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Abt Associates Inc.
55 Wheeler Street, Cambridge, Massachusetts 02138-1168
Telephone • 617-492-7100
TWX: 710-3201382

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FOOD AID AND ECONOMIC POLICY REFORM

APAP Staff Paper No. 12

By: Steven Block
Jennifer Bremer
Charles E. Hanrahan

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Submitted to:

Dr. Phillip E. Church
U.S. Agency for International Development
S&T/AGR, SA18
Room 402
Washington, DC 20523

EXECUTIVE SUMMARY

This paper provides a broad discussion of the role of food aid in supporting economic policy reform in developing countries. More specifically, it explores the U.S. food aid programs that can be used to support policy change, how they can be used in policy-based development assistance, and some recent experience with such programs.

Economic crises in the past decade and poor decisions in the past have made macroeconomic adjustments necessary in many developing countries. Growth-maximizing adjustment policies often include currency devaluations, relatively high interest rates, relatively low wage rates, and higher food prices. For a government, such changes can entail significant costs, both financial and political. For the poor, the short-term consequences of these policies can be severe. This paper explores the wavs in which food aid can facilitate economic reform programs by enabling governments to ease the pains of adjustment. The basic resources created by food aid include: 1) the commodities themselves, 2) local currencies generated through the sale of those commodities, and 3) foreign exchange saved by the substitution of food aid for commercial imports. These resources enable the governments of recipient countries to undertake a wide range of programs and policies intended to protect the poor from the pains of economic adjustment, while also promoting growth-oriented economic policies. In Part I, Sections Two and Three of this paper discuss the general role of food aid in supporting economic reform.

Through its P.L. 480 program, USAID is currently experimenting with several program structures. These approaches include: multi-year agreements, multi-donor programs, creation of buffer stocks, programming the use of local currencies generated, and financing reform implementation costs. These alternative approaches have advantages and disadvantages that are discussed in Section Four of this paper. (Appendix A provides a survey of U.S. food aid mechanisms). Section Five describes applications of food aid in terms of its potential to promote food security. Part I of this paper concludes with a summary of the lessons learned through APAP's recent experience with food aid and policy reform, presented in Section Six.

Part II illustrates various aspects of food aid and economic reform through three case studies based on APAP experience. Each of the case studies highlights a particular side of the issue: Guinea illustrates food aid and macroeconomic policy reform; Mali exemplifies efforts to restructure cereals markets through the application of food aid; and Bangladesh demonstrates food aid's role in promoting food security.

The lessons learned through APAP's experience in these countries can be applied in many developing countries with similar conditions. A general finding of this paper is that, while food aid can be used to support broad macroeconomic policy reform and structural adjustment, it is most effective when used to support agricultural price reform or to promote increased food security.

With respect to agricultural policy reform, food aid assists in providing the resources necessary to resolve the conflicting needs of producers for higher farmgate prices and of consumers for lower retail food prices. This paper describes various ways in which food aid-generated resources can be used to segregate producer and consumer markets temporarily, providing both the price incentives needed to promote long-term agricultural development and the short-term price protection needed to maintain the real incomes of vulnerable consumers. In this context, targeting of food aid benefits emerges as an important measure to limit potential disincentive effects of food aid, as well as to prevent host governments from using food aid as an expedient to avoid investing in programs to increase domestic agricultural production. The advantages and difficulties of targeting food aid benefits are discussed throughout the paper.

The paper assesses specific applications of food aid to support price reforms, as well as the limits of food aid in addressing certain problems (such as low farmgate prices arising from fundamental market forces). Food aid is also found to have a role in promoting price stabilization, depending on the nature of the instability.

Food aid is relevant to countries' food security objectives as well. Food insecurity arises from a lack of purchasing power on either the national or the household level, and can be either chronic or transitory in nature.

While food aid can make some contribution to meeting consumption requirements in situation of chronic shortage, food aid's greater contribution to reducing chronic food insecurity lies in its use as a bridge between the short-term requirement of protecting vulnerable individuals and the long-term requirements of economic growth. In the long-term, equitable economic growth will help to erode the conditions contributing to chronic food insecurity.

Transitory food insecurity arises from the variability of world food prices, foreign exchange earnings, domestic food production, and household incomes. Each of these factors may destabilize domestic food supply and demand. Food aid's role in stabilizing supply is clear and direct. Stabilizing demand, in large measure, requires stabilizing incomes. In this regard, food aid's contributions are more limited and less direct.

Food aid can support producer incomes only to the extent that it does not depress farm-gate prices, and to the extent that resources generated by food aid are spent on procurement programs and other productive investments. Food aid can only help to stabilize consumers' real incomes in as much as it contributes to the stabilization of food prices, which are an important but not exclusive source of variability in real incomes. Food aid is neither a substitute for, nor a source of, the employment generation necessary to ensure long-run food security.

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FOREWORD

This publication is one of a series of staff papers that are part of the continuing effort of the Agricultural Policy Analysis Project (APAP), sponsored by the Office of Agriculture in AID's Bureau of Science and Technology, to disseminate the experience it has been accumulating in the area of agricultural policy analysis. Through interaction with policy makers, country analysts, and AID missions in Africa, Latin America and the Caribbean, the Near East, and Asia, APAP has identified and concentrated its technical resources on the following themes:

- Developing agendas for an informed mission host country dialogue on economic policies constraining progress in agriculture.
- Defining food aid strategies and programs that foster and support economic policy reform measures.
- Identifying input and output price reform programs that stimulate agricultural production and productivity.
- Fostering private sector participation in input supply and product marketing and redefining the role of parastatal institutions.
- Developing the indigenous capacity of host country institutions to provide the information needed to analyze, formulate, and implement policies conducive to agricultural development.

This staff paper explores the concept of using food aid in policy based development assistance, the U.S. food aid programs that can be used to support policy change, and some recent experience in using food aid to promote policy reform. The report draws on APAP country experience in Bangladesh, Guinea, and Mali for case studies.

We hope this and other APAP Staff Papers in the series will provide useful information to all those involved in the continuing agricultural policy dialogue between AID and host country governments. We welcome comments, criticism, questions, and suggestions from our readers.

ABSTRACT

Using development assistance to promote economic policy reform in developing countries is becoming an increasingly important form of foreign aid. Most such support of policy change takes the form of financial assistance, but the United States is using food aid in connection with structural adjustment programs in a number of countries. U.S. food aid is being used as an inducement to countries to undertake policy changes, and as a source of financial support for such changes, to compensate people, usually the poor, who may be adversely affected by policy change. Recent changes in legislation governing U.S. food aid programs facilitate the use of U.S. food aid to support policy reforms in developing countries. Valuable lessons about using food aid to support policy reform and to contribute to food security during the process of economic adjustment are drawn from recent experience in Bangladesh, Guinea, and Mali.

1.0 INTRODUCTION

Using development assistance to promote desired policy reform in developing countries is becoming an increasingly important form of foreign aid. The World Bank has increased its volume of lending for policy reform and structural adjustment; the U.S. Agency for International Development (AID) is also providing more support for broad sectoral development programs and for policy reform. While most such support of policy change takes the form of financial assistance, food aid, especially from the United States, is also being used to promote policy change in a number of countries. This paper explores how food aid can be used in policy based development assistance, the U.S. food aid programs that can be used to support policy change, and some recent experience in using food aid to promote policy reform. The report draws on APAP country experience in Africa and Asia for case studies.

2.0 ECONOMIC POLICY REFORM AND THE FOOD POLICY DILEMMA IN DEVELOPING COUNTRIES

Economic crises in the past decade have made macroeconomic adjustments necessary in many developing countries. The need for adjustment arises from many sources. Short-term balance of payments problems, large and long-term indebtedness, the drying up of sources of external finance, misguided policies of the past, and the stagnation of income growth all contribute to the need for developing countries to undertake adjustment programs.

Developing countries have undertaken both short-term and long-term measures to overcome these difficulties. Adjustment programs include immediate stabilization programs to correct balance of payments and budgetary difficulties, as well as longer term policy measures to stimulate income growth and to correct fundamental distortions in the economy.[1] Adjustments are made largely through manipulation of macroeconomic policies (monetary, fiscal, exchange rate, foreign trade, wage and price policies) in an effort to promote efficient use of available resources. The basic macroeconomic "prices" that governments can influence to promote efficient resource allocation are: 1)

[1] A distinction is usually made between stabilization, which includes measures to correct acute foreign exchange deficits, and structural adjustment, which refers to measures to stimulate long-term economic growth.

foreign exchange rates, 2) interest rates, 3) wage rates, and 4) urban-rural terms of trade (e.g., food prices). In large measure, long-run economic growth depends on the incentives created by these macro prices.

Growth maximizing adjustment polices often include relatively high foreign exchange rates (achieved by devaluing the local currency), relatively high interest rates, relatively low wage rates, and relatively high food prices. Low wage and high interest rates tend to discourage capital intensive production and encourage employment; expensive foreign exchange tends to increase the competitiveness of domestic versus imported foodstuffs (particularly in instances where an overvalued exchange rate has artificially shifted relative prices in favor of imports); and, relatively high food prices provide incentives for increased productivity and adoption of new technologies in farming and increase purchasing power in rural areas.

Many of these changes are costly to developing country governments, both politically and financially. Higher food prices, for example, raise the cost of government price support and procurement programs and generate pressures for increases in government pay scales.

