	X		
Ghana	TECH	X		
Ghana	ADRA	X		
Guatemala	CARE		X	
Indonesia	CRS	X		
Peru	Umbrella	X		
Sierra Leone	CRS	X	X	X
Togo	CRS/OIC		X	
Bolivia**	Umbrella			
Gambia	CRS		X	
Guatemala	CRS		X	
Guinea Bissau	AFRICARE		X	
Honduras	Umbrella		X	
Kenya	CRS/FHI		X	
Mozambique	WVRD	X		
Philippines	Umbrella		X	
Uganda	ACDI			X

* Shading indicates competitive market

** Information unknown or unreported by CS

8. Strengthening Management and Administration to Improve Cost Recovery

A number of methods for improving cost recovery are discussed below. Not all will be applicable in every country or project, but each can be implemented more widely than at present. As CSs become more "commercial" in their approach to commodity sales, a trend already observable in the field, cost recovery results should improve.

a. Use of Umbrella Sales

In FY 94, CSs in five out of nine countries[5] were monetizing through a collective or "umbrella" sales arrangement, in which a single CS sells Title II commodities on behalf of the other CSs in-country. The local currency generated is then allocated to each CS, according to their approved budgets and for use in approved Title II interventions. The field reviews for this evaluation confirmed the advantages of this arrangement.

Umbrella monetization eliminates competition among CSs selling into the same market, while also reducing USAID's costs for developing CS selling skills. In countries with umbrella monetization structures, the CSs designated as sales agent have rapidly acquired the skills and experience needed to compete in local markets. In Peru and Somalia, in fact, CARE has become so adept that it has been retained by WFP and others to act as their sales agent. Furthermore, because the designated sales agent becomes a more important player in the market, coordination of Title II sales with other U.S. and international donor sales typically improves. In Ghana, by contrast, where all three CSs monetize Title II commodities, local millers are able to negotiate separately with each of them -- with negative consequences for cost recovery.

To the extent possible, Title II monetization sales in any country where more than one CS is selling into the same market should be conducted by one sales agent. In countries where there is a viable alternative to using a CS as sales agent, the CSs and the Mission should cost out the alternative of using an outside consultant. The decision should be made primarily on the basis of cost considerations. The seller would turn the proceeds over to the CSs in accordance with a pre-established allocation plan.

The importance of limiting the role of the sales agent in umbrella sales should be highlighted. If the authority of the CS designated as seller extends beyond the sales process, i.e. to such matters as approving disbursements or project revisions, the umbrella monetization arrangement can easily deteriorate into another level of bureaucracy that impedes project implementation.

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[5]During FY 94, countries with umbrella arrangements were Bolivia (four CSs), Ethiopia (six), Honduras (two), Peru (four), and the Philippines (two). Those countries where each CS was selling on its own were Ghana (three), Guatemala (three), Kenya (two), and Togo (two).

To avoid conflicts among participating CSs, responsibilities of the sales agent should be limited to importing and selling the commodities.

Some CSs participating in umbrella monetizations have also created mechanisms for in-country oversight of the process. In Ethiopia, for example, the Mission and the CSs established an Executive Committee, composed of CS country directors, to oversee CARE's implementation of the monetization process. The Committee meets once a month to review the status of the monetization program and to review sales receipts and disbursements to participating agencies. In Bolivia, an inter-agency monetization committee is responsible for making decisions regarding the implementation of Bolivia's umbrella monetization, which is operated by an outside organization. The committee includes CS, Mission, and host-country representatives. If CSs choose to establish a monetization committee or similar entity with oversight responsibilities, the committee's role should be clearly defined and distinguished from that of the selling agent.

b. Turning CSs Into Effective Sales Agents

CSs are often intermittent sellers of only one or two commodities. They are unable to guarantee their purchasers a delivery date and sometimes cannot even guarantee the quality of their commodities. They are competing with full-time, professional traders who have regular customers and years of experience with commercial sales. Monetizing commodities is a complex and complicated business transaction. To ensure the best prospect for cost recovery, CSs must invest in the technical assistance and training necessary to become effective sales agents. USAID Missions and FFP should explore ways of targeting their own financial and technical resources for this same purpose.

c. Further Consideration of Triangular Monetization

At present, nearly all Title II monetization sales occur in the country where the proceeds will be used. This is due, in part, to the current legislative requirement that monetization sales for development projects be carried out in the same country in which the sales proceeds will be programmed. In emergency situations, however, monetization sales can occur in one country while the sales proceeds are used in another. Expanding the use of triangular monetization for development purposes is included in the current draft of the new Farm Bill, which has yet to be authorized.

In light of this pending change, it is worthy to note that there are occasions when a triangular approach may be advantageous in terms of both cost recovery and food security. Under a triangular monetization scheme in the horn of Africa, for example, a Title II commodity could be monetized in Ethiopia, and the proceeds could then be used to purchase either food or tools for use in a Title II project in Somalia. Similarly, for a CS working with Togolese refugees in northern Ghana -- which is much closer to Ouagadougou, Burkina Faso's capital, than to Accra -- it would be more efficient to monetize in Ouagadougou, and then use the proceeds in northern

Ghana. Triangular transactions not only have the advantage of aiding two developing countries, they can also frequently obtain better prices for U.S. commodities by meeting a stronger need in the initial recipient country.

Their disadvantage is that of complexity. They require that the donor and CS determine need, appropriate prices, and possible disincentives in each of the two countries involved. In addition, triangular sales prioritize cost recovery, in that the country where the sale is to take place is generally chosen based on its potential for obtaining a sales price that exceeds CIF costs. The benefit of the process of monetizing on the local market system may be a secondary objective, if it is one at all. In a triangular approach, therefore, monetization may lose its distinct ability to achieve a duel impact of supplying food to achieve food security objectives and using the proceeds to support food security activities.

In light of pending changes to Farm Bill legislation, FFP should consider triangular monetization when there is demonstrable potential for recovery of costs at or above CIF, with no risk of creating disincentives. FFP should work with Missions and CSs to explore possible country combinations where a triangular approach might not only be cost-efficient but effective in terms of achieving ancillary food security impacts.

d. Increased Coordination with Non-Title II Programs

Other U.S. and international food programs, such as Title I, Title III, EEP, WFP, EU, and CIDA, often operate simultaneously and have implications for Title II monetization activities. Improved coordination and communication with these programs can enhance Title II effectiveness.

In the five countries visited by the evaluation team, with the exception of Ghana, there is generally coordination among the donors, with the country representative of the WFP playing a coordinating role by convening regular donor meetings. In a number of countries, WFP also regularly publishes important information on donor imports. While these efforts are to be commended, current coordination efforts should be expanded beyond information sharing if they are to influence cost recovery and food security.

In almost every country visited, the Title III program, by encouraging policies that promote food security, complements Title II monetization. Not only is the Title III program a useful policy tool, but its existence supports Title II monetization activities by providing needed leverage with host government officials and technical expertise in price and market analyses. In other words, in countries where Title II and Title III programs function in a coordinated fashion, Title II monetization sales are usually easier to carry out. Unfortunately, Title III funding continues to be reduced. As this occurs, USAID Missions and Title II CSs will lose a very valuable tool for influencing host government agricultural policies. This will have negative implications for Title II monetization.

CSs invariably struggle to recover the full cost of monetization when the commodity chosen for monetization is also being imported (and subsidized) through USDA's EEP. In Ghana, for example, monetization's cost recovery goals conflict with the market development goals of the EEP. Regular and improved coordination between the USAID Missions and EEP officials will promote early detection of potential conflicts and prevent CSs from selling U.S. commodities at below FAS prices. In countries where commodities are sold through the EEP, CSs should identify these commodities at the outset and select different commodities for Title II monetization.

e. Improving Price and Commodity Information

If CSs are to improve cost recovery, it is essential that they receive accurate, timely, and updated price information. Alternatively, CSs must realize that accurate price information is dependent upon clear and detailed commodity specifications and grades.

Although FFP does have a system for providing price quotes, too many CSs in the field were unaware or confused by the system. With today's technological advances and increasing access by CSs to information on the Internet, FFP should work with USDA to expedite transmission of accurate price information on a daily basis to the field through sources such as the Internet. In addition, FFP, Missions, and CSs should redouble their efforts to ensure that field units have the technical knowledge required to select the appropriate commodity type or quality that will achieve the desired cost recover and food security objectives.

In addition, all players involved in monetization need to better distinguish between the host of prices used throughout the planning and execution of a monetization sale in order to determine cost recovery. Price indicators are different than price quotes, which differ still from price actuals found in shipping documentation. Each of these prices is important for different reasons at different stages in the sales process. The specific uses of these prices and the manner for obtaining them need to be clarified.

f. More Attention to Commodity Selection

Not surprisingly, the choice of commodity can have a direct relationship to cost recovery, as the five field reviews illustrate. For example, CSs in Peru and Ethiopia had successful cost recovery results because they have monetized commodities for which there is strong market demand and that are not subject to downward price pressures, such as subsidized price requirements of the host government, competition from the EEP, or EU-subsidized exports.

