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Food Aid and Policy Reform in Guinea

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EXECUTIVE SUMMARY

Guinea is in the midst of fundamental transition in its economic and agricultural policies. Since December 1985, the Government of Guinea (GOG) has undertaken a major program of economic reform and structural adjustment. Its achievements under this program have been impressive and include macroeconomic policy reform and governmental reorganization. USAID and other donors have actively supported this transformation.

The primary resources that USAID brings to bear in Guinea are food aid (rice imports under PL-480 Title I and Food for Progress) and cash support under the African Economic Policy Reform Program. This assistance brings USAID into a dialogue with the GOG on issues surrounding policy reform, and also generates a pool of local currency resources that USAID and the GOG can invest in development projects. Much of the dialogue between USAID and the GOG pertains to agricultural development, rice in particular. This report contributes to that dialogue.

The objectives of this report are to assess Guinea's agricultural policy environment as it pertains to rice, to suggest policy reforms and investment opportunities to improve the situation of Guinean rice producers, and to examine potential applications of U.S. food aid to support reform and investment. Two broad issues underly our assessment: 1) the competitiveness of domestic rice with imported rice. and 2) the potential disincentive effects of food aid on domestic rice production.

Competition Between Imported and Domestic Rice

Two basic factors condition the competitiveness of domestic rice production vis-a-vis imported rice: the retail price of imported rice, and the marketing margins that contribute to the relatively high cost of domestic rice in urban markets. These two factors are subject to a variety of influences ranging from the condition of roads in the interior to the price of foreign exchange.

The discussion of these issues can be divided along lines that fit well with the types of resources that USAID has at its disposal for influencing the agricultural situation in Guinea. The factors governing the competitiveness of domestic producers can be categorized as either economic policy constraints or constraints on production and marketing. The relevant USAID programs -- PL-480 Title I, Food for Progress, and AEPRP -- provide USAID with both policy leverage and influence over the programming of local currency proceeds resulting from the sale of donated commodities. A combination of policy reform and well-placed local currency investments will improve the competitiveness of domestic rice producers with imports in urban markets.

Economic Policy Constraints

1) Overvaluation of the Guinean franc -- Overvaluation of the Guinean franc is the single most important economic policy constraint on domestic rice production. In September 1986, the franc was 15 to 25 percent overvalued (e.g., the black market rate was 425-450 versus 370 on the official market). The most important implication of an overvalued exchange rate vis-a-vis domestic agriculture is that it fundamentally distorts the prices of traded goods, shifting relative prices in favor of imported goods and against domestic products. Thus, consumers choosing between imported and domestic rice face artificially depressed import prices. An overvalued exchange rate lowers the apparent price of the imported rice against which domestic producers must compete. Similarly, an overvalued exchange rate makes Guinean exports artificially expensive, reducing the competitiveness of Guinean exports on world markets. A further implication of this distortion of relative prices is that farmers may underinvest in production, since the value of such investment is artificially depressed. Thus, whatever are its intentions and direct policies towards agriculture, the GOG will undermine them by maintaining an overvalued exchange rate.

Disincentive Effects of Rice Imports and Food Aid

A major question for USAID is whether or not bringing rice into Guinea under PL-480 and Food for Progress imposes a disincentive on domestic rice production. It is more appropriate to ask whether imported rice in general (commercial imports plus food aid) imposes a disincentive, and, if so, what is the net addition of food aid to that effect.

The distinction between these questions hinges on the issue of whether (or to what extent) food aid displaces commercial imports. The availability of imported rice in the interior at significant price advantages over local rice tends to support the notion that imported rice in general acts to dampen price incentives for local production. Yet, the proper response to that situation rests in part on the question of whether food aid is additional to or displaces commercial imports.

If one local rice importer was correct in asserting that there is a one-to-one displacement of commercial imports by food aid (in which case the total quantity of rice imported would be roughly the same regardless of the quantity of food aid) then the disincentive effect of rice imports would be insensitive to food aid levels. In that case, the GOG would save foreign exchange equivalent to the net value at world prices of the food aid shipments, and there would be a transfer from private rice importers to the GOG. Conversely, to the extent that food aid does not displace commercial imports (and is thus a net addition to quantities imported) aid would contribute directly to a disincentive effect.