For poor net consumers, the short-term consequences of these policies can be severe, as well. Their food consumption can be severely affected by high food prices that accompany adjustment policies. Poor families in developing countries often spend from 50 to 70 percent of their incomes on food and live at or below minimally acceptable nutritional levels. Unless compensatory measures are implemented, increased food prices can translate directly into increased hunger and poverty for such at risk groups. Although in principle, long-run economic growth will bring increased employment and greater nutritional security to the poor, the short-term welfare and distributional consequences of incentive pricing policies can be so painful as to make them politically or morally unacceptable.

Adjustment programs usually entail policy changes other than increasing food prices that will negatively affect the poor. Reduced real wages and declining government expenditures on social programs can also have severe short-term effects on the poor. In addition, deterioration in nutrition, health, and education can result from adjustment programs and can have long-run negative implications for human resources and for economic growth. The following sections of this paper describe ways in which food aid can facilitate economic reform programs by enabling governments to ease the pains of adjustment, for their citizens as well as for the government themselves.

3.0 USING FOOD AID TO PROMOTE POLICY REFORM: GENERAL CONSIDERATIONS

3.1 Food Aid Resources

Food aid[2] can provide three types of resources: the commodities themselves, local currencies generated through the sale of those commodities, and foreign exchange saved if the food aid displaces commercial imports. These resources can be used in various ways to support structural adjustment in a recipient country.

The commodities themselves can be directly supportive of structural adjustment programs by helping to ensure the availability and stability of food supplies during periods of economic austerity that may result from such a program. A large infusion of concessionally financed or donated commodities in a developing country can serve to moderate food price inflation and help to stabilize prices. Alternatively, commodities can be targeted to economic or social groups, for example, poor urban households, that may be particularly disadvantaged by structural adjustment. Targeting (discussed below) suggests a potential role for donated commodities to meet the needs of poor nutritionally-at-risk groups in the populations of countries undertaking structural adjustment.

The sale of food aid by governments generates local currencies that can be used in a number of ways to support policy reform. Local currencies can be used, for example, to lower food prices to consumers, pay higher prices to producers, reduce producers' costs through input subsidies, and make investments in research, extension, or physical infrastructure. The impact of such local currencies on policy reform depends on the recipient governments' policies and conditions the donors attach to the use of the currencies.

Food aid can influence policy reform through the provision of balance of payments (BOP) support. Governments are able to save foreign exchange that otherwise would have been spent on commercial food imports. The impact of such BOP support on policy reform depends upon the use of the freed foreign exchange to support the purposes of the structural adjustment program, and on the leverage gained by helping a government to address an urgent problem.

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[2]Appendix A provides a detailed description of current U.S. food aid programs.

These food aid resources -- commodities, local currencies, saved foreign exchange -- can be used singly or in combination to support structural adjustment. For example, food aid resources can be used to support a dual price structure in which some portion of the physical commodities are distributed to target groups at below market prices while the remainder is sold to the general population at market prices. The local currencies can be used to support producer prices, and, if there are foreign exchange savings from food aid having displaced commercial imports, these can be invested in sectoral development activities.

3.2 Application Issues

As discussed at greater length in the following chapter, a number of factors condition the use of food aid to promote economic policy reform. Among the most important are whether or not the recipient country has a food deficit, the fungibility of both local currencies and saved foreign exchange, and the potential disincentive effects of food aid.

Local currency proceeds are fungible. Governments may decide not to use them to support policy reform but instead allocate them to other purposes that do not support structural adjustment programs. Similarly, foreign exchange freed by concessional imports is also fungible. Its impact on structural adjustment depends on its allocation to support the purposes of the structural adjustment program. Although the impact of balance of payments support of food aid can be positive in terms of policy reform, it can also have the effect of making governments complacent about policy reform, by enabling them to avoid making adjustments in exchange rates or by reducing the financial and political pressures to invest in domestic food production capacity.

The food aid legislation itself contains internal contradictions that, in principle, bear directly on the potential positive and negative effects of the aid. The 1977 International Development and Food Assistance Act imposed two stipulations on P.L. 480 assistance. The first stipulation was that recipient countries certify the availability of adequate storage space to prevent spoilage of donated commodities. The second was that local distribution of the food aid was not to create a disincentive to domestic production or marketing. These two stipulations are known as the "Bellmon determination."

In economic terms the stipulation that food aid not create disincentives to local production generally requires that aid not increase the total supply of food (i.e., the aggregate supply function must not shift out, creating downward pressure on domestic prices), or, at a minimum, that food aid be distributed only to consumers who otherwise would not have purchased food nor grown it themselves. Maintaining a constant aggregate food supply in the presence of large infusions of food aid requires that the food aid substitute for commercial food imports. That substitution of concessional for commercial imports is the source of the balance of payments support conveyed through food aid, as well as a key to minimizing production disincentives. Yet such substitution is explicitly prohibited by another cornerstone of P.L. 480.

P.L. 480 assistance is required to be "additional" to commercial imports. Under the terms of P.L. 480, recipient countries must commercially import a certain quantity of food in order to qualify for food aid. That quantity -- the Usual Marketing Requirement (UMR) -- is generally based on the average level of commercial imports over the past five years. In other words, while the Bellmon determination requires that aggregate supply remain constant, the UMR requirement requires that aggregate supply shift out by the full quantity of food aid. This both depresses domestic prices (violating the Bellmon determination) and eliminates most balance of payments support. Food aid may still support balance of payments in situations where circumstances require a country to import commercially beyond its UMR or when food aid terms delay the country's foreign exchange expenditure; but the primary beneficiaries of UMR's are consumers in recipient countries and producers in exporting countries. As Clay and Singer point out, the UMR requirement could conceivably penalize countries that increase domestic production, since the reduction in imports might have to come from food aid rather than from commercial imports.[3]

4.0 FOOD AID AND AID'S AGRICULTURAL POLICY REFORM EFFORTS

In the past few years, AID has come to recognize that price distortions and other agricultural policy problems are principal barriers to realizing greater agricultural production and meeting food needs. At the same time, AID missions are giving increasing attention to how food aid can be used to promote more desirable agricultural policies. The following sections describe various aspects of the U.S. food aid program that condition its use in supporting policy reform.

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[3]Edward Clay and Hans Singer, "Food Aid and Development: The Impact and Effectiveness of Bilateral P.L. 480 Title I Type Assistance," (Institute for Development Studies, UK, Feb., 1982).

4.1 Self-Help Programs

Initially, the main mechanism for incorporating policy concerns into food aid programs was inclusion of policy changes in the "self-help" measures that countries are required to undertake pursuant to a P.L. 480 agreement. This approach was partially successful in situations where the host government was receptive to policy change, as seems to have been the case in India during the 1960s, but results overall have been disappointing. Self-help measures have a number of drawbacks (discussed below), including the limited leverage that food aid carries, the lack of clearly assigned responsibility for negotiating and monitoring food aid agreements in AID or in the host government, and the proliferation of issues dealt with under the rubric of "self-help."

In practice, the political difficulty of withholding food, and the fact that bilateral aid agreements are often negotiated as dollar flows that include P.L. 480, tend to limit the effectiveness of food aid as a source of leverage for policy reform. Even in countries with large Title I programs, such as Pakistan and Egypt, it has proven politically difficult to withhold food aid in response to poor government performance in meeting the self-help conditions. Food aid has occasionally been delayed, but rarely cancelled, with the result that the credibility upon which AID leverage might be based is limited.

The task of negotiating P.L. 480 self-help measures does not have a clearly defined institutional home in AID or the host government. Negotiating responsibility tends to be assigned on an ad hoc basis with frequent changes in the office and personnel responsible. Within the AID mission, negotiation and monitoring of self-help measures receives little priority and rarely commands sufficient backup resources to undertake the data collection and analysis that would be needed for a successful effort.

Although food and agricultural policy still predominates, the list of self-help measures included in Title I agreements has expanded to include a wide ranging agenda of policy and non-policy reforms. This practice has strained the capability of the AID personnel responsible for monitoring and has made it difficult to determine unambiguously whether government progress has been satisfactory.

4.2 Alternative Program Structures

Based on its experience with food aid programming and the use of self-help provisions, AID has begun a number of experiments to identify other ways to harness the considerable resources represented by P.L. 480 assistance to promote policy change. These experiments have been concentrated in Asian and African countries where food problems are particularly challenging and where P.L. 480 has an especially large place in the total assistance program. Specific approaches now being tried include the following:

- Multi-year agreements to increase the potential for leverage and to facilitate negotiation of more ambitious reform programs with realistic time tables (such agreements have been used particularly in chronic food deficit countries in West Africa, such as Mauritania and Mali, under the provisions of Section 206 of P.L. 480 Title II, but recent changes in 206 have broadened eligibility).

- Multi-donor programs, such as the Cereals Market Restructuring Project in Mali, to improve coordination among donors in the policy dialogue and generate a greater level of assistance to promote reform.

- Creation of buffer stocks using food aid as a means of encouraging governments to transfer responsibilities to the marketplace by providing insurance against food emergencies during years of severely reduced production. This is one of the roles played by Title III in Bangladesh.

- Programming food aid reflows (local currencies) to finance analysis and data collection in support of policy reforms. Peru and Sudan have done so, and APAP economists have recommended that Guinea do so, as well.

- Financing reform implementation costs, using food aid itself or local currencies generated by food sales to underwrite the cost of increasing procurement prices, transferring payment of consumer subsidies from the farmers to the federal treasury as a transition measure, and experimenting with open market operations (such as withholding and injecting commodities on open markets to enforce price bands).

The degree of success achieved with these and other measures has varied greatly by country. In some cases there has been considerable success, while in others the reform process has been slower than expected or non-existent. It is too early to draw definite conclusions from this experience, but several tentative findings can be put forward, pointing to both positive and negative aspects of using food aid for agricultural policy reform.