On the other hand, CSs in Ghana and Mozambique could improve cost recovery results by avoiding some of the commodities they have monetized in the past. In all participating countries, but especially those where Title II monetization is subject to downward price pressures, CSs should devote more time to exploring all available alternative commodities to determine which ones will generate the highest revenues, as well as have the potential for achieving ancillary

impacts and avoiding disincentive effects. Paying more attention to commodity selection requires a change in the mindsets of many CSs and USAID Missions, which for years have been selling the same commodity to the same buyer more for purposes of convenience than for cost implications. On the other hand, paying more attention to commodity selection requires a significant financial and time commitment, and the possible break in well-established business relationships, that some CSs and field Missions cannot afford.

g. Timely Commodity Approvals

As noted above, CSs selling Title II commodities are often at a disadvantage in commercial markets because they cannot guarantee delivery for a given date. When a purchaser lacks confidence that a commodity will arrive as scheduled, it is reflected in a lower sales price. For example, delays negatively affected cost recovery in Mozambique and also in Ghana, where a late shipment caused problems with millers who had planned to mill the wheat into flour at a particular time of the year. On another occasion, the Ghana monetization program was disrupted when a shipment arrived ahead of schedule. Several other countries have also reported problems due to shipments failing to arrive on schedule.

It is unclear whether these delays are generally the result of action or inaction by FFP, USDA, or other stakeholders. Regardless, to help avert delays and other scheduling problems, FFP needs to expedite and further streamline its decision-making, follow-up on delivery schedules for Title II monetization commodities very carefully, and stay in close touch with USDA officials responsible for purchasing and shipping Title II commodities. For example, several Cooperating Sponsors explained that in the past they have delayed negotiations with buyers and decisions to submit call forward requests for monetization because they had not received official notification of project approval. As FFP encourages well-planned sales where commodities are sold when prices are highest and disincentive risks are minimal, it must also attempt to avoid unnecessary delays that undermine a CS's ability to do the above.

h. Careful Attention to Payment of Local Taxes or Duties

Current practices regarding the payment of taxes, duties, or other levies on monetized commodities vary from country to country. The *Monetization Field Manual* states that "Title II and Section 416 (b) commodities imported for monetization may . . . be taxed by the host government, even though taxation is clearly prohibited by Regulations 10 and 11 for commodities imported for distribution through direct feeding programs."[6] CSs in Benin, Bolivia, Burkina Faso, Guinea Bissau, and Uganda paid customs duties on Title II monetized commodities in FY 94. However, most CSs do not pay taxes or duties on commodities for monetization due to host-country agreements that permit the tax-free import of all donated

[6]Monetization Field Manual, August 1988, p. 24.

Title II commodities. CSs in Ethiopia recently refused a request by the Ministry of Finance to pay customs duties on monetized commodities.

Exemption from duty does give the organization monetizing Title II commodities and its prospective purchasers a significant, perhaps unfair, advantage over other institutions in the market place. If a CS's tax-exempt status poses unfair competition to private traders, this situation could single-handedly damage prospects for sustainable development by excluding the participation of small traders in the local market. It is critical, then, that a Title II monetization sale reflect a commercial transaction, regardless of whether or not the CS has tax-exempt status.

Nonetheless, if CSs currently paying duty were no longer required to do so, more proceeds would be available to support their Title II activities. Because of this, it is important to consider the amount each CS is being taxed and how this affects programming. CSs generally do not report the rate at which they are being taxed by a host government. Nor does FFP formally request this information. More attention should be given to the effects of non-payment or payment of taxes, in terms of disrupting the local market, in the case of the former, and limiting the proceeds available for programming, in the case of the latter.

The Peru monetization offers an excellent solution to the tax issue and a model for other monetization programs to test. The Peruvian Government requires that monetization sales replicate regular commercial transactions. Purchasers of Title II commodities pay the same taxes as commercial purchasers. But the Peruvian Government then allows the monetization program to retain those taxes and duties, which would normally be levied, as a host country counterpart contribution. FFP should work with Missions and CSs to encourage the negotiation of similar agreements in countries where tax practices are deemed problematic.

I. Protecting the Value of Sales Proceeds

As a general rule, CSs have a good record of maintaining local currency generated from monetization in separate interest-bearing accounts.[7] The ability to maintain these accounts in U.S. dollars represents protection against the possible devaluation of the local currency, as well as the opportunity to obtain interest on them.

The alleviation of a recipient country's foreign exchange constraints is a subordinate and difficult-to-measure goal of monetization. The contribution of monetization to this goal is postponed, if the re-conversion of sales proceeds into local currency is delayed until project expenditures are to be made. When project disruption is due to local currency devaluation or inflation, modest postponement of the foreign exchange benefit seems a small price to pay. Moreover, since CSs are being encouraged to "act commercially" in the monetization, it seems

[7] There are some countries (such as Ethiopia) where banks will not pay interest unless funds are kept in the bank for at least one year.

contradictory to then restrict their ability to protect the proceeds from devaluation by converting them to dollars.

Ghana and Mozambique, as well as four other countries where monetization sales occurred in FY 94, experienced devaluation and exchange-rate problems. In Peru and Indonesia, on the other hand, this problem was less disruptive because proceeds were kept in dollars. Currently, there is confusion on the part of CSs as to whether or not monetization sales proceeds can be converted into dollars as a method of maintaining their value. FFP should consider changes to or clarify guidelines in order to allow CSs to convert monetization proceeds to dollars or to maintain "dollar denominated" accounts in order to preserve the value of the proceeds generated.

B. ISSUES RELATED TO ACHIEVING ANCILLARY IMPACTS

1. The Distinct Feature of Monetization

A cost recovery analysis allows a donor to compare the amount of revenues generated from a monetization sale to the total costs incurred by both the donor and the CS in executing the sale. This calculation involves simple math with defined variables, but the distinct feature of monetization is found outside of this equation.

Monetization is defined by its potential for contributing positively to the food security of a given country, region, or locale, above and beyond the end use impact of generating funds for development activities. This is not to say that monetization is never damaging. A poorly planned monetization can threaten sustainable development by disrupting local markets. There are also cases where the food supplied through monetization may have little impact on the host country because it simply replaces other commercial imports at the same price and through similar channels. Depending upon the unique features of the market, a supply of Title II food into that market may have positive, neutral, or negative effects on food security.

2. The Supply Impact

Monetization makes available a supply of food in the market, regardless of whether there is a demand for more food. Maximizing on the distinct feature of monetization, therefore, requires a thorough understanding of the potential impacts, both positive and negative, of the supply of food to the market. This *supply impact* has implications for local producers, other suppliers, traders, and consumers.

Title II monetization takes place in countries considered to be food insecure. Many are "food deficit" countries that do not produce enough food to meet domestic needs. In other countries not formally designated as "food deficit," national aggregate food availability may match nutritional requirements, but lack of economic access to food, due to factors such as inequitable purchasing power, poor internal distribution, and policies that skew income distribution, may create significant food insecurity problems.

Whether or not a country is formally designated as "food deficit", monetization may provide important food security benefits by creating a net addition to the national food supply without requiring any additional expenditure of foreign exchange. As a result, the overall food balance sheet may be more favorable than it would otherwise be. On the other hand, the most food insecure populations, which Title II food aid seeks to target, may not benefit from the net addition of food created through the monetization. In other words, these additional commodities may have positive impacts on national and household food security, which could not be achieved by simply converting a comparable amount of dollar resources to local currency, but such an impact is difficult to measure.

A monetization can also influence competition among exporters. For example, a Title II commodity sale may replace other imports, some of which may have come from food insecure developing countries. Monetization may undermine the ability of these fledgling exporters to capture enough export opportunities to meet their need for foreign currency.

Depending upon the way commodities are sold, monetizations may influence market structure. In markets where the sales environment is limited to a few powerful buyers who extract large premiums, a well-organized sale may improve the way a market functions if it provides an opportunity for others to participate. Adequate competition in market economies is required to ensure that price spreads between consumers and producers are minimized given the costs involved. In Uganda, ACDI uses frequent small-lot sales of vegetable oil, for example, to help maintain competition among wholesalers. In Ethiopia, the vegetable oil imported for monetization appears to have a stabilizing effect on free market prices. However, monetization may also damage market structures. In markets where merchants are providing supplies at a reasonable price, Title II commodities that are sold below local market prices could compete unfairly with merchants holding inventory and potentially reduce the long term functioning of the market.

Monetizations can also make it possible for women's groups or other vulnerable sectors to participate in the market as a means of making a living. Through the use of small-lots and more lenient terms of sale, for example, Africare in Guinea Bissau has increased the participation of small and medium sized traders. In Guinea, Africare plans to identify traders who sell beyond the urban market and can move commodities to rural areas of the country where food insecurity is greater. The addition of players in a market has the potential to improve the functioning of the market as well as to open possibilities for income generation by vulnerable groups.

3. Understanding the Market

A niche for a monetization depends not only on the expected returns from the sale but on the food security impacts of adding food to the market. Determining if there is a niche for monetizing Title II commodities in a particular country therefore requires an understanding of the local market. Studying markets is critical because market systems have profound implications for vulnerable people, and effective food programming depends upon an understanding of local markets.

Markets represent a delicate balance between producers and consumers, through which consumers procure required foodstuffs and producers receive the income required to live and produce subsequent crops. In markets that are dominated by private traders, competition is required to translate consumer requirements to producers and to bring products to consumers in a cost effective manner.[8] Maintaining competition through time requires a balance among

[8]Markets with less competition can generally be expected to translate consumer needs to producers but at higher costs.

competitors in terms of access to capital and products. Monetization potentially has a significant impact both on the balance between producers and consumers as measured through market prices and on the balance between traders as measured by the participation and degree of competition in the market. A thorough and ongoing understanding of local markets enables a CS to identify these potential impacts.

For most CSs, it is not cost-effective to understand the entire food market. A successful monetization does require, however, an understanding of the broad market setting well enough to determine possible opportunities, and then an understanding of these markets in sufficient detail to understand the implications of intervening. The work is analogous to a commodity firm looking for opportunities. It will not understand all the components of the food market, just those areas where there may be opportunities. However, investment will be made to develop a thorough understanding in those areas.