If food aid does not displace commercial imports, then disincentive effects could be mitigated by reducing the quantity of food aid. If, on the other hand, food aid does displace commercial imports, then changing the level of food aid will have no effect on incentives, and the proper policy response lies in the broader realm of general import policy. This is the context in which the GOG might consider a variable import levy to limit the quantity of rice imports.

Policies such as a variable import levy to make domestic rice more competitive with imported rice are likely to result in higher prices for consumers. This is a fundamental concern, the consequences of which must be assessed prior to any significant increase in rice prices. There is little data on consumption and nutrition levels in Guinea; yet, a 1983 World Bank study observed evidence of widespread hunger. In addition to possible nutritional constraints on rice price increases, there should be an examination of the welfare consequences of increasing the price of a commodity on which the typical household spends a substantial portion of its income. This, in turn, raises serious questions regarding the political implications of raising rice prices.

Indeed, there is a clear need for imported rice in Guinea, and that need is likely to persist for some time. Guinea currently imports roughly one-third of its rice needs, and food aid will account for over one-third of total rice imports in 1986. This could represent a substantial foreign exchange savings for the country. Also, the presence of significant quantities of food aid may be particularly appropriate as a safety net for the transitional pains and disorganization likely to accompany an economic reorientation as far-reaching as that currently underway in Guinea.

RECOMMENDATIONS

The report's recommendations for the application of USAID's food and cash aid to Guinea fall among three categories: policy reform, local currency investments, and further studies. Food for Progress can be used to elicit further macroeconomic and agricultural policy reforms; local currencies generated through Title I sales can be applied to overcome domestic marketing constraints; and, AEPRP can support the necessary technical assistance.

Food Aid for Policy Reform --

- Eliminate the overvaluation of the Guinean Franc;
- Eliminate the licensing of domestic rice traders;
- Ensure that the sale of imported rice is not subsidized;
- Consider a variable import levy to foster incentives for domestic rice production;
- Consider a price stabilization scheme under which the GOG would defend price floors and ceilings by injecting rice onto the market when prices rise above a fixed ceiling and by buying rice at a pre-determined floor price.

Local Currency Investments --

- Investment in the improvement of roads in the interior, to be channeled through the World Bank rural roads project;
- Finance the local costs of a system for monitoring and reporting market price information for rice and other agricultural commodities throughout Guinea;
- Pay the local costs associated with conducting a national agricultural census; (The above three investments should receive priority over the following potential investments.)
- Use local currencies to support civil service reform;
- Support for agricultural research;
- Funding for extension services;
- Capitalization of a small farmer credit program (pending study of its viability).

Supporting Studies to Be Financed by AEPRP Technical Assistance --

- Cost of production and producer prices;
- Urban food consumption;
- Marketing of domestically produced agricultural products;
- Marketing and demand for agricultural inputs;
- Production and marketing of export crops;
- Small farmer credit;
- The viability of a Section 108/106 program in Guinea;
- Using local currencies to support civil service reforms.

1.0 PURPOSE OF THIS REPORT

The overall purpose of this report is to suggest ways in which U.S. food aid in Guinea (PL-480 Title I and Food for Progress) can best be applied to: 1) support economic and agricultural policy reforms; 2) overcome constraints to producing and marketing domestically produced rice; and, 3) strengthen private marketing of agricultural products and inputs. The primary focus will be on rice, which dominates Guinea's agricultural economy.

The report includes recommendations with respect to policy reform AID may wish to negotiate with the GOG in connection with the Food for Progress program and also options for the use of local currencies to overcome constraints to increased domestic production and marketing of rice. The report also recommends a number of studies that would be performed under the AEPRP technical assistance project that would complement AID's food assistance strategy.

A guiding principle of this analysis is that food aid programs should be designed with the explicit objective of promoting long-term economic development. This requires that food aid be conceived of as more than a supplement to consumption. Rather, the program design should use food aid as both an incentive for policy reform and as an infusion of the economic resources necessary to implement those reforms. The need for food aid is partially a function of Guinea's current rice situation.