- Leverage for policy reform is enhanced when food aid has a high priority for the host government relative to other forms of aid that are highly restricted in their use and slower to disburse. Whether the food aid will meet emergency needs or finance basic food commodities that the country cannot import commercially, the government has a strong interest in avoiding disruption or even delays in shipment. Consequently, there may be more leverage associated with food aid, assuming that the U.S. Government is willing to bear the political costs of withholding assistance.

- The magnitude of aid flowing through the P.L. 480 channel relative to other forms of assistance makes food aid an appropriate tool for securing policy reform. While development assistance (DA) levels have generally stagnated in real terms, food aid has been a growing component of total assistance, giving it greater importance in the total assistance program. For some missions, food aid may represent a resource several times larger than total DA. Moreover, the management burden associated with non-emergency food aid can be much lighter than for many other development activities, creating the possibility of freeing up more mission resources to support the policy reform process than would be possible for an equal commitment of project funds. (This potential may not be realized if, as noted above, responsibility for managing the P.L. 480 program is not clearly assigned.)

- Food aid can be directly linked to many (but not all) reforms in the agricultural sector. For example, if food aid supplies a large share of the edible oils in a given country, the donors are in a strong position to argue for changes in the oil products sector (as they have done successfully in Pakistan, for example). Similarly, food aid is less appropriate for dealing with policy problems further back on the production chain, such as land tenure, input supply and pricing, or farm labor law.

- Where there is a strong link between food aid commodities and the policies to be addressed, opportunities may arise to program the commodities in direct support of policy reforms. For example, food aid can be substituted temporarily for local production to supply government sales or distribution channels, permitting greater involvement by private traders in farm level procurement during the early stages of a transition from public to private sector marketing. Depending on prices and foreign exchange availability, food aid in the form of the commodities themselves may be more attractive for this purpose than local currency assistance.

- Food aid can foster donor coordination. Such coordination is vital to the success of policy dialogue, but mechanisms to achieve it are generally ill-defined. The widely recognized need for close coordination of emergency assistance provides opportunities to broaden this cooperation to include policy dialogue. (As discussed below in the case of Mali, donor coordination can be a two-edged sword when perspectives on policy reform differ.)

4.3 Limits on Food Aid's Role in Supporting Agricultural Policy Reform

Balanced against these positive considerations there are several aspects of food aid that limit its flexibility and effectiveness in addressing major policy problems:

- Food aid levels are determined largely on the basis of political considerations and on food needs (in the case of Title II emergency assistance), and therefore may be difficult to adjust in response to changing policy conditions. It is close to impossible to withhold food, particularly in the face of an emergency situation, simply because the host government has not lived up to its reform commitments. Food aid is also difficult to withhold in the context of an assistance package negotiated as a dollar amount, in which food aid is one component.

- The leverage value of additional food aid varies greatly depending on local production conditions. In a bad year, the host government may accept almost any conditions in return for increased food aid allocations. In a good year, food aid may be viewed as too much of a good thing. Recent experience in both food deficit and food surplus countries indicates that sudden increases in production are at least as difficult to manage from a policy perspective as drops in output. Additional food aid is far from welcome when the country is already struggling to absorb its own grain surplus.

- Food aid can easily have disincentive effects on local production. Host governments can argue convincingly that donors are inconsistent when they demand increases in grain prices while simultaneously offering grain supplies that would exert downward pressure on prices. Here again, the local production and consumption situation is critical. In years of poor production, local prices may rise to levels that all parties agree are too high, but years of good production may bring a farm crisis in the form of falling producer prices, bulging warehouses, and excessive government expenditures for procurement. The role of food aid in this situation is unclear.

- Resources other than food are needed to carry out many reform programs. Food aid by itself does not provide resources to finance, for example, the dollar component of policy studies or the investments that may be a necessary component of reform. For this reason, food aid is generally less suited to complex institutional reforms involving, for example, increased efficiency in state operation of irrigation systems, because it cannot supply the technical assistance, training, and infrastructure investments needed to achieve lasting progress in this area.

Many of these negative features of food aid can be overcome or at least mitigated by careful design of the policy reform program. For example, some missions are currently experimenting with ways to incorporate dollar assistance with food aid to build a more flexible assistance package.[4] These efforts underscore the need to recognize that food aid can be a valuable tool in promoting reform, but that it is rarely enough to complete the job.

5.0 USING FOOD AID TO PROMOTE FOOD SECURITY

The experiences of Guinea, Mali, and Bangladesh described in Part II illustrate several ways in which food aid can be used to promote food security within the context of structural adjustment programs. Food insecurity arises essentially from a lack of purchasing power on either the national or household level. This section approaches the question of food aid in relation to food security from two perspectives: national versus household food security, and chronic versus transitory food insecurity.

5.1 National versus Household Food Security

Our broad definition of food security subsumes notions of both national and household food security. National food security refers to the aggregate supply of food relative to the aggregate demand for food on a national level, and the country's ability to withstand shocks to that balance. Household food security, in contrast, refers to the ability of households in each segment of society to acquire an adequate supply of food either through market or nonmarket channels. National food security does not assure household food security, though in the long-run it is a necessary condition for household food security. In both cases, security implies not only adequate levels of food supplies but reasonable stability of access to those supplies as well.

Food Aid and National Food Security

The primary contribution of food aid to national food security lies in the increased ability that it affords policy makers to pursue growth oriented policies, the major aim of structural adjustment programs. Food security must ultimately rely on equitable economic growth.

The main sources of food insecurity at the national level are unstable domestic production and unstable foreign exchange reserves. A country that routinely imports some quantity of food to meet marginal domestic consumption requirements is vulnerable

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[4] USAID/Guinea, whose experience in using food aid to support economic policy reform is discussed below, is endeavoring to use its large Title I and Section 416 Food for Progress programs and its African Economic Policy Reform Program grant in ways that are mutually reinforcing. AID/Mali is designing a similar agreement.

to upward shocks in world market prices for those imported commodities. Yet, variable domestic production levels make some degree of international trade a requirement of national food security. The ability to respond to shocks in either domestic production or world markets relies largely on access to foreign exchange in sufficient quantity to permit imports (and the total foreign exchange bill for food imports) to balance the price or quantity variation.

From a national perspective, food aid is only useful as a source of foreign exchange support to the extent that it displaces commercial imports. Food aid allows countries to use foreign exchange that would have been spent on food imports for some other purpose. Thus, food aid is more useful in maintaining the stability of aggregate food supply than in increasing aggregate supply. As noted in section 6.1, there are studies suggesting that food aid may simply displace commercial food imports and thus have no effect on aggregate supply or the level of prices.

The contributions of food aid to food security thus depend largely on the uses to which the saved foreign exchange and the local currency generated by the sales of food aid are put. National food security is best attained by long-term equitable economic growth. Thus to contribute to national food security, food aid resources must be used simultaneously to promote growth oriented policies and to protect the poor from the short-term consequences of long-term growth strategies. The potential conflicts between the food security of specific vulnerable groups within society and national food security are illuminated by the notion of household food security discussed next.

Food Aid and Household Food Security

Household food security focuses on the access of individual households to adequate food supplies. Though all households share an interest in promoting long-term national food security, the policies implemented to promote national food security will affect different households differently.

These effects are conveyed most strongly through food prices. Higher food prices to promote increased agricultural production almost invariably accompany structural adjustment programs, and can have severe consequences for urban consumers and the rural landless. In many countries, including Bangladesh, these groups already subsist at below-acceptable nutritional levels. Policies to promote long-term national food security are directly harmful to the food security of these vulnerable households. Yet at the same time, the household food security of millions of small farmers would be immediately enhanced by higher food prices. This situation is further complicated by the fact that most members of society are neither pure consumers nor pure producers. Many "consumers" may produce some portion of their own food, and many "producers" may be net purchasers of some foods. In general, however, the policies necessary to promote long-term national food security reveal fundamental conflicts among the short-term national food security interests of different segments of society.

The contribution of food aid to household food security thus depends on the extent to which food aid resources are used to protect the food security of vulnerable groups in the context of macroeconomic polices conducive to long-term economic growth.

The sources of food insecurity on the household level lie in low or unstable household incomes. Increases in food prices depress consumers' real incomes (just as production shortfalls depress producers' incomes). Variability in household food bills, resulting from either fluctuating import prices or fluctuating domestic production, thus destabilize real incomes. This variability affects both producers and consumers.

Food aid can be used in several ways to promote household food security. One commonly-used approach is to use the food itself in direct feeding programs. Bangladesh's Vulnerable Group Feeding Program exemplifies this approach. A similar, though more productive approach is to use the food directly as a wage good, as is done in Food for Work programs. In Bangladesh, both Food for Work and Vulnerable Group Feeding programs are effective, but limited in scale, largely by administrative constraints. Donated foodstuffs can also be used to protect the nutritional welfare of poor consumers through targeted ration programs such as Modified Rations in Bangladesh. Similarly, donated food can be used to stock "fair price shops" in which access to subsidized food is restricted to target groups.

The contribution of food aid to household food security depends, as well, on the uses made of local currency proceeds and saved foreign exchange. Local currency proceeds can help to support the costs of crop procurement in defending incentive floor prices for producers, as discussed above. Local currency can also help to defray the budgetary costs of administering food ration schemes. At the same time, foreign exchange and local currency can be invested in employment generating activities to support and to stabilize the purchasing power and real incomes of vulnerable groups. Adequate and stable incomes are the ultimate source of household food security.