Demonstration of potential food security impacts of a monetization typically requires the identification of a "market failure." Alternatively stated, it is necessary to identify stages in the market where price spreads exceed the costs. In addition, the CS will need to understand why the market has failed and how a monetization will have an impact on reducing the possibilities for failure in the future. In short, in order to have a food security impact, the CS must identify a problem and identify how Title II resources will have a positive impact on the solution through the monetization.

In addition to determining opportunities, market analyses provide the CS with guidance on how to execute the monetization. Market analyses identify suggested methods of determining the price, specific requirements of the commodity, timing considerations, and potential risks. The data in a market analysis will provide the information required to do a Bellmon Analysis properly. Ultimately, most management decisions taken during the successful execution of the sale are often based on the information obtained from a market analysis.

A market analysis is the key to a successful monetization, regardless of whether "success" is defined as full cost recovery, demonstration of a supply impact, avoiding disincentive effects, or a combination of the three. Good market information allows the CS to prevent individual traders from capturing the entire benefit of the transaction. Perhaps more importantly, however, market information protects the market from ill-informed actions of inexperienced traders who are not subject to the same disciplines as commercial players.

4. Current Efforts to Understand Markets

The primary tool for determining whether a positive supply impact is possible through monetization is continuous and up-to-date market information. Equally important, this same information alerts a CS to possible disincentive effects. Despite the recognition by most food aid players of the need for and value of market information, understanding markets is most often not a high priority in terms of staff time and financial resources dedicated to this activity. In most

instances, CSs and Missions still see Title II monetization first and foremost as a means to obtain needed resources. Rarely is it seen as a way of programming food aid.

Very few Title II CSs or Missions approach monetization as a means to address a defined food security problem. Even fewer have succeeded in quantitatively documenting evidence of the food security results achieved through monetization, such as a liberalized market, improved food marketing system, or increased supply of needed commodities to a food-deficit region at a reasonable price. There is little evidence that CSs or Missions track market trends before, during, and after a Title II commodity sale to uncover additional opportunities to enhance food security.

Most common are project proposals and corresponding Mission endorsements that do no more than justify the need for monetization by concluding that the Title II commodity is needed and unlikely to exert discernable negative economic effects at the macro level. This is most often done by demonstrating that the recipient country requires commercial food imports and/or demonstrating that Title II commodities represent only a very small percentage of the total market for that commodity in the host country's overall economy.

There are several problems arising from this kind of over-simplified analysis. First, these conclusions represent a common failure on the part of CSs and Missions to acknowledge that monetizations that simply replace commercial imports in central, and often non-competitive, markets may not have any impact on food security unless the sales methodology impacts directly on the structure of the market. Second, they also suggest a failure to recognize that, although Title II imports may not have disincentive effects at the macro level, overall donor imports may significantly influence the host country's economy. Title II commodities cannot be analyzed in a vacuum and without regard for other donor imports and subsidy programs. Third, these conclusions do not consider the possibility that Title II imports may have a detrimental impact at the township, county, or local level. In countries where the decision to monetize is made without a substantive and thorough market analysis to support it, the validity of a CS's Bellmon analysis and the degree of Mission scrutiny in certifying the Bellmon, as required by Regulation 11, are questionable.

5. Constraints and Opportunities

On the one hand, the constraints on identifying where a monetization makes sense and then demonstrating the impact achieved are significant, thereby lending reason to the failure of Title II CSs to succeed in these efforts. Yet, demonstrating the effectiveness of monetization, both as a resource and a development programming tool, is critical to the overall success of the Title II program. CSs, Missions, and FFP must all work together to ensure that the necessary elements are in place to demonstrate that monetization is an efficient and effective tool for achieving food security objectives.

Primary constraints to achieving ancillary impacts are the cost, level of effort, and time required to undertake a market analysis and to remain informed of market trends. Most CSs and Missions currently do not dedicate enough time and money to this effort. Rather, they focus, first and foremost, not on the sale but on implementing the food aid activity supported by the proceeds generated. This is understandable, for CSs are generally not commodity traders by nature but key implementors of development activities. To design and execute successful commodity sales that influence market structure and increase participation, CSs must acquire in-house expertise or access to outside technical assistance in commodity trading. Regardless of where the technical expertise is obtained, the funds required are often insufficiently budgeted for in project proposals.

In addition, many of the CSs interviewed see the emphasis on market analysis as Washington-driven. This adds to the lack of coordination and motivation in the field to dedicate time and money to this activity. Without coordination of Mission, CS, and host country resources -- financial, data, and technical -- it is difficult to conduct a comprehensive analysis.

Another serious constraint to achieving ancillary impacts is that Title II commodities are often sold through negotiated contracts to parastatals, government agencies, monopolies, or oligopolies, as was the case in many of the sales that occurred in FY 94. Very few Title II monetizations occur through small-scale auctions or tenders targeted to food insecure areas. These types of sales, where the process of monetizing becomes a "project" in itself, are more likely to exert a discernable supply impact than the typical larger-scale Title II monetizations held in non-competitive markets. The fact that many Title II monetizations still contribute to price fixing and state trading suggests that increasingly scarce Title II monetization resources could be better utilized to achieve USAID's food security and economic growth objectives.

There are ways to reduce or overcome these constraints. If CSs and Missions would combine resources and expertise to tackle the task of finding a niche for monetization, the results would be more defendable monetizations. Projects benefitting from exemplary coordination, extensive data collection, ongoing tracking of market trends, and a general understanding of markets are located in countries like Peru, Ethiopia, and Bangladesh where Missions and CSs have close working relationships. In these three countries, the Missions, primarily through their Title III programs, provide Title II CSs with extensive market information, technical assistance, and needed leverage in dealing with host governments. Because of this, the implications of decreased Title III funding on Title II monetization should be seriously considered. Nonetheless, Missions are often staffed with agricultural officers and agricultural economists, whose expertise should be tapped so that Title II monetizations are better designed to achieve shared food security and market development goals.

In addition, CSs do not have to start from point zero to better understand the markets in which they work. Better utilization of information sources available in-country will translate into more informed decisions regarding when, where, how, and why to monetize. Many USAID Missions, for example, support market development and research activities, often carried out by U.S.

universities, which collect the types of data needed by those involved in monetization. U.S. Embassy agricultural attaches, other donors, local counterparts, host government agencies, and USDA's Foreign Agricultural Service are other possible sources. In addition to private traders, WFP, Famine Early Warning Systems (FEWS), Global Information Early Warning Systems (GIEWS), and local government agencies are often tracking prices in a systematic way.

Financial resources *are* available to pay for the training and technical expertise that is currently lacking but essential to executing successful monetizations. Although oftentimes not budgeted for these purposes, Section 202(e) grants, Institutional Support Grants (ISGs), and even Title II local currency proceeds are all USAID resources that are available to CS headquarters and/or field offices to absorb some of the costs involved in understanding markets and executing better planned monetizations. As Missions begin to see Title II monetization as a vehicle for achieving their own market development and food security goals, they may contribute financially to ensure that the ancillary impacts and cost recovery results that justify a monetization are achieved.

CSs themselves possess certain strengths that should be capitalized upon when monetizing. CSs, for example, often have an intimate understanding of local settings and have developed close working relationships with local partners. Because of this, they may be better suited to carry out local or regional monetizations where they or their partners have an intuitive understanding of the food marketing system.

Seeing monetization as a means of utilizing U.S. commodities to enhance the food security of vulnerable households instead of simply as a means to make money, requires a change in mind set. It demands that CSs and Missions truly understand the market environment within which they work. It will change the way Title II commodities are commonly sold and will require that CSs provide a more substantive rationale for monetization based on the specific conditions of the food market. Furthermore, FFP and Missions must have the appropriate training and skills to recognize when a CS has demonstrated that a monetization makes sense. In the end, and most importantly, this change will further strengthen the impact of food aid in addressing household food security.

6. Striking a Balance Between Achieving Ancillary Impacts and Realizing Cost Recovery Goals

Maximizing on the "returns" from monetization demands a multi-faceted approach that fully considers both cost recovery and ancillary impacts. These two factors are not separate but intricately related. While creating disincentives to local production or markets is never acceptable, there are likely to be trade-offs between achieving cost recovery and obtaining an ancillary impact. When full costs are being recovered, it may be the result of a properly functioning market, thereby limiting the prospect of using monetization to address a "market failure." Whenever full costs are not likely to be covered, a conscious judgment must be made as to whether the supply of Title II food will result in distinct food security benefits such that the additional costs are justified.

The trade-offs between achieving cost recovery and obtaining an ancillary impact take various forms. Several illustrative examples identified from both the desk and field reviews follow:

- CIF Benchmark Met - Supply Impact: In Uganda, ACDI exceeded CIF costs in all nine sales that took place in FY 94. In addition, the use of frequent small-lot sales of vegetable oil provided wholesalers with the opportunity to participate in the process and helped foster competition among them.

- CIF Benchmark Met - No Supply Impact: In Peru, commodity sales routinely exceed the CIF value of the commodities sold. Because the Title II commodities are sold according to a formula intended to "simulate" regular commercial transactions, market disruptions and disincentive effects are thereby avoided. However, the chosen sales mechanism limits opportunities to use the process itself as an independent intervention for improving food security through the achievement of a supply impact.