2.0 CURRENT RICE SITUATION IN GUINEA

Quantitative information about Guinea's rice situation is virtually non-existent. Available data is outdated and of highly questionable accuracy. Moreover, the current transitionary period in Guinean agriculture further obscures the current situation. The 1986 fall harvest will be the first peaceful harvest in the post-Sékou Touré era. Bluntly stated, nobody knows what to expect, though weather conditions have been favorable to agriculture this year. This section of the report presents a broad statistical overview of the current food situation, using a compilation of available data. The figures are intended to provide only rough orders of magnitude for the subjects described. Appendix 1 presents a detailed compilation of existing data.

2.1 Supply

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 MT 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 from PL-480. For 1986, rice imports are predicted to reach 200,000 MT, of which 30,000 MT are PL-480 and another 30,000 MT are Food for Progress.

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 are from U.S. food aid.

2.2 Needs

Data on food consumption is equally as scarce and unreliable as that on production. Rice consumption since 1980 has varied between 250,000 MT and 300,000 MT. Roughly 70,000 MT go to non-food uses each year, approximately 50,000 MT are wasted, and 8,000 MT are retained for seed. There is no reliable estimate as to the percentage of domestically produced rice that is marketed off the farm (according to USDA Economic Research Service data). However, there is general consensus that the Guinea market for rice is clearly divided between Conakry and the rest of the country. The distinction is that Conakry consumes essentially imported rice, while the rest of the country consumes primarily domestic rice. Yet, as will be discussed below with regard to potential disincentive effects of imports, imported rice is widely available in the interior, and domestic rice is available for a significant premium in Conakry.

Alternative estimates of rice requirements can be generated by making assumptions regarding population and per capita consumption. Appendix 1 contains such approximations based on 1985 data. 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 roughly one-third of total rice consumption -- the same proportion that is imported, and the same proportion assumed to be consumed in urban areas.

Appendix 1 presents more detailed estimates of production and consumption of rice, and explains the assumptions underlying those figures. The following section describes the AID programs which contribute to those figures.

3.0 USAID'S FOOD AID PROGRAMS IN GUINEA

USAID/Guinea's food aid consists primarily of two programs: PL-480 Title I and Food for Progress, both of which provide rice to the GOG. PL-480 Title I is essentially a loan with soft financing -- the GOG receives rice currently for which payment is deferred twenty years. The sale of PL-480 rice generates a pool of local currency resources, which can either be "programmed" for specific uses agreed upon by USAID and the GOG, or it can become general budget support for the GOG. PL-480 Title I has been operating in Guinea since the early 1960s, during which time imports have consisted almost entirely of rice. The quantity of these imports during the seventies averaged 22,500 metric tons (MT), and since 1984 has been approximately 30,000 MT per year. The market value of current Title I assistance ranges from six to eight million dollars per year.

Food for Progress, currently in its first year, is a pure grant of agricultural commodities (rather than a concessional sale). The Food for Progress legislation describes that such aid is granted "...in an effort to use the food resources of the United States in support of countries that have made commitments to introduce or expand free enterprise elements in their agricultural economies through changes in commodity pricing, marketing, input availability, distribution, and private sector involvement." (The complete text of the Food for Peace Agreement between the U.S. and Guinea is presented in Appendix 3.) In short, Food for Progress is granted in return for agricultural policy reform. The GOG and USAID have agreed on a package of such reforms, 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). AEPRP is a cash grant of ten million dollars to the GOG to encourage continued policy reform. Roughly one-fifth of AEPRP resources will be devoted to technical assistance to support and guide that policy reform.

Together, these programs provide USAID with two basic types of resources with which to negotiate with the GOC: policy reform in return for general budgetary support, and the programming of local currency proceeds from the sale of physical commodities. AEPRP funds will be disbursed in tranches contingent upon the fulfillment of pre-negotiated policy reforms; PL-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. This report will suggest that USAID 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.

4.0 OVERVIEW OF THE MACRO POLICY CONTEXT: RECENT REFORMS

Guinea is in the midst of profound change in its economic and political policies. 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, sweeping structural adjustment, and a program of administrative reform and governmental reorganization.

Macroeconomic reforms have included a massive devaluation of Guinea's currency and the establishment of a currency exchange rate which more nearly reflects market demand. Exchange rates are determined in a weekly foreign currency auction. In a related move, the GOG closed all governmentally owned banks and allowed them to be replaced by a largely private banking system. The GOG has also implemented an ambitious administrative and civil service reform. These reforms have included reducing as expeditiously as possible the number of civil servants from 90,000 to 60,000 and reorganizing government ministries to make them more efficient. In addition, the guarantee of government employment to graduates of higher education institutions has been lifted and new admissions to institutes of higher education have been limited.