Food aid's role in addressing household food security is clearly limited: food aid cannot substitute for large-scale employment generation and balanced economic growth.

Food aid's contribution to household food security lies in the marginal effect in cushioning individuals from short-term fluctuations in their real incomes or food supply. Except in the case of massive emergency relief, food aid's main contribution does not consist of direct feeding programs, but, rather, in providing governments an additional resource with which to promote stability in production and consumption.

5.2 Chronic versus Transitory Food Insecurity

Another useful distinction between types of food insecurity is made in a recent World Bank study, Poverty and Hunger. In this study the Bank distinguishes between chronic and transitory food insecurity. To adopt the World Bank's definitions, chronic food insecurity is a "continuously inadequate diet caused by the inability to acquire food," while transitory food insecurity is "a temporary decline in a household's access to enough food."[5] This distinction is also useful in thinking about the contribution of food aid to food security during a period of structural adjustment.

Chronic Food Insecurity

Among the three case studies presented here, Bangladesh best exemplifies a situation of chronic food insecurity. Over 60 percent of Bangladesh's population consumes less than the FAO's minimum recommended intake of 2020 calories per day. Bangladesh confronts a structural food deficit in which a majority of the population consumes "a continuously inadequate diet."

The World Bank report's general prescriptions for reducing chronic food insecurity include: 1) equitable economic growth, 2) increased supplies of food, 3) subsidized consumer prices, and 4) targeted income transfers to the poor. Food aid can facilitate the implementation of these prescriptions.

The first, equitable economic growth, serves to increase the incomes of the poor. Yet, economic growth is at best a long-term remedy, and if no measures are taken to ensure that the benefits of growth are shared, there is no guarantee that food security for the poor will improve. Although, properly invested food aid resources may facilitate economic growth, food aid in a country like Bangladesh can provide more tangible relief from chronic food insecurity by supporting the other prescriptions suggested in the World Bank's food security document.

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[5] World Bank, Poverty and Hunger, (1986), p.1

The second prescription --increasing food supplies-- operates either by increasing the quantity of imports or by increasing domestic production. Food aid is clearly a source of food imports, but, as discussed above, it is far from clear whether food aid necessarily results in a net increase in the quantity of food imported. Yet, even if food aid does not have a negative effect on domestic prices and production, the question still remains as to whether food aid can have a positive effect on production. In this respect, food aids benefits are indirect, and come principally in the form of local currency support for other production incentive programs.

There are several indirect ways in which food aid can help to support increased domestic food production. Farmers tend to increase their productivity in response to increases in the ratio of output prices to input costs, as well as in response to increases in the stability of that ratio. Government crop procurement programs to defend pre-announced floor prices for producers, such as the one implemented in Bangladesh, can be used to stabilize farmgate prices. The crop procurement program in Bangladesh has been constrained, in part, by a lack of local currency with which to purchase crops. The local currency proceeds generated by the P.L. 480 Title III program help to defend producer floor prices. Similarly, local currency proceeds from food aid sales are used to increase the ratio of output prices to input costs by providing the cash for input subsidies.

If foreign exchange is saved through food aid it can be invested in programs to promote increased domestic food production. A lack of improved inputs is an important constraint on Guinean rice producers, for example. Many of the necessary inputs must be imported. In the short-run, they could be paid for out of foreign exchange saved by food aid imports, while local production builds up.

The way in which the foreign exchange generated by food aid is invested is among the most important determinants of the developmental contribution of food aid. However, the availability of food aid also creates the danger that governments will put off investments in domestic production, and simply rely on the short-term price benefits of food aid. Prior to 1985 and the inauguration of Guinea's economic policy reform program, the continuing availability of food aid was an important factor in enabling the country's government to avoid dealing with domestic food supply problems. A Stanford University study, "The Political Economy of Rice in Asia", found other evidence of this effect.[6]

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[6]Peter Timmer, et. al., "The Political Economy of Rice in Asia," Stanford University, the Food Research Institute, 1978.

Chronic food insecurity among poor groups can also be reduced through subsidized consumer prices. Food aid can facilitate subsidized consumer food prices in two ways. The government can simply sell the donated commodities at below market prices, or it can use the local currency proceeds from the sale of food aid to subsidize food prices by directly paying some portion of the sales price. Applied in a market-wide context, both of these routes have substantial budgetary and economic implications. Such programs divert large amounts of resources from alternative uses, and benefit non-needy consumers along with needy ones. They also may send inefficient price signals to producers and consumers throughout the economy and maximize the disincentive effect of food aid. Targeting consumer subsidies (as discussed above) mitigate these consequences of across-the-board food subsidies.

Transitory Food Insecurity

Transitory food insecurity arises from the variability of world food prices, foreign exchange earnings, domestic food production, and household incomes. Transitory food insecurity can also arise during the course of structural adjustment. Reducing transitory food insecurity requires measures to stabilize both domestic food supply and demand for food. Food aid has a role to play in supporting both types of measures.

Three primary avenues are available for stabilizing domestic food supplies: stabilization of domestic production, stabilization with buffer stocks, and stabilization through trade. The preceding sections of this paper discuss in detail potential applications of food aid resources in stabilizing domestic food supplies. Food aid's applications in stabilizing demand are more limited.

Stabilization of domestic demand requires more than price stabilization alone. Variability of household incomes accounts for a significant portion of demand instability. Thus, to a large extent, stabilizing demand for food requires programs or policies to stabilize incomes. For agricultural producers, income varies with fluctuations in farm-gate prices and quantities produced (and marketed). Food aid can assist in providing the financial resources to support procurement programs; yet, food aid lends little to efforts to compensate for production variability. For consumers, incomes fluctuate in response to employment and prices. Food aid has little direct effect on employment, though it can make available foreign exchange that can be invested in labor-intensive industrial activities. However, programs that use food aid to stabilize retail food prices can help to stabilize consumers' real incomes, since food typically receives a 60-70 percent budget share among the poor.

6.0 LESSONS LEARNED

Experience has shown that while food aid can facilitate broad macroeconomic reform by helping to protect vulnerable groups, it is most effective when directed specifically to support agricultural price reform (which is often a component of broad reform programs). This final section of Part I summarizes the lessons learned regarding food aid's role in promoting production, maintaining consumption, and stabilizing food markets in general.

6.1 Using Food Aid to Support Agricultural Price Reform

Food aid programs can be structured to provide significant support to agricultural price reform. However, experience makes it clear that food aid is not fully interchangeable with financial resources for the purpose of promoting reform, and that it has its own set of advantages and disadvantages which must be considered in designing a reform program.

The appropriateness of incorporating food aid into a price reform strategy depends in part on the kind of price reform problem. Three basic pricing problems arise with respect to food commodities in developing countries:

1. Producer prices are too low. It is critical to distinguish whether low prices are the result of government intervention (e.g., forced procurement) or whether low prices result from market forces (e.g., weak domestic marketing channels with high transportation costs or low international prices).

2. Consumer prices are too high. Here again, a critical distinction must be made between a situation where consumers believe prices are too high because they have become accustomed to subsidies and a situation where prices are too high for a significant portion of the population to afford to buy food.

3. Prices are too unstable and too uncertain. The critical distinctions here from a policy perspective are two-fold: a) is price variability of greater concern between years, during the year, or between regions, and b) if the source of concern is interseasonal variation, is the run-up in prices over the year greater than that needed to cover private sector costs of storage, including capital, risk, and physical losses?

Producer and consumer prices are inevitably in conflict. Higher prices for farmers imply higher prices for consumers, unless government intervention serves to separate producer and consumer markets, providing price incentives to farmers while protecting at-risk consumers from price increases that reduce consumption. Food aid can provide resources to help resolve this fundamental "food policy dilemma," at least in the short run, but few developing country governments have the resources to subsidize prices for either producers or consumers over the long run without disastrous consequences for fiscal stability and economic development.

It is obviously an over-simplification to speak of "food prices" as though only a single level were involved. In reality, governments may be concerned only with the price of a single staple that has particular political importance, such as rice or bread, and be less concerned about other prices. Distortions in relative prices can have a serious impact on farmer incentives and food security, even when average prices are roughly in line with international levels. Imbalances between the price of domestically produced foods (especially low value crops such as coarse grains) and imported foods (particularly high value commodities such as rice, milk, and edible oil) frequently are a source of concern to policy makers in the agricultural sector.

6.2 Food Aid Interventions to Raise Producer Prices

The provision of food aid, assuming it is truly additional to domestic food supplies (as P.L. 480 requires), runs counter to the goal of raising producer prices. Food aid increases the supply of commodities that directly or indirectly compete with local production and therefore tends to exert a downward pressure on food prices. Theoretically, however, food aid that displaces food imports does not have this disincentive effect. Indeed, some research has found a nearly complete displacement of commercial imports by food aid in selected countries.[7]

In principle, the disincentive effect of additional food aid can be largely avoided if the food is directed to segments of the population that do not participate in the domestic food market, such as poor consumers who would otherwise not be able to purchase food. Targeting is discussed further in the following section on consumer prices.

Local currency generated by sale of food aid offers a mechanism for improving producer incentives, via financing for local procurement campaigns. For example, local currency generations can be used to defend procurement prices. Under certain

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[7] Lance Taylor, c.f. Peter Timmer, "Food Aid and Malnutrition," International Food Policy Issues, A Proceedings. USDA, ESCS, Foreign Agricultural Economic Report No. 143, Jan., 1978.

conditions, such government sponsored campaigns can be an effective means of raising prices, particularly in the post-harvest period. These conditions include the following:

- The program must be implemented immediately following harvest, so that the low income farmers who must sell immediately may derive some benefit from the program. In fact, many government programs are unable to mobilize funds, equipment, and personnel to meet this condition.