- FAS Benchmark Met - Supply Impact: In FY 94, Africare in Guinea Bissau conducted two monetization sales, both of which generated revenues exceeding the FAS value of the commodities sold. Neither monetization, however, recovered full CIF costs. On the other hand, Africare is one of the few CSs that considers the process of monetizing a critical food security activity. Through small-lot sales and flexible terms of sale, the Africare monetization increased the number of players in the commodity market. In addition, Africare has contracted a local organization to gather market and supply data, which is published on a daily basis.

- FAS Benchmark Not Met - Supply Impact: One of WVRD's FY 94 sales in Mozambique clearly failed to obtain FAS. On the other hand, the very market disruptions that created the difficulty in recovering the costs of monetization may have made the additional commodities even more valuable to the recipient country. In addition, the monetization has had a positive affect on the private sector institutions (traders, transporters, and contractors) involved and contributed to the encouragement of both an informal marketing system and a small-scale milling industry.

- FAS Benchmark Not Met - No Supply Impact: Although cost recovery in general has improved over the years, it is difficult to achieve cost recovery in Ghana's bulk wheat market. This is due to the oligopolistic market structure, the use of negotiated contracts, wheat subsidy programs in country, and the fact that commodity price benchmarks used by millers are usually at below-market prices. Given these factors, the monetization has not demonstrated a supply impact.

As FFP places increased emphasis on both the achievement of cost recovery and ancillary impacts, it will be faced with a dilemma. There will be only a handful of monetizations that actually succeed in reaching both cost recovery and food security goals through the process of monetizing. Others, although few in number, will be able to demonstrate some acceptable level of cost recovery to warrant the monetization. Still other proposals, even fewer in number, will be able to justify monetization through the demonstration of a strong supply rationale. The dilemma: what about the remaining monetizations, many of which will support already approved projects with food distribution activities dependent on the local currency, that fail to

score high in terms of cost recovery or ancillary impacts? The challenge will be to establish a policy that confirms the importance of cost recovery and ancillary impacts yet recognizes that there will be instances where the legislated minimum tonnage levels for monetization will exceed the number of commodity requests for monetizations with strong supply rationales or proposed sales above CIF. When the legislative minimum tonnage for monetization is not achieved towards the end of the fiscal year, FFP should consider approval of the remaining monetization proposals, giving priority to those proposals in which the use of funds has the greatest potential for achieving food security results for vulnerable people. Programming proceeds to achieve a food security impact is, of course, a primary goal of every monetization and the ultimate criterion upon which its effectiveness will be judged. A discussion of this third critical issue follows.

C. ISSUES RELATED TO PROGRAMMING PROCEEDS FOR FOOD SECURITY

1. USAID's Food Aid and Food Security Policy

In 1995, USAID clarified its policy direction regarding the role and use of food aid resources in promoting food security. It also established criteria for the review of Title II development proposals and began to review more closely the proposed uses of Title II proceeds generated through monetization. The *Food Aid and Food Security Policy Paper* of February 1995, USAID's primary policy document for food aid activities, including monetization, states the following:

> In general, USAID believes programs designed to enhance agricultural productivity and improve household nutrition have the greatest potential for sustained improvements in food security. This is true in countries where substantial numbers of the poor depend on agriculture for food or income, such as countries in sub-Saharan Africa and South Asia.

The Policy's emphasis on agricultural productivity and improved household nutrition flows from the clear geographical food security priorities in Sub-Saharan Africa and South Asia, reflected throughout the document. Additionally, the Policy states that:

> . . . Other programs which can clearly be shown to improve food security, for example, by increasing incomes in rural and urban areas through economic and community development and by promoting sound environmental practices, will also be considered.

The Policy also explicitly recognizes that food aid may be targeted to other regions of the world or program areas, saying:

> . . . USAID will continue to approve other food activities in other regions of the world and in other program areas (particularly for Title II development programs). In such cases, approval will depend on the ability of field managers to demonstrate that resources will have a sustained impact on food security.

Shortly after the finalization of USAID's Food Aid and Food Security Policy, FFP published its annual guidelines for the submission of Title II development proposals. Unique to the FY 96 interim guidelines was the recognition that any proposed monetization would be reviewed as an integral component of the Title II proposal. CSs were asked to describe how the proceeds would be used to support the activities proposed and explain how the monetization would enhance the overall project by having an additional impact on food security.

Throughout the FY 96 review cycle, USAID's Food Aid and Food Security Policy provided the basis for the review of Title II proposals. During the reviews, FFP often raised the question of whether monetization funds directly supported activities aimed at increasing agricultural productivity or improving household nutrition.

Indeed, the evaluation team discovered this issue to be the topic of great concern during interviews. Many sought further clarification regarding whether Title II local currency could be used to support income-generation activities. The Policy does allow for consideration of activities such as income generation, as long as there is a direct link to improved food security. On the other hand, the new Policy does not assign these activities a high priority.

2. Monetization and the Relief - Development Continuum

Title II projects address food security needs at various levels. At one end of the continuum, minimum nutritional needs can be met by participation in feeding and relief programs in which the nutritional condition of the beneficiaries is not expected to improve substantially, but would deteriorate seriously without food aid. This kind of food security permits short-term survival. It is a far cry, however, from the permanent, self-sustaining ability to purchase an adequate (or better) diet at market prices in commercial outlets. Title II development activities strive to bring about this kind of long-term, sustainable food security outcome.

Proceeds generated from monetization currently support Title II activities that are placed at various points along the relief-development continuum. At one end of the continuum, where institutional feeding programs sometimes do no more than distribute food, local currency from monetization may pay for part of the logistical costs of delivering Title II commodities. Because the beneficiaries are often young children or the elderly, assuring immediate survival is the exclusive goal. Also at this end of the continuum, monetization is used to provide local currency to meet the immediate cash needs of a relief activity involving food distribution. Because food distribution in areas of frequent drought and protracted civil conflict can create dependency, USAID is now stressing the need for relief programs to become more developmentally-oriented, in order to help families return as soon as possible to productive lives. Monetization can also provide the resources needed to make a relief activity more developmental, e.g. through the provision of FFW inputs.

By far the largest number of monetization-supported activities combine the humanitarian goal of meeting immediate nutritional needs with longer-term developmental objectives. In MCH projects in many countries, monetization funds are used to provide mothers and children with health and nutrition services, education, and training while Title II food provides the incentive for beneficiaries to participate. In the Bangladesh IFFD project, workers receive Title II FFW food while monetization proceeds pay for materials and supervisory personnel to repair farm-to-market roads. In Ethiopia, Title II commodities and monetization proceeds are also combined in diverse activities that include preserving top soil and preventing erosion, capping springs and digging wells for potable water, constructing small irrigation dams, and building latrines. In these partial monetization projects, local currency proceeds normally cover both the logistical costs of getting the food to project participants <u>and</u> the costs of complementary development activities. Mindful of the need to avoid dependency on donated commodities, some monetization-supported activities also include a time-table for phasing out food distribution, while leaving the complementary development activities in place.

Sometimes 100 percent monetizations take place at the far end of the continuum. In Uganda, for instance, ACDI imports Title II vegetable oil and sells all of it, using the proceeds to strengthen that country's domestic edible oil production and processing capabilities. In the case of 100 percent monetization projects, project costs may be covered entirely or partially by monetization proceeds.

3. Overview of Monetization-Supported Title II Activities

Figure 6 identifies by country and CS the variety of activities carried out with local currencies generated by monetization during FY 94. These run the gamut from the purely humanitarian to more sustainable development activities.

FIGURE 6

ACTIVITIES FUNDED BY TITLE II MONETIZATION DURING FY 94
(Note: shaded areas indicate 100 percent monetization activities)

COUNTRY/CS	ACTIVITIES FUNDED BY TITLE II MONETIZATION
Bangladesh/CARE	Logistics/operations of Rural Road Network component (FFW), including reimbursements to local government for contracting costs of building bridges and culverts. Disaster preparedness activities.
Benin/CRS	Logistics/operations of MCH, OCF and GR activities. Health training for MCH mothers.
Bolivia/ADRA	Logistics/operations of FFW, GR, SF, and OCF activities and administrative costs of inter-agency monetization program. Local food purchases for FFW; FFW materials; inputs for on-site lunches and daycare (FFW); micro-enterprise activity for women.
Bolivia/CARITAS	Logistics/operations of FFW, SF, GR, and OCF and administrative costs of inter-agency monetization program. Local food purchases to support all distribution activities; FFW materials; inputs for on-site lunches and daycare (FFW); Child Survival activities; and rural development activities, including soil conservation, forestation, micro-enterprise development, and rotating fund.
Bolivia/FHI	Logistics/operations of SF and GR, and administrative costs of inter-agency monetization program. Local food purchases for SF; inputs for rural program; micro-enterprise activity for women; and personnel and transport for child survival project.
Bolivia/PCI	Logistics/operations of FFW, SF, GR, and OCF, and management of inter-agency monetization program. Local food purchases for all distribution activities; materials for FFW; cooking utensils for SF; and support to OCF day care centers.
Burkina Faso/CRS	Logistics/operations of SF, FFW, and GR. Training for SF and FFW and emergency preparedness activities.
Cape Verde/ACDI	Operational support and credit for watershed management and micro-enterprise activities.
Dominican Republic/CARE	Logistics/operations of MCH, urban FFW, and school sanitation and hygiene education. Materials, mostly FFW inputs, and some training. Support to Disaster Planning Project.
Ecuador/CARE	Financial support to local and international NGOs for construction of productive infrastructure and small-scale environmental projects. *(Project implementation did not begin until FY 95)*
Eritrea/CRS	Logistics/operations of SF activities. *(All proceeds carried over to FY 95)*