Several particularly significant reforms have taken place in the agricultural sector. The GOG has abolished more than 300 state farms and 34 regional state trading companies that were mandated to control trade in agricultural products. Structural adjustments have included 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 has been eliminated and the roadblocks which 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 and structural adjustments which will include adjustment of commodity prices to reflect import parities, privatization of remaining public companies, decentralization of government functions, market pricing of public utilities (electricity and water) 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.

5.0 POLICY CONSTRAINTS ON RICE PRODUCTION

Two broad factors condition the competitiveness of domestic rice production vis-a-vis imported rice: 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 a variety of influences ranging from the condition of roads in the interior to the price of foreign exchange. Shaping these influences to the benefit of domestic rice producers requires a combination of policy reform and well-placed investments -- the basic resources available to USAID through PL-480, Food for Progress, and AEPRP.

Reshaping the economic environment to benefit domestic food producers is not a costless endeavor, either economically or politically. Policies and programs that shift the urban-rural terms of trade in favor of producers imply a substantial reallocation of domestic resources. Increased retail rice prices are a likely result from this reorientation. Thus, the speed and the degree of policy changes to make domestic producers more competitive with imports require careful consideration.

5.1 Economic Policy Constraints

5.1.1 Overvaluation of the Guinean franc

Overvaluation of the Guinean franc is the single most important economic policy constraint on domestic rice production. Assuming that the black market price for dollars is a proxy for the shadow price of foreign exchange, one can get a rough sense of the degree of overvaluation. In September 1986, the black market exchange rate of dollars for Guinean Francs ranged between 425-450 FG; the price at which dollars were sold at the weekly official currency auctions was roughly 370 FC. Thus, the degree of overvaluation of the Guinean Franc at that time was 15-22 percent. Although this is a relatively minor overvaluation, the recent trend has been towards an increasing divergence between the official and parallel market rates for the dollar.

This trend is cause for serious concern regarding agricultural development. The most important implication of an overvalued exchange rate vis-a-vis domestic agriculture is that it distorts the prices of traded goods to the detriment of domestic producers. Consumers choosing between imported and domestic rice face artificially depressed import prices. While this could result in a slight increase in the demand for domestic rice due to an income effect, the overwhelmingly dominant effect is likely to be the substitution of imported for domestic rice. In short, an overvalued exchange rate lowers the apparent price of the imported rice against which domestic producers must compete. Similarly, an overvalued exchange rate makes Guinean exports artificially expensive, thus reducing the competitiveness of Guinean exports on world markets. <u>Whatever are its intentions and direct policies towards agriculture, the GOG will undermine them by maintaining a significantly overvalued exchange rate</u>.

An overvalued exchange rate has the broader economic effect of motivating an inefficient use of domestic resources, since the true opportunity cost of resources are not reflected in their relative prices. One implication of this is that farmers are likely to under-invest in production, since the value of such investment is artificially depressed. Similar distortions apply to all traded goods and services. Moreover, the artificially increased incentive to import could result in increased net expenditures of scarce foreign exchange -- just the opposite effect of that hoped for by increasing domestic agricultural production. This issue is closely bound to import policy.

5.1.2 Licensing of Rice Traders

Present GOG policy requires that traders obtain a license in order to market rice. Such barriers to entry limit the number of traders and may thus make rice trading non-competitive. If traders face little competition from one another, there is little incentive to bid up farmgate prices to an efficient level (since farmers would lack alternative means of disposing of their crops). Thus, GOG efforts to protect rice producers by licensing traders may have the opposite effect by creating local monopsonies in rice trading. This would undermine the potential positive effects on farmers of previous policy reforms, such as eliminating roadblocks and dismantling public rice marketing boards.

5.1.3 Subsidized Sales of Imported Rice

Any subsidy on the sale of imported rice would exacerbate the shift in relative prices in favor of imported rice. Thus it is important to ensure that sales of imported rice are not subsidized. An agreement between the GOG and the World Bank and current low world rice prices serve this purpose. The World Bank and the IMF have convinced the GOG that the wholesale price of imported rice should be set at the c.i.f. price plus a 20 FG wholesaling margin. Current world market circumstances put this price at 100 FG per kilo in Conakry, plus an additional margin for transportation in the interior. (In fact, 60 to 70 percent of all imported rice is sold on the black market for 110 to 140 FG per kilo.) Thus, the subsidization of imported rice is not a problem at present, though it remains something to be guarded against.