- Whatever the support price, the government must have sufficient funds to purchase the full amount offered at that price, and to hold the commodities purchased off the market until the open market price rises to the support level; otherwise, as recent Malian experience demonstrates all too clearly, the government's abrupt withdrawal from the market may destabilize prices, causing them to drop sharply and increasing uncertainty throughout the system.

- The government must be willing and able to bear the very large transport and storage costs inherent in a price support system. Where prices are unstable from year to year, it may be necessary to hold grain for more than one year in order to avoid dumping it on the market and driving prices below the support level.

Recently, some AID missions have begun experimenting with using local currencies generated through food aid sales to finance loan funds to private sector traders, with the aim of increasing their capacity to purchase grain in the post-harvest period. While there is as yet little experience in this area, such schemes appear promising.

A number of mechanisms are available for using food aid as leverage to encourage changes in policies that depress farmgate prices. These measures are particularly appropriate when low prices are the product of an artificially low government procurement price, rather than market forces. Negotiation of a food aid package may then provide opportunities to raise official prices or to reduce the government's involvement in the market.

It should be emphasized, however, that food aid is not useful to address the problem of low farmer prices that arise from fundamental market forces. For example, a country may not have a comparative advantage in a given food crop, or may lose the advantage that it once held, if the world prices for that commodity falls or if domestic production costs rise sharply. Adjustment to increasing competitiveness is extremely difficult, but additional food aid imports are rarely an appropriate response, except as a temporary measure to support more gradual responses to sudden and dramatic changes in comparative advantage. Indeed, any measure to hold domestic prices up in the face of market forces will be costly to the local economy, regardless of its structure.

6.3 Using Food Aid to Reduce the Impact of High Consumer Prices

Food aid should not be used to lower general consumer prices where the underlying economics of a country's agricultural sector require higher prices in order to motivate production. Food aid can and should be used for two special purposes related to price reform:

- Food aid can be used to widen the wedge between consumer and producer prices temporarily, as part of a reform program entailing immediate increases in farm prices and more gradual rises in consumer prices. (This approach was used with partial success in Mali, as described in the Mali case study in Part II of this paper).

- Food aid can be used to mitigate the negative effects of removing consumer subsidies on particularly sensitive groups. Although this practice should in theory be limited to low income groups who might suffer serious hardship from a sudden increase in food prices, as a practical matter it may be necessary to use food aid to cushion politically powerful groups such as the military and government employees, whose opposition might otherwise endanger the reform. This is clearly what is happening in Guinea where large scale food aid is restraining increases in the price of food for civil servants and military whose real incomes have been reduced by devaluation, removal of food rations and subsidies, and in some cases loss of their jobs. (See Guinea case study in Part II). In Guinea, the supply assurance and price stability contributed by food aid appears also to be contributing to the political stability needed to make the massive economic policy reform program work.

Targeting of food aid is an important consideration in protecting consumers, as well as in limiting disincentive effects to producers. Although targeting through Title II PVO mechanisms such as Food For Work can be fairly efficient, targeting through Title I and Title III programs is more difficult (since those programs were not designed to be targeted). Selection of commodities that are not preferred by wealthy consumers, for example, is one relatively low cost method of ensuring that poor consumers benefit most from subsidized food distributions. Other mechanisms, such as distribution in neighborhoods or regions with high concentrations of low income populations can also be used, although such measures may be difficult to implement in practice. Other targeting mechanisms, equally difficult to implement, include subsidized sales through "fair price shops" access to which is limited by a means test, and targeting by requiring long queues to purchase subsidized food.

As a practical matter, the most vulnerable consumers in the food market cannot be so clearly delineated, particularly when such common social practices as gifts and intra-family transfers are taken into consideration and when adequate allowance is made for the resale of food aid onto local markets. Despite the difficulties involved, targeting food aid is one of the most importa : measures that can be taken to limit the disincentive effects of food aid.

Targeting may also help to prevent host governments from using food aid as a practical expedient to avoid the hard choices involved in increasing domestic food production, inasmuch as the political pressure to increase food supplies derives primarily from groups that, directly or indirectly, purchase their food on the market.

6.4 Using Food Aid to Stabilize Prices

Price instability is a major problem for both consumers and producers. Its negative consequences for traders and investment in market infrastructure are only beginning to receive the attention the merit. Here again, the source of the instability is an important determinant of both the appropriate policy response and the utility of food aid as a policy instrument.

In general, food aid is most useful as a protection against sharp fluctuations in prices caused by crop failure. In countries as diverse as Bangladesh and Mali, food aid has been used to constitute a buffer stock for release in times of shortage. In Mali, the stock offers protection against unexpected drought emergencies, ensuring a steady supply of food in the months required to mobilize foreign assistance. In Bangladesh, food aid is added to the government's total stocks available for release during poor crop years.

Food aid, if it substitutes for commercial imports, can also help to buffer consumer prices and foreign exchange accounts from fluctuations caused by drastic shifts in international prices.

Food aid is less appropriate as a counter to intra-year price variability, as it is difficult to manage the operation in a way that does not discourage private traders from making investments in storage, and therefore simply make the problem worse over time. Moreover, conditions in many countries make it difficult to time food aid arrivals with sufficient precision to control seasonal variations effectively (a purpose for which buffer stocks are more effective). At a minimum, food aid donors must make a strong effort to ensure that food aid does not arrive in the post-harvest period, thus worsening intra-year price variability.

Finally food aid is generally inappropriate as an element in an inter-year price stabilization program, other than in emergency conditions. Few governments can afford the large expenditures such programs entail, and food aid may encourage them to undertake an unsustainably ambitious program in this area.

6.5 Other Uses of Food Aid in Price Reform

There are a number of other ways that food aid can contribute to the reform process through the programming of local currencies. These include:

- Financing for studies of price reform measures and their impacts;
- Financing the collection of data on market prices to improve government and private sector information; and
- Financing investments to reduce marketing costs, including roads and central market facilities.

As discussed in Appendix A, recent changes in the food aid legislation have opened up new possibilities for programming food aid. AID missions are continuing to experiment with these mechanisms to identify new ways of supporting policy reform. The mechanisms treated in this section are indicative of the innovative approaches being tried and the potential for success; at the same time, they indicate the limits that must be faced in using food aid to promote price policy reform.

PART II

7.0 COUNTRY CASE STUDIES

Part II of this paper draws upon APAP experience in three countries to illustrate the discussion presented in Part I. Guinea demonstrates food aid's role in promoting macroeconomic reform; Mali illustrates food aid's application in restructuring a domestic cereals market; and, Bangladesh demonstrates food aid's role in promoting food security.

7.1 Guinea: Food Aid and Macroeconomic Policy Reform

Since the death in 1984 of its first President, Ahmed Sékou Touré, Guinea has embarked on a period of profound economic reform. In contrast to the heavily planned and state managed economy of the Sékou Touré era, the Government of Guinea (GOG) has in recent years been a ready participant in donor sponsored policy reform programs.

7.1.1 The Food Situation

Rice is the main staple food in Guinea, but quantitative information about Guinea's rice situation is virtually nonexistent. Available data is outdated and of highly questionable accuracy. Moreover, the current transitional period in Guinean agriculture further obscures the present food grain situation. The 1986 fall harvest was the first of the post-Sékou Touré era. This section uses a compilation of available data to present a broad statistical overview of rice supply and utilization.[8]

Estimates of total cereal production in 1985 range from 1,193,000 MT to 1,375,000 MT. Of this total, rice (milled) is estimated to comprise from 248,000 to 330,000 MT. Thus, rice accounts for 20 to 25 percent of total cereal production. Guinea also imports significant quantities of the rice it consumes. In 1985, rice imports were roughly 90,000 MT, of which 21,400 MT were P.L. 480 concessional imports. For 1986, rice imports were expected to reach 200,000 MT, of which 30,000 are P.L. 480 Title I and another 30,000 were Section 416 Food for Progress donations. These figures suggest that rice imports supplied one quarter to one third of total rice consumed in 1985, and over one third in 1986. Of total rice imports, one quarter to one third were from U.S. food aid.

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[8] See "Food Aid and Policy Reform in Guinea," Abt Associates Inc., October 1986.

Data on food consumption are as scarce and unreliable as those on production. Rice consumption since 1980 has varied between 250,000 and 300,000 MT. Roughly 70,000 MT goes to nonfood uses each year, approximately 50,000 are wasted and 8,000 are retained for seed. There is no reliable estimate as to the percentage of domestically produced rice that is marketed off the farm. However, there is general consensus that the country's market for rice is clearly divided between Conakry, the capital, and the rest of the country. Conakry consumes essentially imported rice, while the rest of the country consumes domestic rice. Yet, imported rice is widely available in the interior, and domestic rice is available in Conakry. In most cases, the domestic rice is preferred over imported and commands a premium of around 20 percent over imported rice.

Alternative estimates of rice requirements can be generated by assumptions regarding population and per capita consumption. These estimates place rice needs between 484,000 MT and 576,000 MT, with roughly one third being consumed in urban areas.

These estimates of rice needs, coupled with alternative scenarios regarding domestic rice production, yield estimates of a rice deficit ranging from 154,000 MT to 328,000 MT. This is approximately one third of total rice consumption-- roughly the same proportion that is imported, and the same proportion assumed to be consumed in urban areas.