Ethiopia/CARE	Logistics/operations of FFW (roads, water, sanitation, agro-forestry, and school construction). Material inputs for FFW; some training; and support to CARE Ethiopia Food Information System (CEFIS).
Ethiopia/CRS	Logistics/operations of FFW, Missionaries of Charity, MCH, CFW, OCF, and GR. Material purchases and training for FFW, MCH, and CFW activities.
Ethiopia/EOC	Logistics/operations of FFW activities. Material inputs and training .
Ethiopia/FHI	Logistics/operations of FFW. Seeds, tools, agricultural materials, and training for FFW. Operations and inputs for Health Program and Water Program.
Ethiopia/SCF	*No information reported.*
Ethiopia/WVRD	Logistics/operations of FFW (agricultural production, reforestation and soil/water conservation, nursery/planting, and infrastructure development activities). Training and income generation activities for beneficiaries.
Gambia/CRS	Logistics/operations of MCH and GR. MCH consists of Health and Nutrition Institutional Support Project (HNIS) and Sesame Growers Association (SGA) Strengthening and Institutionalization project. MCH inputs; beneficiary training; and maternal supplements pilot under HNIS project. Also, training in agricultural diversification; micro-enterprise programs; and village banking activities under the SGA project.
Ghana/ADRA	Logistics/operations of FFW (agroforestry, construction of schools, hand-dug wells, latrines, and clinics), GR, OCF. Mostly FFW inputs.
Ghana/CRS	Logistics/operations of mostly MCH and SF, with some support to GR, PCF, OCF, and FFW (school and clinic construction). Local food purchases, motorcycles, and training for MCH, SF, GR, PCF, OCF, and FFW. Local food purchases and training for Primary Health. Support to Community Grain Banking activities.
Ghana/ TechnoServe	Support to CEDI trust administration; staff and beneficiary training; palm oil processing and marketing activities; cereal storage and marketing activities; non-traditional export development activities; and research and development.
Guatemala/CARE	Logistics/operations of MCH. Warehouse construction. Technical assistance and training to Family Food Production pilot activity for MCH beneficiaries. Support to agroforestry and conservation activities. Support to Rural Water and Health II project, which consists of construction/maintenance of water systems and complementary development activities.
Guatemala/CRS	Logistics/operations of Primary Health Care/MCH and Sustainable Agriculture/FFW programs. Credit for village banking project targeting MCH beneficiaries; training and Technical assistance for MCH; and inputs for FFW.
Guatemala/ SHARE	Logistics/operations of MCH and FFW (agricultural infrastructure). Materials and training for MCH and FFW. Supports Communal Funds program targeting MCH beneficiaries. Costs related to Natural Resource Conservation program.
Guinea Bissau/Africare	Support to small rural associations through training, credit activities (power, water, and sanitation), and technical assistance.
Honduras/CARE	Logistics/operations of MCH and FFW (agricultural infrastructure). Materials and training for MCH and FFW. Supports Communal Funds program targeting MCH beneficiaries. Costs related to Natural Resource Conservation program.
Honduras/CHF	Supports Family Sanitation and Health Program through Technical assistance, training, and financing to local NGOs. NGOs then provide small-scale loans to poor for sanitation improvements.

India/CARE	Logistics/operations of MCH/ICDS project. Also supports 6 Acute Respiratory Infection (ARI) projects; 2 Continuing Health Education projects; 1 bee keeping project; 2 Savings and Loan Association projects; 1 dairy project; 1 bio-intensive gardening project. All target ICDS beneficiaries.
Indonesia/CRS	Logistics/operations of MCH and FFW (construction of dams, irrigation/drainage systems, water conservation structures). Training to village-level health institutions; FFW inputs; support to local NGOs to provide credit to MCH participants to increase off-farm income; support to a Small-Enterprise Development matching grant project.
Kenya/CRS	Logistics/operations of MCH, FFW (agriculture and infrastructure development), and GR. Training and Technical assistance for MCH.
Kenya/FHI	Supports operations and inputs for activities such as demonstration plots, training of women's groups, tree planting, livestock improvement, and environmental awareness and conservation. Activities consist of FFW with locally purchased commodities and income generation activities.
Morocco/CRS	Supports logistics/operations, training and technical assistance, and capital equipment purchases for two distinct activities. The Development Support Fund provides management and computer training and institutional capacity training to a government counterpart in order to upgrade social welfare and training programs. The Water and Health Development project provides potable water, construction of sanitation facilities, and delivery of health education to targeted villages.
Mozambique/ WVRD	Logistics/operations of GR and FFW. Some FFW and institutional feeding inputs, but the majority of funds cover local food purchases to be distributed in emergencies in institutional feeding or FFW programs.
Peru/ADRA	*Information Not Reported.*
Peru/CARE	Logistics/operations of PRODIA/Community kitchens and Altura/FFW (agroforestry) activities. Training, technical assistance, family gardens, and revolving funds for food purchases for PRODIA kitchens; FFW materials and training for Altura; credit and training for women operating PRODIA kitchens; and equipment, credit, and training for income generation activities.
Peru/CARITAS	Logistics/operations of FFW (social and health infrastructure), MCH, OCF, PCF. Training and technical assistance, material inputs, and local food purchases for pilot project in remote jungle region
Peru/Prisma	Logistics/operations of PANFAR/MCH nutrition surveillance project and Kusiayllu project/MCH target acutely malnourished. Training and technical assistance for PANFAR and Kusiayllu; weaning food pilot project; nutritional surveillance support; and inputs for Kusiallyu.
Philippines/CARE	*No Information Reported*
Philippines/CRS	*No Information Reported*
Sierra Leone/CRS	Logistics/operations of MCH, SF, FFW, and GR. SF and MCH inputs.
Togo/CRS	Logistics/operations of MCH and GR; MCH supplies (scales and utensils), educational materials, and training.
Togo/OIC	Operations and inputs for training and resettlement activities.
Uganda/ACDI	Supports operations; provides agricultural credit to small farmers, banks, and edible oil industry; supports recapitalization of Cooperative Bank; provides grants for oil seed production, institutional support, retrenchment fund, and discretionary uses.

In summary, FY 94 Title II local currency proceeds, generated over several fiscal years, supported 43 projects in 24 countries. Thirty-four of these projects included food distribution activities. A large portion of monetization proceeds thus continues to support the direct

distribution of food, in line with the statutory requirement to "feed hungry people." This is consistent with the first obligation of CSs, which is to apply monetization proceeds to support the logistics and operations of their food distribution activities while also using the currency generated to make these food security activities more sustainable.

4. Implications of the Food Aid and Food Security Policy on Future Uses of Title II Local Currency

For the purposes of this evaluation, an attempt was made to categorize, to the extent possible, the enormous range of uses of Title II local currency proceeds[9]. Under each of the headings below, the implications of the Food Aid and Food Security Policy on future monetization funding for the purposes highlighted are discussed. In fairness to the CSs, it is important to note that the activities discussed below were designed and approved by FFP prior to the issuance of the Food Aid and Food Security Policy. Many still continue today under previously approved operational plans or as part of newly approved multi-year proposals.

a. FFW Inputs

Of the 39 projects reporting, 20 used local currency generated through monetization to support FFW activities, primarily through the purchase of materials, payment of construction costs, and training.

To determine whether the purchase of FFW inputs is an appropriate use of monetization funds, it is necessary to know the type of FFW activity being implemented. FFW activities include but are not limited to the following: road rehabilitation, water and sanitation, agro-forestry, school construction, agricultural production, soil conservation, and clinic construction. School construction is questionable under the new Policy. In the past, some FFW activities consisted of building or repairing sidewalks and village plazas. If these activities are still being implemented, they would also be questionable with regard to their direct link to food security. Other FFW activities are only vaguely described under labels such as "social infrastructure."

Monetization in support of FFW activities is an appropriate, popular, and effective use of Title II local currency *as long as* the FFW activities themselves support increased agricultural productivity or improved household nutrition. The difficulty is that CSs typically do not present in sufficient detail the types of interventions being subsumed under FFW or the specific FFW costs supported by Title II local currency. Without knowledge of this information, it is difficult to make a judgement regarding whether the use of the local currency proceeds is consistent with the Policy.

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[9]In categorizing uses, there may be some overlap or duplication. For example, local food purchases may be noted under both "Local Food Purchases" and "FFW Inputs" categories.

b. Logistics/Operations of Institutional Feeding Activities

Title II local currency proceeds support the costs of carrying out institutional feeding activities in approximately 17 of the 39 projects reporting. Emphasizing the need to allocate scarce food aid resources to areas where a measurable food security impact can be demonstrated, the Policy accords lesser priority to institutional feeding activities. As the number of institutional feeding activities decrease, monetized proceeds allocated to this category should decrease proportionately. Alternatively, monetization funding, in combination with improved targeting, can be used to make these strictly humanitarian interventions more developmental.

c. MCH Inputs

Local currency generated through Title II monetization is programmed to support MCH initiatives in 15 of the 39 projects reporting. Through the purchase of materials, such as weigh scales and educational booklets, and training of health promoters and project beneficiaries, monetization complements the direct distribution of Title II commodities and contributes to sustained improvements in household nutrition. This activity is encouraged in the Food Aid and Food Security Policy.

d. Income Generation/Credit Activities

Of the 39 projects reporting, 15 projects used monetization funds to carry out income-generation or credit activities. Although some of these activities targeted women participating in Title II MCH interventions, the relationship of the credit activity to the other Title II project interventions was oftentimes not clear. Rarely were the income generation activities described in sufficient detail. As the Policy accords lesser priority to activities that do not aim to increase agricultural productivity or improve household nutrition, it is likely that monetization funds will not be approved to support income generation activities that do not support one of these objectives. To date, CSs do not provide FFP with sufficient information to determine whether the activities themselves are consistent with the Policy. CSs who have used local currency funds in the past to carry out income generation activities will have to better justify the appropriateness of Title II monetization and the specific contributions to food security of the range of activities implemented.

e. Local Food Purchases

In nine projects, monetization supported the purchase of local commodities for use in food distribution activities. Local foods often supplemented the Title II ration mix used in FFW, MCH, and SF interventions. In Kenya, on the other hand, FHI monetized all of its Title II commodities to carry out a FFW activity using only local food purchases.