5.2 Disincentive Effects of Rice Imports and Food Aid

An important question for USAID is whether or not bringing rice into Guinea under PL-480 and Food for Progress imposes a disincentive on domestic rice production. It is more appropriate to ask whether imported rice in general (commercial imports plus food aid) impose a disincentive, and, if so, what is the marginal contribution of food aid to that effect.

The distinction between these questions hinges on the issue of whether (or to what extent) food aid displaces commercial imports. Recent market observations have noted the ample availability of Thai rice in retail markets in Kankan, where local rice was selling for 240 FG per kilo. In Faranah, U.S.

rice was selling for 116 FG per kilo and local rice for 188 FG per kilo. The availability of imported rice in the interior at significant price advantages over local rice tends to support the notion that imported rice in general acts to dampen price incentives for local production. Yet, the proper response to that situation rests in part on the question of whether food aid is additional to or displaces commercial imports.

If one local rice importer was correct in asserting that there is a one-to-one displacement of commercial imports by food aid (in which case the total quantity of rice imported would be roughly the same regardless of the quantity of food aid) then the disincentive effect of rice imports would be insensitive to food aid levels. In that case, the GOG would save foreign exchange equivalent to the net value at world prices of the food aid shipments, and there would be a transfer from private rice importers to the GOG. Conversely, to the extent that food aid does not displace commercial imports (and is thus a net addition to quantities imported) aid would contribute directly to a disincentive effect on domestic production.

If food aid does not displace commercial imports, then disincentive effects could be mitigated by reducing the quantity of food aid. If, on the other hand, food aid does displace commercial imports, then changing the level of food aid will have no effect on incentives, and the proper policy response lies in the broader realm of general import policy (discussed below). This is the context in which the GOG might consider a variable import levy to limit the quantity of rice imports.

5.3 Rice Import Policy Options

The likelihood that rice imports create a disincentive to local rice production suggests that some intervention to limit rice imports may be appropriate in the short run. The same transitionary confusion that surrounds domestic rice markets affects import markets. Until recently, the GOG was the sole legal importer of rice. Now, all commercial rice imports are through private traders, though in theory the total quantity of imports is still restricted by the quantity of import licenses issued by the GOG. (There is no data concerning the quantity of rice that crosses in either direction over Guinea's borders, though in the previous days of controlled domestic prices the outflow was significant.)

The previous section described the effect of overvalued exchange rates in distorting relative prices in favor of imports and against exports. Thus, the first policy move to increase the competitiveness of domestic rice producers should be to eliminate the penalty imposed upon them by an overvalued Guinean Franc. Also as noted above, the other penalty on domestic rice production to be avoided is a subsidy on imported rice sales.

Clearly, a significant quantity of rice imports is vital to the Guinean food system and economy generally. Yet, if current low world rice prices are a temporary phenomenon, there would be a danger in allowing those conditions to define the level of investment in domestic rice production capacity. The possibility of variable levy on rice imports should be studied under the auspices of AEPRP. Such a levy would vary with world rice prices and serve to maintain retail prices of imported rice at a certain level. Determination of that level will have profound economic and political consequences, and will require careful consideration.

Before protectionist measures to increase the price of imported rice are imposed, there also needs to be some study of the consequences of rice price increases on consumers. Current data on Guinean food consumption and nutrition levels are incomplete. Yet, a 1983 World Bank study on Guinea's food imports concluded that the observed increase in consumption of all types of food as incomes rise is evidence of widespread hunger. In addition to nutritional constraints, there should also be an examination of the welfare implications of food price increases. A 1984 survey of household expenditures in Conakry found that the average household devotes nearly 70 percent of its income to food purchases. Thus, even a small percentage increase in food prices has serious implications for consumers' real income. Inflation this year is expected to reach 100 percent, and it is unlikely that wages will rise at the same pace.