7.1.2 Policy Environment

Guinea is in the midst of profound political and economic change. Since December 1985, the GOG has undertaken a major program of economic reform and structural adjustment. The achievements under this program have been impressive and include macroeconomic policy reform, significant structural adjustments, civil service reform, and governmental reorganization.

Macroeconomic reforms have included a massive devaluation of the Guinean franc and the establishment of a currency exchange rate that more nearly reflects market demand. Exchange rates are determined in a weekly foreign currency auction. In a related move, the GOG closed all government owned banks and allowed them to be replaced by a private banking system. The civil service reform includes substantial progress toward reducing the number of civil servants from 90,000 to 60,000. The guarantee of government employment to graduates of institutions of higher education has been lifted and new admissions to these institutions have been limited. A number of ministries have been reorganized to make them more efficient and the process of privatizing state owned and managed industries has begun.

Significant reforms have taken place in the agricultural sector. The GOG has abolished more that 300 state farms and 345 regional state trading companies that were mandated to control trade in agricultural products. Structural adjustments include the abolition of the public food distribution system as well as the elimination of state trading companies which formerly held monopolies over food imports. In addition, the forced delivery by peasant producers of food and livestock products and the roadblocks to free movement of goods and people throughout the country have been eliminated. Producer prices for coffee and palm nuts were increased tenfold, and the GOG has eliminated the subsidy on rice consumption. The continued existence of parastatal companies for coffee and palm products is a subject of current discussion between the GOG and the World Bank, which is pressing for their elimination.

The GOG appears to be committed to further policy reforms which will include adjustment of commodity prices to reflect import parities, privatization of remaining public companies, decentralization of government functions, market pricing for public utilities and transportation services, simplification of tariff and customs procedures, and promulgation of new mining, commercial, and investment codes. Despite this progress, there remain several areas of economic policy that may constrain rice production and marketing.

7.1.3 Food Aid and Policy Reform

U.S. food aid in Guinea consists primarily of two programs: P.L. 480 Title I and Section 416 Food for Progress, both of which provide rice to the GOG. The sale of P.L. 480 generates a pool of local currency resources, which can either be "programmed" for specific uses agreed upon by USAID and the GOG, or can become general budget support for the GOG. P.L. 480 Title I has been operating in Guinea since the early 1960s, during which time imports have consisted almost entirely of rice. These imports averaged 22,500 MT annually during the seventies, and since 1984 have been approximately 30,000 MT per year. The market value of current Title I assistance ranges from six to eight million dollars per year.

The Food for Progress program is in its first of three years of operation. The GOG and USAID have agreed on a package of reforms (described in the previous section) in return for which Guinea will receive 30,000 MT of rice in 1986, 40,000 MT in 1987, and 30,000 MT in 1988.

USAID has also introduced a non-food aid program with important implications for agricultural policy: the African Economic Policy Reform Program (AEPRP). The

AEPRP is a cash grant of ten million dollars to the GOG to encourage continued policy reform. Approximately one fifth of the AEPRP will be devoted to technical assistance to support and guide economic and agricultural policy reform.

Together these programs provide USAID with two basic types of resources with which to negotiate with the GOG: foreign exchange support and local currency proceeds from the sale of commodities in Guinea. AEPRP funds will be disbursed in tranches contingent upon the fulfillment of pre-negotiated policy reforms. P.L. 480 and Food for Progress provide local currency which USAID and the GOG can agree either to program for investments in specific development projects or to leave as general budget support in return for policy reform. U.S. food aid should strike a balance between these alternative uses in order to provide the GOG sufficient incentive for policy reforms as well as the fiscal resources to implement those reforms.

Two broad factors condition the competitiveness of domestic rice production vis-a-vis imported rice (given local costs of production): the retail prices of imported rice and the margins associated with marketing domestic rice in Conakry and other urban markets. These two factors are subject to constraints ranging from the condition of roads in the interior to the price of foreign exchange. The primary constraints to agricultural development in Guinea fall into two categories: policy constraints and fiscal constraints. With its combination of leverage for policy reform and a pool of local currency, food aid can be useful in addressing both of these problems.

Policy constraints on Guinea's rice sector include: over valuation of the Guinean franc, licensing of rice traders, and the possibility of subsidizing the sale of imported rice. Over valuation of the Guinean franc undermines the competitiveness of local rice producers against already inexpensive imported rice. This is the result of the artificial shift in relative prices in favor of imported rice created by currency over valuation. In September 1986, the over valuation of the franc was about 15 to 20 percent. In addition, the gap between official and black market exchange rates was increasing, in contrast to their previous post-devaluation equality.

In an effort to protect Guinean farmers from "unscrupulous" rice traders, the GOG restricts the number of traders by requiring licenses to purchase rice from farmers. It is likely, however, that this restriction actually undermines competition among traders, and thus minimizes their incentives to bid up farm gate prices to competitive levels.

Subsidized sales of imported rice exacerbate the shift in relative prices in favor of imported rice. This has not been a problem recently, since an agreement between the World Bank and the GOG requires that a fixed retail margin be added to the c.i.f. price of imported rice (most of which is sold for higher prices on the black market anyway). Yet it remains a policy to be guarded against.

In view of both the important role of imported rice as competition for domestic production and the low international rice prices prevalent in 1986/87, some GOG intervention to limit rice imports may be appropriate in the short run. A levy on rice imports that varies with c.i.f. rice prices could help to stabilize domestic rice prices and protect domestic producers from cheap rice imports. Complementary policy reforms could include maintaining the Guinean franc at its shadow exchange rate and eliminating the licensing of rice traders. The policy leverage that accompanies food aid can be directed to promote these types of policy reforms.

Exchange rate and commercial policies influence the domestic price of imported rice. These are essentially policy problems. The other half of the equation pertains to fiscal and physical constraints that exaggerate domestic marketing costs and thus increase domestic producers' difficulties in competing with imports. The local currency proceeds generated by the sale of food aid can be invested to ease these constraints. Potential investments of local currencies include: improving the road system, monitoring domestic and border agricultural prices on a continuing basis, performing an agricultural census, as well as supporting agricultural research and extension programs. Local currency proceeds could also contribute to small farmer or trader credit programs.

7.1.4 Evaluation of the Experience

The experience in Guinea with linking food aid and policy reform can be discussed only in broad terms. The GOG is still in the process of implementing reforms and it will be at least another year before one can make judgments as to the results of those reforms. One can say, however, that the existence of food aid is facilitating the GOG's efforts towards reform by providing the assurance that consumer prices for the basic staple food will not soar as producer price ceilings are lifted. The food aid program also gives USAID/Conakry a voice in the current agricultural policy dialogue, and provides both foreign exchange support (both directly and through import savings) and local currency resources necessary to underwrite some of the necessary reforms and investments.

7.2 Mali: The Cereals Market Restructuring Program

In 1981, the major food donors in Mali joined together to assist the Government of the Republic of Mali (GRM) in implementing a five-year program of food policy reform, the Projet Pour la Restructuration du Marché Cerealier (PRMC). The program was designed to improve farmer incentives, liberalize the grain market, and reduce government expenditures on cereals marketing. It represents an innovative and ambitious attempt to link food aid and policy reform. In consequence, the experience during its first five year phase merits close examination for lessons that may be applicable in other situations.

7.2.1 The Food Situation

Mali's food policy dilemma is representative of the extremely difficult problems facing the countries of the Sahel. Like many of its neighbors, Mali for many years pursued a policy of low farm gate prices for grain in order to supply low cost food to urban areas. This policy was accompanied by heavy reliance on the government for most marketing functions, with state sponsored consumer cooperatives in the urban areas, a parastatal monopoly grain purchasing organization (the Office des Produits Agricoles du Mali or OPAM), economic police to enforce the state's monopoly, and large state run projects to expand rice production.

Coupled with the severe and repeated droughts experienced in the 1970s, these policies had a disastrous impact on Mali's agricultural production. Output failed to keep pace with Mali's burgeoning population, now numbering approximately 8 million, and the country became increasingly reliant on food imports. Lacking resources to finance commercial imports, the government was forced to call on the international donor community to supply the cereals needed to meet the country's basic food needs.

Regardless of the policy regime in the agricultural sector, food production in Mali fluctuates widely. In a poor year, even the best producing regions are in a deficit position, while the drier regions of the north are always net importers of grain. In a good year, the southern grain belt produces a surplus that meets most of the nations' requirement but only in the very best years does Mali reach self-sufficiency in coarse grains. Despite massive investments in irrigation, it is never self-sufficient in rice.

7.2.2 Policy Environment

Mali is currently in the midst of a difficult transition from heavy state regulation of grain trading to a system that relies primarily on the market and the operation of private grain traders. The official state monopoly on trade in coarse grains was lifted in the early 1980s. Although in fact the GRM had never handled more than a small fraction of this trade, the elimination of the economic police encouraged the private sector to become more active in the markets for millet, sorghum, and corn. Despite the liberalization, the GRM continues to set official prices at the farm and retail levels, and with donor support attempts to defend these prices by buying and selling grains. The official farm level price has risen steadily throughout the reform period. The bumper crops of 1985/86 and 1986/87 demonstrated that the GRM does not have sufficient resources to support a price well in excess of the market established level, and that attempting to do so can be very costly for the GRM and disruptive of the market.

Progress has been slower in liberalizing the rice market, where production is dominated by parastatals with production costs far in excess of current world rice prices. The parastatals have stoutly resisted giving up their comfortable marketing relationship with OPAM (guaranteed sales at a guaranteed price), and indeed it remains unclear how the parastatals could operate without continued massive subsidies.