There is ambivalence on the part of some USAID Mission staff in the countries visited about the appropriateness of monetizing Title II commodities to purchase local commodities. Under certain circumstances, however, the purchase of local commodities can be very appropriate and beneficial to food security. In Mozambique, WVRD encouraged domestic agricultural productivity by buying a surplus of local grain in one area, and then distributing this preferred staple within a food-deficit region of the country. In Peru, buying and distributing local commodities in remote areas has been more cost effective than transporting similar U.S. commodities.

The sale of Title II products to buy local commodities may be justified by a savings in transport and handling costs, increased nutritional efficiency, and incentives for local production and marketing. Although the Policy does not specifically address the issue of local food purchases, these benefits are consistent with the Policy. Nevertheless, there may also be additional costs associated with the purchase of local commodities, such as the payment of customs taxes on monetized commodities, which must also be considered. FFP should encourage the purchase of local commodities for use in Title II projects, as long as CSs clearly demonstrate the economic or food security benefits to be gained, as well as their own administrative capability for managing such transactions, and perform a cost-benefit analysis to justify any additional costs or highlight any cost savings.

f. Logistics/Operations of School Feeding (SF)

Title II local currency supports SF activities in seven of the 39 projects reporting. The Policy is silent on the issue of whether SF is an appropriate intervention for addressing food security. During its FY 96 review of Title II development proposals, FFP frequently questioned the sustainability of SF and the lack of evidence of a nutritional impact on SF beneficiaries. The current trend to reduce SF will likely result in less local currency being approved to support this intervention. However, if CSs develop more innovative approaches to SF, monetization may be a needed resource for accomplishing the established objective.

g. Water and Sanitation Activities

In seven of the 39 projects, proceeds generated through monetization support water and/or sanitation activities. This continues to be an appropriate use of Title II monetization funds because of the link between these activities and improved household nutrition. In fact, improved water and sanitation infrastructure, services, and practices is an important intermediate result in FFP's draft strategic plan.

h. Natural Resource Conservation Activities

Of the 39 projects reporting, six projects include natural resource conservation activities funded through Title II monetization. This activity continues to be an appropriate use of Title II monetization funds because it contributes to increased agricultural productivity. In fact,

improved natural resource management practices in marginal areas is another intermediate result in FFP's draft strategic plan.

i. Disaster Preparedness Activities

Three of the 39 projects reporting include disaster preparedness activities funded by proceeds generated through monetization. The Policy's focus on transition strategies, including the ability of vulnerable groups to protect themselves from food insecurity resulting from natural disasters, supports the continuation of disaster preparedness activities. However, project proposals for these types of activities often lack the detail needed to determine whether the activities themselves are well-conceived, justified, and integrated into the overall Title II project. In the future, these types of activities are likely to be reviewed with greater scrutiny.

j. Other Activities

Monetization allows for a certain flexibility and creativity in the way a CS approaches food aid and food security. For this reason, a number of innovative uses of local currency is evident in the analysis of FY 94 Title II projects supported by monetization. These include:

- support to community grain banking activities;
- maintenance of a CARE Ethiopia Food Information System (CEFIS);
- support for a trust, through which palm oil processing and marketing, cereal storage and marketing, research and development, and non-traditional export development activities are carried out;
- grants to local non-governmental organizations;
- family food production pilot activities;
- management, computer, and institutional development training to a government counterpart agency in order to upgrade social welfare programs; and,
- a weaning food pilot project.

While a distinct benefit of monetization is the ability to use the local currency innovatively, the issue is whether the local currency is programmed in ways that address the critical food security needs of the target population. Providing management, computer, and institutional capacity training or promoting non-traditional export development may be worthwhile development activities, but more justification is needed to defend these activities in terms of their impact on food security.

5. The Status of "100 Percent Monetization" Projects

FFP has stated that all monetization-supported projects, whether they do or do not involve food distribution, must have demonstrable potential for increasing food security as defined by USAID's Food Aid and Food Security Policy Paper. These new criteria could drastically affect some of the current Title II projects labeled as 100 percent monetization activities. The nine 100 percent monetization projects in FY 94 related, to varying degrees, to food security as defined in the Policy. These activities and the uses of the local currency generated are shaded in Figure 6.

With new emphasis on using monetization only for activities deemed likely to increase food security as opposed to all other development goals, the commodities available for 100 percent monetization projects will have to be programmed more precisely and narrowly. In addition, with food distribution activities likely to continue at high levels and with rising logistical costs, the additional tonnage available for monetization will be limited. Food distribution projects that already rely heavily on commodity sales to cover logistical costs will become even more dependent on local currency proceeds in the future. In other words, the built-in dynamics of monetization, combined with mounting economic pressures, will limit still further the monetization proceeds available to fund non-food distribution activities aimed at improving food security.

Given this scenario, 100 percent monetization activities should be given equal priority as food distribution activities as long as the following conditions are met: 1) the proposed activity aims to demonstrate direct and measurable impacts on food security, as defined by the Policy; and 2) the monetization itself is designed to recover the CIF value of the commodity to be monetized and/or the sale is designed to achieve explicit ancillary food security impacts.

6. Resource Integration and the Demand for Monetization Funds

USAID's Food Aid and Food Security Policy stresses the importance of integrating food aid resources with other development assistance and integrating Title II activities into USAID country strategies.

As early as 1990, *Monetization Comes of Age* warned of inevitable CS and Mission dependence on monetization, saying that "unless financial conditions improve, many countries will be unable to continue food distribution without monetization." In the meantime, financial conditions have grown worse rather than improved. Given the current environment of limited resources, USAID Missions around the globe are increasingly interested in exploring monetization as a means for obtaining funds to support their country strategies. In this competitive context, it is appropriate to explore the priority that Missions give to food security within their country strategy. It is also reasonable for Missions to allocate a percentage of its DA funds or other dollar resources to support its food aid activities. There is precedent for this approach. For example, in FY 94 the Bangladesh Mission allocated close to $10 million in DA funds from its bilateral budget to support its five-year IFFD project.

Such an integrated approach helps to assure that Title II commodities are used in ways that maximize impact on food security. Missions should no longer be able to use monetization as a marginal resource for country strategies that neglect food security. Nor should monetization be considered "last resort" financing. Rather, it should be viewed as a very specific tool for advancing food security.

7. The "Pipeline"

The desire for orderly operations and proper financial management create a need for "pipeline" for many CSs with projects supported by monetization. In Peru, for example, CSs reported that they have sometimes been obliged to furlough staff or suspend activities because Title II commodities could not be received and sold in time to maintain smooth operations.

FFP, Mission project officers, USAID auditors, and others insist that sales proceeds should be received and spent during the fiscal years for which they have been programmed. The issue is that a balance must be struck between husbanding resources to protect against delays in approvals, shipments, and sales and accumulating excessive pipeline, which often constitutes grounds for reducing a CS's commodity allocation in the following fiscal year. Inconsistencies in, and in some cases lack of, pipeline reporting makes it very difficult to judge whether existing pipelines are too much, too little, or just right.

Commodities often arrive late and sales are occasionally delayed. Such occurrences are inevitable with the uncertainties of international shipments and local commodity sales. When such contingencies occur, the "working capital" needs of CSs seeking to implement development projects increase. The failure to spend all sales proceeds during the year for which they are programmed may be no more than prudent management in an uncertain operational environment. In fact, FFP currently allows CSs to maintain an operating reserve equal to the amount of monetization funds needed to support the project for one quarter of the fiscal year. This reserve is intended to allow for smooth program operations until the next monetization sale takes place.

USAID and CS estimates of desirable pipeline volume often vary. Resolving these differences requires clearer and more consistent reporting by CSs and better monitoring by FFP. A standardized reporting format and timely transmittal of pipeline figures to FFP would greatly improve the current situation where both "too little" and "too much" pipeline exists, depending on the Title II project. Whether commodity allocations are increased to allow explicitly for CS pipeline needs, or current monitoring and reporting practices are standardized yet flexible enough to allow for reasonable pipeline accumulations without penalty, the impact of monetization-supported activities can be improved by encouraging the provision of adequate working capital.

8. Emergency Monetization

The term "emergency monetization" is peculiar and sometimes misleading. An emergency is a situation that requires prompt action while the lengthy response necessarily required by monetization can hardly be described as prompt. Only rarely can monetized commodities and the local currency proceeds generated become available in time to furnish immediate help. Moreover, CS experience in monetizing in emergency situations is limited. As of FY 94, only seven emergency monetizations have occurred since FY 91, including four in Mozambique; three more took place in Somalia with CARE as the monetizing agent, but using WFP commodities. The market effects of monetizations in emergency settings have not been fully studied.

There is widespread agreement among CSs that monetizing in a *rapid-onset* emergency situation is not necessarily the best vehicle for obtaining cash resources to meet immediate needs. The purchase, shipment, and sale of Title II commodities for monetization is inherently too slow to furnish prompt help. In addition, most emergency proposals include a budget for Internal Transport, Storage, and Handling (ITSH) costs, including the cost of food delivery and distribution, which is paid for by USAID. Moreover, as the demand for emergency food aid has grown dramatically, other resources such as dollar grants provided through OFDA, have been used to meet emergency cash requirements. CSs assert that other organizations, including OFDA, WFP, and other United Nations agencies, are already doing an adequate job of meeting local currency needs in emergency situations. Therefore, they argue, efforts to rapidly generate monetization proceeds for emergency use are less efficient. In addition, monetizing without doing the necessary market and price analysis could be damaging to an already fragile situation. In a rapid-onset emergency, there is seldom time to evaluate the potential risks or benefits involved in executing a monetization. In this context, monetization becomes a less efficient funding mechanism and food security programming tool.

Monetization does have the potential to be an effective funding and food security mechanism in other relief contexts, such as *slow onset* and chronic emergencies, or transitional situations. Monetization may be an appropriate mechanism in these situations as long as there is ample time to demonstrate the rationale for monetization and identify the uses of the proceeds, in the same way as with development projects. In other words, distinguishing between emergency and development monetizations serves no useful purpose. The emphasis on performing a market analysis to determine a niche for monetization and to avoid disincentive effects is as necessary, if not more so, in emergency as in development situations. Programming proceeds in ways that will contribute to the food security of the target population is as critical in emergency as in development contexts.

Criteria for approval of monetization proposals should remain the same, regardless of whether the monetization will take place in an emergency, transitional, or development setting. It may be more difficult for CS to meet the established criteria in an emergency setting. If this is the case, then the risk of monetizing is probably greater than the advantages.

Title II CSs with long experience in meeting humanitarian needs in emergency situations urge for greater flexibility to make monetization a more responsive, effective, and efficient mechanism for responding to emergency situations. On possibility, though it raises a number of implementation issues that would require further attention, is to monetize prior to the onset of the emergency, for the purpose of programming the proceeds at a later date, when the resources are needed to meet urgent humanitarian needs. Such an approach would be similar to the current practice of "prepositioning" commodities for use in emergency feeding activities, except that the local currency and not the commodities would be reserved for a specific purpose. With this approach, there is no necessary connection between the timing and location of the monetization sale and the dates and places for spending the proceeds.

Although funds for emergency activities in Somalia have in the past been made available from monetization sales in other countries, de-linking commodity sales from immediate use of the proceeds raises numerous legal and operational issues. Who is responsible for the local currency proceeds generated? On what basis would the proceeds be made available? To whom would the proceeds be made available -- to one or several CSs for use in one or several countries? If the reserves for use in urgent situations accumulate beyond the expected requirements of sound management, how would the excess be reprogrammed? How and where would the local currency be maintained? How would allocations be made? These types of concerns would need to be resolved prior to experimenting with this programming option.

9. The Proper Role of USAID Missions

A final issue related to programming proceeds concerns the proper role of the USAID Missions. The evaluation team found a collaborative relationship between the Mission and the CSs in all five countries visited. CSs actively sought the assistance and received the support of the Missions, when they felt it would be helpful to project implementation. Despite some problems in the past, there was no current attempt by the Missions at micro-management, and there appeared to be a clear understanding of each party's role. In the Ghana program, however, increased communication among CSs, the Mission, and FFP would improve program implementation.

With regard to Mission financial monitoring of the proceeds, the field visits were able to verify that in all five countries:

- each CS submits regular financial reports to the USAID Controller;
- the Mission Controller, or a representative of the Regional Inspector General, had reviewed the financial systems being used to track Title II local currency disbursements from the separate bank account for Title II monetization proceeds; and,
- each CS makes a copy of its annual audit available to the Mission Controller.

In short, CS and Mission arrangements pertaining to these aspects of financial monitoring appeared to be functioning smoothly.

In some countries visited, however, there was confusion about the division of responsibility between CSs and Missions, and Missions and FFP. According to FFP guidance, "once sales proceeds have been received, Missions should leave implementation to the CSs."[10] Some CSs understandably interpret this statement as freeing them from further obligation to USAID once a project is approved. Some CSs failed to recognize that Mission controllers have the same responsibilities for monitoring the use of Title II local currency proceeds as they have for all other USAID spending. The above-referenced guidance has created the perception that Mission authority and responsibility in relation to the use of sales proceeds is reduced. However, program implementation inevitably produces many unanticipated developments, which may require Mission assistance.

Actual expenditures can deviate from proposed expenditures. Additional commodities can become available, or available proceeds can be less than expected. In these and other circumstances, the proper role of the Mission remains unclear from the field perspective. In addition, the proper role of FFP vis-a-vis the Mission in these and other circumstances remains unclear from the field perspective. Especially in light of USAID's reengineering efforts and emphasis on partnership, FFP can improve program administration by clarifying the roles and responsibilities of USAID Missions, CSs, and FFP with respect to both selling Title II commodities and approving, implementing, and monitoring project activities with generated proceeds. A collaborative approach that respects the strengths of each entity participating in the process will best serve project implementation.

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[10]See State 315 309 entitled *P.L. 480 Title II, Roles and Responsibilities of USAID Field Missions, CSs and USAID/W, With Particular Emphasis on Monetization Roles and Responsibilities.*

CHAPTER SIX

APPENDICES

A.

LIST OF INTERVIEWS

TITLE II MONETIZATION EVALUTATION

LIST OF INTERVIEWS

A. USAID/WASHINGTON

1. **USAID/Bureau of Humanitarian Response/Office of Food for Peace**
   H. Robert Kramer, Director
   Jeanne Markunas, Deputy Director
   Tim Lavelle, Special Assistant
   David Hagen, Chief, Emergency Relief Division
   James David Lehman, Chief, Development Programs Division
   Rita Hudson, Program Analyst
   Alexis Robles, Program Analyst
   Jon Brause, Deputy Chief, Program Operations Division
   Darell McIntyre, Food for Peace Officer

2. **USAID/Africa Bureau**
   Keith Crawford, Program Analyst
   John Rifenbark

3. **USAID/Bureau for Asia and the Near East**
   Arthur D. Silver, Program Analysis Officer

4. **USAID/Bureau for Global Programs, Field Support, and Research**
   Shirley Pryor

5. **USAID/Bureau for Latin America and the Caribbean**
   Bobbie Van Haeften

6. **USAID/Bureau for Policy and Program Coordination**
   Carolyn Weiskirch, Program Analyst
   Vincent Cusumano

B. COOPERATING SPONSOR HEADQUARTERS

1. **Adventist Development & Relief Agency International**
   Rudy Monsalve, Senior Manager, Management Unit

2. **Africare**
   Judy Bryson, Director, Food for Developmen

3. **Agricultural Cooperative Development International**
James Phippard, Senior Vice President, Programs
Todd King, Food Aid Coordinator
Josh Walton

4. **Catholic Relief Services**
Doug Greene, Public Donor Relations
Michael D'Adamo, Deputy Director, Office of Project Resource Management
Robert Roche

5. **Coalition for Food Aid**
Ellen Levinson

6. **Cooperative for American Relief Everywhere**
Curt Schaeffer, Director, Food Security Unit
Bob Bell, Deputy Director, Food Security Unit
Tim Frankenberger
Thomas Alcedo

7. **Food for the Hungry International**
Melinda Hutchings

8. **TechnoServe**
Paul Servier
Henry Panlibuton, Program Officer

9. **World Vision Relief and Development**
Ann Claxton
W. Benton Hoskins, International Programs, LAC

B. BANGLADESH FIELD REVIEW

1. **USAID/Bangladesh**
Dick Brown, Director
Lisa Chiles, Deputy Director
Herbert Smith
David Atwood
Jahangir
Tom Walsh.

2. **CARE/Bangladesh**
   Shofiqul Alam
   Mary Cadrin
   Alex Counts
   R.K. Das
   Kevin Fitzcharles
   Sajedul Hassan
   Ivor Melmore
   Peter Nesbitt
   Terry Ratigan
   Andrew Sayles
   Ann Thomson
   Usha Vatsia
   Marc Juville, (consultant)

3. **CIDA**
   Sara Breault

4. **Helen Keller International**
   Shawn Baker

5. **WFP/Bangladesh**
   Alan Wilkinson

6. **Government of Bangladesh Ministry of Food**
   M.A. Kabir

7. **Governement of Bangladesh Local Government Engineering Department**
   Q.I. Siddique

8. **Bangladesh/Australia Wheat Improvement Project**
   Craig Meisner

C. ETHIOPIA FIELD REVIEW

1. **USAID/Ethiopia**
   Michael Harvey, Food For Peace Officer

2. **CRS/Ethiopia**
   Amsabo Gebre Salassie, Program Department
   David Orth-Moore, Assistant Country Representative
   David Piraino, Country Representative

3. **CARE/Ethiopia**
   Ashraf Ahmed, Manager of Commodities
   Michael Rewald, Program Director

4. **EOC**
   Tsegaye Berhe, Deputy Commissioner Inter-Church Aid Commission
   Mamo, Consultant
   Takele, Director of Development

5. **FHI/Ethiopia**
   Elspeth Cole, Donor Liaison
   Paul Erickson, Country Representative

6. **REST**
   Teklewoini, Director
   Haielemelekot Tereffe, Information/Public Relations
   Tetemke Yibrah, Fund Raising Officer

7. **SCF/Ethiopia**
   Dr. Fisseha Meketa, Senior Program Adviser
   Willet Weeks, Area Director for Horn Of Africa
   Fissehayie Wolde-Giorgis, Financial Officer