On the consumer side, the GRM delayed raising prices during the severe drought of the early 1980s, despite heavy international pressure to do so. As a result, subsidized sales of internationally donated commodities continued during the early years of the reform. After three years of discussions, the GRM finally made major increases in consumer prices in 1985/86, when the drought ended. Neither the donors nor the GRM foresaw the steep fall in free market prices that occurred when local production rose. This precipitous decline in market prices left the official retail price far above the market and left OPAM holding large stocks that could not be sold at a price that would cover acquisition costs.

Finally, with regard to trade, the drop in the world price of rice, fuelled in part by the declining value of the dollar, exacerbated the weak competitive position of Malian rice. The tariffs imposed on rice imports, with IMF support, proved insufficient to redress the balance. As of February 1987, it remained uncertain whether funds would be forthcoming from either the public or private sector to buy up the 1986/87 domestic rice crop. Private export of coarse grains continues to be prohibited.

7.2.3 Food Aid and Policy Reform

Food aid played a large role in the PRMC reform process. Under the leadership of the World Food Program (WFP), the PRMC donors made a multi-year commitment of food aid to support the reform, primarily in the form of grain. The food imported was sold by OPAM to generate funds to underwrite the reform process. During the first three years of the reform, the funds were used almost entirely to cover the operating deficit of OPAM. This deficit was affected adversely by the reform, due to the growing gap between the farm price, which was raised annually to improve farmer incentives, and the consumer price, which was not raised at all.

When the consumer price was finally increased, the food aid monies were redirected to finance the governments' post-harvest buying campaign in order to shore up the support price. Although it was hoped that the increase in consumer prices would spell the end of OPAM deficits, the decline in the open market price virtually eliminated OPAM sales, with the inevitable result that very large deficits were registered for 1985/86 and 1986/87. As of February 1987, the outcome was unclear, as PRMC'S funds were tied up in grain purchased locally during the previous year's buying campaign and alternative sources to fund the deficit had not been identified.

Significant progress had been made in other areas, however. The active dialogue initiated by the PRMC has been instrumental in reducing the operating costs of OPAM, encouraging it to take measures such as selling off its truck fleet and reducing personnel in return for guaranteed financing of the deficit from food aid sales.

The donors were also successful in programming food aid and other resources to establish a grain security stock, which is managed separately from other OPAM grain and maintained as a protection against future production short-falls. The security stock is not intended to replace international food aid, but rather to meet short-term needs while international assistance mobilizes.

7.2.4 Evaluation of the Experience

The PRMC's first five years illustrate some of the strengths and weaknesses of using food aid to promote policy reform. Perhaps the most important lesson to be drawn is that food aid is a more useful tool for reform during periods of shortage than in times of surplus. During the drought years, the PRMC played a major role in encouraging the government to raise official producer prices toward market levels, a move supported by donors on the grounds of improving producer incentives as well as eliminating market distortions. The availability of donor grain also was instrumental in convincing the GRM to eliminate restrictions on private trading.

When market prices fell during the past two years, however, the PRMC was caught unprepared. Mali faced a situation of near self-sufficiency, if not actual surplus, and the need for donor grain was greatly reduced, thus eliminating the PRMC's mechanism for generating funds. Moreover, donors disagreed as to whether the GRM should support a producer price well above the market level, despite the losses entailed, or move the official price downward to reflect market conditions, recognizing that resources were simply insufficient to maintain producer incentives at the previous level. As of February 1987, this issue remained unresolved, although all parties agreed that food aid alone could not provide the resources needed to sustain producer prices.

The slow progress in liberalizing the rice market was also cause for concern, but the appropriate remedies appeared to be beyond the scope of PRMC action. On the one hand, it was evident that food aid could not supply the resources needed to transform the rice producing parastatals into economically solvent operations. On the other hand, a ban on rice imports to protect inefficient domestic producers would run counter to the PRMC's principle of market liberalization.

Despite these setbacks, the PRMC made a major contribution to policy reform in Mali. The support offered by food aid and aid generated local currencies was critical in consolidating the move toward free markets. Mali is entering a stage in the reform where the issues are too complex and difficult to be tackled successfully using food aid alone. Nonetheless, the successes achieved in the early years ensure that food aid will continue to be important to Mali's food policy reform as well as to the nation's food security strategy for the foreseeable future.

7.3 Bangladesh: Food Aid and Food Security

7.3.1 The Food Situation

Food grain production in Bangladesh is dominated by rice, which accounts for roughly 95 percent of the total. Rice also accounts for around 85 percent of consumption. Since the mid 1970s, wheat has accounted for an increasing portion of food grain production and together with rice, comprises 99 percent of total food grain production and consumption. Minor food grains produced include millet and barley.

Total food grain consumption in Bangladesh in 1982/83 was approximately 15 million tons, 85 percent of which was supplied domestically with the remainder coming from imports (mostly food aid). Since the mid 1970s, food grain production has increased by 3.5 percent per year.

The agricultural sector dominates Bangladesh's economy. Roughly 83 percent of the population lives in rural areas. Rural people represent 86 percent of the civilian labor force, 59 percent of which is directly employed in agriculture. As one of the world's most densely populated countries, Bangladesh experiences tremendous pressure on limited land resources. Moreover, the distribution of landownership and wealth is highly skewed: 4 percent of the population owns 32 percent of the land, while nearly half of the rural population is landless or "functionally" landless (owning less than half an acre.) This situation contributes to severe seasonal unemployment and an extremely low standard of living for the rural poor. Current national per capita income is approximately $125 per year.

Bangladesh's poverty contributes to widespread malnutrition: the World Bank reports that less than 40 percent of the population is adequately nourished by the minimum daily consumption of 2020 calories while 45 percent of the population consumes under 1650 calories daily. Ninety percent of the malnourished live in rural areas, with the landless and informal nonfarm labor (32 percent of the population) surviving on merely 1500 calories per day, the minimum level necessary to sustain body weight.[9]

Increasing agricultural production is clearly a high priority for Bangladesh. The population growth rate of roughly 2.6 percent annually (which implies a doubling in 27 years) further reinforces the need for continual increases in agricultural production. Yet, increased production alone is not a panacea. The poor must be able to afford to purchase the increased production. Rural employment is thus a central concern, since the fundamental issue is to raise the purchasing power of the rural poor. In this regard, too, greater production is not a panacea: the extremely high ratio of labor to land creates a situation in which production growth alone will not absorb labor at the rate at which the labor force is growing. Indeed, the World Bank estimates that the rate of growth in rural employment is only one-third the rate of growth in agricultural output.

The severity of these structural characteristics leaves little room to maneuver agricultural policy: the large number of marginal consumers imposes a severe constraint on the Government's ability to provide production incentives through output price supports, if price supports are financed through higher retail prices. Bangladesh is virtually unique in the severity of its food policy dilemma.

7.3.2 Policy Environment

In order to deal with the food situation, the food policy of the Government of Bangladesh (BDG) is built on three pillars: partial price stabilization for producers, partial price stabilization for consumers, and food rations.

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[9]World Bank, "Bangladesh Food and Nutrition Sector Review," Report No. 4974-BD, 31 January 1985, p.3

Price Stabilization

The principal tools with which the BDG has pursued partial stabilization of producer and consumer prices have been procurement of stocks on the open market at a pre-announced floor price and release of stocks onto the market by means of Open Market Sales (OMS) at prices which parallel fluctuations in open market prices.

OMS and crop procurement together act to define a loose range within which grain prices may fluctuate. The OMS policy protects consumers by providing them a price buffer against large jumps in market prices. It is important, however, to recognize the limits to what OMS can accomplish in protecting low income consumers. The benefits of price stabilization accrue mainly to consumers who can exercise effective demand at market prices. While OMS stabilizes food prices, it does not do so at prices sufficiently low to ensure the neediest consumers access to a nutritionally adequate diet. The budgetary requirements of stabilizing prices at sufficiently low levels would make this prohibitive. This strongly suggests the need for consumption interventions targeted to the poorest consumers to complement the OMS.

Price protection for producers operates through government procurement of food grains at pre-announced prices. The policy of crop procurement serves two principal functions: 1) to prevent prices from falling dramatically immediately after harvest, thereby protecting small farmers who must sell at that time to meet pressing cash needs, and 2) to reduce the risks of volatile market prices that can inhibit farmers from investing in more productive technologies. Crop procurement also serves the important purpose of generating security stocks of cereals. These stocks provide the foundation for the BDG's consumption side interventions through the Public Food Distribution System (PFDS) of which OMS is one part.

Four factors impede effective crop procurement by the BDG: 1) the BDG faces political pressure to provide inexpensive food in the cities, and defending price floors for farmers makes it more difficult for the BDG to accommodate this pressure; 2) the BDG faces tight resource constraints (too tight to meet full procurement obligations in good production years); 3) current regulations and agreements limit the channels through which the BDG can manage and dispose of stocks once procured; and 4) when food imports are high the BDG can find itself holding large stocks that it can only dispose of by taking large financial losses.

Food Rations

Bangladesh uses several methods of food rationing to target distribution. The benefits of the current PFDS flow disproportionately to groups in the population not in nutritional need: the army, public employees, and urban dwellers. Thus, BDG resources are used to subsidize the consumption of groups whose nutritional security is relatively high and who already benefit from OMS operations. Meanwhile, large numbers of the rural poor remain malnourished.

The PFDS consists of both untargeted and targeted channels of food distribution. Untargeted channels, such as OMS, affect prices for the entire market. Targeted channels focus benefits on a particular subset of consumers by excluding others through some mechanism. Target groups are then sold limited quantities of food at fixed prices.