8. **WFP/Ethiopia**
   Kumela Gragne, Senior Logistics Officer
   Alan Jones, Country Director
   Timo Pakkala, Relief and Program Coordinator

9. **WVRD/Ethiopia**
   Muluget Abebe, National Director
   Mulget Dejenu, Relief and Resources Manager
   Genet Kebede, Operations Director

10. **Relief and Rehabilitation Commission (Gov't)**
    Ato Teferi Bekele, Coordinator of Aid Programs

11. **Merchandise Wholesale and Import Trade Enterprise (Gov't)**
    Hirut Giraw, General Manager

E GHANA FIELD REVIEW

1. **USAID/Ghana**
   Emmanuel Atieku, Food for Peace Officer
   Jeffrey Lee, Private Enterprise Officer
   Peter Weisel, Office of Trade Agriculture & Private Sector, Evaluations
   Barbara Sandoval, Mission Director

2. **ADRA/Ghana**
   George Kwesi Baiden, Country Director
   Millie Taylor, P.L. 480 Program Manager
   Vic Daaku, Area Coordinator
   Paul Sono, Planning
   Steve Amoaku, Development
   Chris Quarcoo, Finance

3. **CRS/Ghana**
   Shirley Dady, Country Representative

4. **TechnoServe/Ghana**
   Peter Reiling, Country Representative

5. **WFP/Ghana**
   M. De Gaay Fortman

6. **European Union**
   Rune Skinnebach, European Union

7. **Millers**
   E.K. Asare Amankwa, Managing Director, Golden Spoon Flour Mill, Ltd.
   Anthony Moukarzel, Managing Director, Irani Brothers & Others

8. **Government/Ministry of Finance**
   Emmanuel Darko, Americas Desk, International Economic Relations Division
   Charles Abakah, Director, International Economic Relations Division

F. MOZAMIQUE FIELD REVIEW

1. **USAID/Mozambique**
   Donald Drga, Agriculture Officer
   James Jackson, Food For Peace Officer
   George Jenkins, Controller
   Richard Newberg, Agriculture Officer

2. **Government of the Republic of Mozambique**
Casimiro Mabota, Assistant Director of Customs
Jose Zacarias, Director of Food Imports, MOC

3. **CARE/Mozambique**
Beat J. Rohr, Director

4. **ADRA/Mozambique**
Dwight Taylor, Director

5. **WFP/Mozambique**
Bishow B. Parajuli, Chief of Emergency

6. **WVRD/Mozambique**
Walter Middletown, Director
Bernie Fortas, Assistant Director (Commodities)
Rick Fitzpatrick, Project Officer
Jose Chilengue, Accountant
Mike Curry, Beira Office Director
Jimmy De Dios, Zambezia Provincial Representative
Mario Rodriquez, Tete Provincial Representitive
Renato Gordon, Tete Provincial Coordinator
Rudi Weiss, Tete Commodities Officer
Charles Robin, Mutarara Commodities Officer
David Spurling, Technical Consultant
Lesley Sich, Zambezia Senior Project Coordinator

7. **Michigan State University**
Mike Weber, MSU Economist

8. **Other**
Gunter Hochman, Beira Freight Forwarder
Trevor Robinson, Coopers & Lybrand

G. PERU FIELD REVIEW

1. **USAID/Peru**
George Wachtenheim, Director
James Sanford, Controller
Jerry Martin, Controller's Office
Robert Wilson, Food for Peace Officer
Harry Wing, Director, Office of Rural Development
Raul Tapia, Project Manager
George Baldino, Project Manager
Alfredo Gutierrez, Project Manager

2. **CARE/Peru**
   Sandra Laumark, Director
   Jose Aquino, Manager for Monetization

3. **Caritas Peru**
   Mario Rios, Director
   Carlos Venturo, Director of administration for Finance
   Victor Lainez, Director of Food and Projects
   Emilio Guerra, Assistant Secretary General
   Pio Silva
   Luis Compo, Chief of Food

3. **ADRA**
   Melvin Atoche, Deputy Director
   William Fereira, Assistant for Finances
   Nancy Caballos
   Luz Celestino

4. **Prisma**
   Josephine Gilman, Director
   Delia Houston, Deputy Director

5. **Sociedad Nacional de Industries (SNI)**
   Alejandro Daly, Advisor to Wheat Millers

6. **Ministry of Foreign Relations**
   Ricardo Morote

7. **Banco de Credito of Peru**
   Leonor Lopez-Aliaga, Special Accounts
   Maritza Podesta, Assistant Manager

8. **Controles y Estudios , SA**
   Eduardo Mejia, Firm Principal
   Gonzalo Govea, Firm Principal

B.

FY 94 TITLE II MONETIZATION PORTFOLIO

FY 94 TITLE II MONETIZATION PORTFOLIO

(43 Programs, 24 Countries)

I. Programs Which Monetized FY 94-Approved Title II Commodities in FY 94.

1. Benin/CRS
2. Bolivia/ADRA (umbrella)
3. Bolivia/Caritas (umbrella)
4. Bolivia/FHI (umbrella)
5. Bolivia/PCI (umbrella)
6. Burkina Faso/CRS
7. Cape Verde/ACDI (100%)
8. Dominican Republic/CARE
9. Eritrea/CRS
10. Ethiopia/CARE (umbrella, lead)
11. Ethiopia/CRS (umbrella)
12. Ethiopia/EOC (umbrella)
13. Ethiopia/FHI (umbrella)
14. Ethiopia/SCF (umbrella)
15. Ethiopia/WVRD (umbrella)
16. Gambia/CRS
17. Ghana/ADRA
18. Ghana/CRS
19. Ghana/Technoserve (100%)
20. Guatemala/CARE
21. Guatemala/CRS
22. Guinea Bissau/Africare (100%)
23. Honduras/CARE (umbrella, lead)
24. Honduras/CHF (umbrella, 100%)
25. Indonesia/CRS
26. Kenya/CRS
27. Kenya/FHI (100%)
28. Mozambique/WVRD
29. Peru/ADRA (umbrella)
30. Peru/CARE (umbrella, lead)
31. Peru/Caritas (umbrella)
32. Peru/Prisma (umbrella)
33. Philippines/CARE (umbrella,lead)
34. Philippines/CRS (umbrella)
35. Sierra Leone/CRS
36. Togo/CRS
37. Uganda/ACDI (100%)

II. Programs Which Did Not Monetize in FY 94 But Utilized Monetization Proceeds Generated in Previous Fiscal Years to Support FY 94 Activities.

1. Guatemala/SHARE
2. India/CARE
3. Morocco/CRS (100%)

III. Special Cases

1. Bangladesh/CARE: Monetized 81,971 MTS of in-country wheat stocks in FY 94. No FY 94-approved commodities were shipped. Project implementation began in late FY 94.

2. Ecuador/CARE (100%): FY 94 approved program but did not monetize or implement activities until FY 95.

3. Togo/OIC (100%): Received no-cost extension in FY 94. Sold FY 93-approved commodities in FY 94.

C.

MONETIZATION STANDARD REPORTING FORMATS

Monetization Cost Analysis

Obtain actual or estimated US. Governement and Cooperating Sponsor costs of carrying out the monetization during the Fiscal Year. Include process related costs of the moneization, but not costs of carrying out monetization-funded activities. Include estimated staff salaries/benefits involved in negotiating and handling the sale as well as handling the commodities.

COUNTRY: **PVO:**
COMMODITIES: **MT Sold:**

	local currency	exchange rate	US dollars
US Govt direct costs (Actual CIF/MT X MTs Sold)			
In-country costs			
inland transport			
storage prior to sale			
port fees			
loading			
duties/taxes/levies			
repackaging			
staff salaries/benefits			
consultants			
other direct costs (identify)			
TOTAL COSTS			
FY 94 TOTAL SALES REVENUES			
Total Cost estimate as a % of Total Revenues			

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Monetization Pipeline Analysis

COUNTRY/PVO ACTIVITY:

	local currency	exchange rate	US dollar equivalent
1. Opening balance of funds from prior year monetization (include interest)			
2. Actual funds received from monetization during FY 95 (FY 94 APPROVED COMMODITIES) (FY 95 APPROVED COMMODITIES)			
3. Interest earned on monetization in FY 95			
4. Total actual expenditure of monetization funds during FY 95			
5. Closing balance of monetization funds at end of FY 95			
6. Amount of reserve/bridge funding needed to support program operations until FY 95 monetization sale(s)			

SALES PRICE, REVENUES, AND COST RECOVERY ANALYSIS

:OUNTRY: PVO:

:ommodity:	MT Sold:		FY Approved:	
	month	local currency	exchange rate	US dollars
Negotiated/Estimated Prices				
AS estimate for export date (FFP Quote)				
:IF estimate for export date (FFP Quote)				
ɔcal commercial market price estimate				
'ɹgotiated/Estimated Sales Price				
I. Acutal Prices				
ɹctual FAS as per B/L*				
ɹctual CIF as per B/L				
ɹocal commercial market price at time of sale				
ɹcutal Sales Price				
II. Sales Revenues				
sale price x MT)				

. **For each heading, circle the response that best applies to your country program:**

Type of Buyer: Parastatal, Private, Government Agency
Type of Market: Monopoly, Competitive, Oligopoly
Type of Sale: Auction, Negotiated, Sealed Bid Tender

.. **Note exchange rate policy; i.e. if monthly or yearly.**

ɹ. **Explain any unusual circumstances during the Fiscal Year which affected the sale or monetizaton budget, such as devaluation, drastic market changes, shipping delays, or local currency flucuations.**

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*B/L=Bill of Lading

D.

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117