Untargeted OMS operations and sales to flour mills accounted for 15 percent of total off-take from the PFDS in 1984/85 (excluding relief activities). Four targeted channels that serve relatively well off consumers absorbed 37 percent of nonrelief off-take. Two relief channels specifically targeted to the poorest and most vulnerable consumers, Modified Rations and Food for Work, accounted for the remaining 46 percent of total off-take from the PFDS. Modified Rations and Food for Work are the only PFDS outlets targeted specifically to poor consumers, yet there remain numerous unresolved difficulties in channeling this food into rural areas. Moreover, these rations are merely a palliative that fails to address the long-run necessity to increase the purchasing power of the poor.

7.3.3 Food Aid and Policy Reform

USAID's food aid program in Bangladesh consists of P.L. 480 Title III and Title II. Of these, Title III (Food for Development) is the primary vehicle for policy reform. Title II donated commodities are used in Food for Work and other PVO-managed projects. Title III aid is used in Bangladesh as an infusion of resources to support policy reform. This resource transfer generates a degree of policy leverage, which USAID can apply in its policy dialogue with the BDG. The policy leverage derives from the debt forgiveness provision of Title III in which the U.S. Government and the BDG agree upon the uses of the local currencies to support agricultural development. Further leverage comes from the fact that annual disbursements of Title III assistance are contingent upon U.S. certification that the BDG is in conformity with the conditions and local currency uses (self-help provisions) included in the concessional sales agreement.

Title III commodities and local currencies fit well with the BDG's efforts to stabilize producer and consumer prices. The local currency proceeds generated by the sale of the commodities ease the cash flow constraints on crop procurement. At the same time that Title III helps to support production incentives, the donated foodstuffs support a nutritional floor for poor consumers. Modified rations can be increased by the sale of Title III food, which can also be used to stock fair price shops and other targeted distributional mechanisms. In addition, donated commodities can help to build the buffer stocks that provide the foundation for the BDG's OMS program to cushion upward price shocks in food markets during poor production years.

A combination of policy leverage and resource transfers could also be used to promote other policy reforms. Policy reform on the consumption side might include shifting the balance of ration off-take away from non-needy consumers. This could be accomplished gradually by adopting a policy of raising the ration price offered to non-needy consumers through the four rations channels not targeted to the poor. On the production side, crop diversification could also be supported by Title III. The primary inputs in a crop diversification program in Bangladesh are crop research, extension services, and appropriate pricing policies. Title III local currency proceeds could be used to defray the costs of increased crop research for pulses and oilseeds (the leading candidates for crop diversification) as well as to support the cost of improved extension services. Price policies with a focus on creating relative output prices conducive to pulse and oilseed production could be added to the agenda for USAID's policy dialogue with the BDG.

In sum, food policy in Bangladesh is severely constrained on all fronts: Bangladesh is heavily dependent on foreign markets, prices are unstable, most producers and consumers already live on the margin of survival, government revenue is quite limited, foreign exchange reserves are low, and the nutritional situation is dire. The severity of this situation creates many opportunities for an infusion of resources, such as P.L. 480 Title III, to ease these constraints on food policy. By providing the ability to separate producer and consumer markets, food aid can help the BDG both to support intensified agricultural production and to protect nutritionally vulnerable consumers. At the same time, Title III food aid eliminates a portion of the price variability of food imports and lightens the pressure on foreign exchange reserves.

7.3.4 Evaluation of the Experience

The experience with food aid and policy reform in Bangladesh has been largely positive. With the support and encouragement of the Title III agreement, policies to promote partial market stabilization have operated effectively. The OMS program in particular has been well implemented and has succeeded in cushioning upward price shocks in consumer food markets. On the production side, BDG performance on crop procurement has not been consistent. For example, to minimize purchase obligations in 1984/85 (a year in which stocks were already high), the BDG, for the first time, enforced quality standards which allowed it to refuse large quantities of rice offered it. However, the BDG has been reliable in announcing procurement prices in time to influence farmers' planting decisions. The jury is still out on other proposed reforms.

Appendix A

FOOD AID PROGRAMS THAT CAN SUPPORT POLICY REFORM

A.1 P.L. 480 Titles I, II, and III

As conceived originally and as amended since its enactment in 1954 P.L. 480 offers considerable scope for food to be used in support of economic policy reform and adjustment. The three titles of P.L. 480 represent distinct program structures. Title I aid takes the form of concessional sales of food, paid by recipients as long-term low-interest loans. For Title III countries all or part of that loan can be forgiven, in return for policy reform. In contrast, Title II aid is generally used by Private Voluntary Organization-operated programs such as Food for Work and Section 206. Emergency relief also falls under Title II.

Concessional sales of food under Title I of P.L. 480 have provided recipient countries with commodities, local currencies, and balance of payments support. The "self-help" provisions that must accompany Title I concessional sales agreements often include specific policy reforms or structural measures such as subsidy reductions and currency devaluations as conditions for the provision of the food aid.

India is often cited as a country where food aid was used successfully to elicit agricultural policy reforms and support major improvements in food production and food distribution. In the late 1960s, India, devastated by drought and famine, received massive shipments of wheat and other surplus agricultural commodities from the United States under P.L. 480. Provision of the food aid was conditioned on India's making reforms in agricultural price policy and in the grain procurement and distribution systems.

Many attribute India's current self-sufficiency in grains and her status as a net grain exporter at least in part to the food aid "leverage" applied by the United States to India's agricultural policies. The large quantities of food aid did play a part, but in addition to policy reforms, India, with the aid of the United States and other donors, made considerable investments in agricultural research, technology development, and education which also contributed to the increases in grain production. Local currencies generated from the sale of food aid in India supported these investments.

Donated foods under Title II of P.L. 480 also have the potential for facilitating economic policy reforms in recipient countries by providing targeted support to vulnerable consumers. Title II commodities are particularly appropriate in cases where poor people experience suffering or short-term dislocations because of policy changes. For example, targeting can be used to meet the needs of poor people whose incomes decline when structural adjustment programs require that currencies be devalued or food subsidies removed.

Food aid donations under Section 206 of Title II provide for the sale of donated commodities and the use of the local currencies generated to support agricultural development. Thus, Section 206 and Title III are virtually identical in practice. For countries that are recipients of Title II, and who do not normally purchase food under Title I, the possibility exists for using food aid not only as commodities, but also as local currencies or foreign exchange savings in support of economic policy reform. Mali, whose experience with food aid in relation to agricultural price policy reform is detailed in Section 7.2, has participated in section 206 programs.

Food for Development under Title III of P.L. 480 is another food aid program commonly linked to economic policy reform. This program, which was established in 1977, provides for forgiveness of the debt incurred for Title I commodities if the local currencies generated from commodity sales are used for development purposes. Converting loans to grants, as Title III does, provides both balance of payments support and local currencies that can be used to support structural adjustment programs. In principle, loan forgiveness provide AID the leverage to negotiate policy reforms.

Title III has not lived up to expectations at the time of its enactment. Only a handful of Title III programs have been implemented. Bangladesh, discussed in Section 7.3, one of them. In 1985, at the request of the Agency for International Development (AID), Congress reduced the legislative minimum tonnage for Food for Development programs from 15 to 10 percent of Title I commodities, providing for a relative decline in the importance of Title III programs.

A.2 New Program Possibilities

The Food Security Act of 1985, which reauthorized the P.L. 480 food aid programs until 1990, incorporates several new program possibilities for using food aid to support economic policy reforms in developing countries. These include the reinstitution of sales of Title I commodities for local currencies and the lending of those currencies for development purposes, an expanded food donation program explicitly linked to policy reform and private enterprise development, and monetization (selling or bartering) of a portion of donated commodities.

A.2.1 Lending for Local Currencies

Title I of P.L. 480 was amended to allow sales of commodities for local currencies and to provide for lending those currencies through financial intermediaries in the recipient countries for development of the private sector in agriculture. At least 10 percent of the aggregate value of the Title I program must be loaned in the form of local currencies. (This minimum can be waived by the President.) The United States will enter into agreements with private financial intermediaries for local currencies which must be repaid in a manner that will permit conversion to dollars.

A.2.2 Food for Progress

The "Food for Progress" program that operates through Section 416 of the Food Security Act or through Title I makes food available (on a grant basis) to recipient countries that undertake market-oriented economic and agricultural policy reforms. Under this program, 500,000 metric tons of commodities are made available annually to countries that qualify. Thus far only two countries Guinea and Madagascar have received commodities under Food for Progress. Guinea, whose recent and comparatively brief experience in linking food aid and economic policy reform is discussed in Section 7.1, received 31,000 metric tons of rice and Madagascar received 21,000 tons of rice in the Food for Progress program. A much larger number of countries are expected to participate in the Food for Progress program in fiscal year 1988.

A.2.3 Monetization

The 1985 legislative changes also authorize private voluntary organizations, cooperatives, and governments to monetize (i.e., sell or barter) commodities donated under Title II of P.L. 480 or Section 416. For each fiscal year through 1990, the law requires a minimum of 5 percent of the aggregate value of donated commodities under the non-emergency Title II programs and 5 percent of the aggregate value of Section 416 commodities be available to PVOs, cooperatives, and governments for monetization in recipient countries. Monetization can facilitate food distribution and development project activities of PVOs or cooperatives that are supportive of a structural adjustment program. AID works on the principle that for the most part, monetization should be used for ensuring adequate transportation and storage of project food aid and for complementary inputs that enhance the objectives of targeted food aid projects. However, AID does give consideration to full monetization of donated commodities in projects for long-term agricultural development.

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