6.0 MARKETING CONSTRAINTS TO RICE PRODUCTION

The counterpart funds generated by the inflow of Title I food aid should be used to finance a number of investments to enable Guinea to overcome constraints to increased production and marketing of local rice. Guinea is programmed for $6.0 million of P.L. 480 Title I rice in 1986. Comparable levels could be expected in 1987 and 1988. The nominal local currency equivalent at current auction rates of exchange is approximately 2.25 billion Guinean francs. In 1985, USAID signed the first agreement for the use and management of local currencies in the 25 year history of the Title I program in Guinea.

Marketing Constraints

The present condition of private marketing channels is unclear. Yet, there is widespread consensus that the costs of basic marketing functions (storage, transformation, and transportation) could be reduced by public investments in the physical and communications infrastructure. Local currency proceeds invested in specific aspects of agricultural production and marketing could both lower unit costs of production and reduce marketing costs. Such investments would thus contribute to making domestic rice more competitive with imported rice in urban markets.

It is widely held that marketing margins for domestically produced rice are quite high because of inefficient transportation, inadequate storage, and nationally high milling costs. There is very little information about storage or local milling of rice in Guinea. It is presumed that storage losses are substantial, in the neighborhood of 15 percent or more, and thus add to the cost of marketing rice. Most local rice is processed by hand and par-boiled. There is an evident preference for this kind of lightly milled rice, as it commands a substantial premium over imported rice. The condition of the road system throughout Guinea is poor and rural feeder roads are nonexistant in many parts of the interior. Poor roads together with inadequate trucking capacity, and high fuel costs add substantially to rice marketing margins. Transportation costs appear to be the major obstacle to marketing domestically produced rice in Conakry and in other major urban centers.

6.1 Using Local Currancies to Overcome Production and Marketing Constraints and to Support Policy Reform

For 1986-88, priority in the use of local currencies should be given to investments to overcome constraints to increased marketing of domestically produced rice as these can be more easily dealt with in the near term. Production constraints require investments in agricultural research and institutional capacity with longer term payoffs. This argues for investments that would reduce marketing margins as opposed to those that would result in increased production.

6.1.1 Improved Road System

A priority candidate for Title I local currencies is to use them to improve road systems in the interior of the country. The vehicle for applying Title I-generated currencies would be the World Bank's project for the construction of rural roads. Local currencies could provide a substantial portion of the GOG's contribution to the project. In addition to helping eliminate a major constraint to increased marketing of domestically produced rice, this proposed use of local currencies would impose a limited management burden on USAID/Guinea. Oversight of such a use of local currencies would rest with the AAO, but actual management of the road-building project would rest with the Bank-funded project. An additional advantage of using P.L. 480 counterpart to pay the local costs of building roads is that the funds are spent in rural areas rather than in Conakry. This can reduce the inflationary impact of the increase in liquidity by spreading it around the country and perhaps slow the transformation of increased liquidity into imports of consumer goods.

6.1.2 Price Monitoring

A second priority use of local currencies would be to finance the local costs of a system for monitoring and reporting market price information for rice and other agricultural commodities throughout Guinea. Such a system or network would be able to provide Guinean policy makers with the information necessary to manage better Guinean food supplies, especially the component of supplies represented by imported rice.

Initially such a price monitoring system should limit its activity to rice, both domestic and imported, and to other major food crops--corn, fonio, manioc, millet and sorghum, and peanuts. Ultimately, other food crops could be added. Prices would be monitored in the major urban markets of Guinea--Conakry, Boké, Gaoual, Guéckédou, Kissidougou, Faranah, Kankan, Kindia, Kouroussa, Labé, Mamou, N'Zérékoré, and Siquiri. Conakry is already covered with a survey carried out since May 1985 by the General Office of Statistics of the Ministry of Plan. In addition the Direction des Prix et de la Conjoncture of the Secretariat d'Etat au Commerce conducts a daily survey of prices of various products in six principal markets in Conakry. The Ministry of Rural Development has expressed interest in using its marketing/processing service (conditionnement) to carry out a price monitoring and reporting system.

It appears likely that the Caise Centrale de Cooperation Economique (CCCE) will finance the technical assistance for such a system. PL-480 counterpart funds could be used to defray the local costs of surveyors, etc. as the system is extended to the interior of the country.

6.1.3 Agricultural Census

A third priority use for Title I counterpart is to use them to pay the local costs associated with conducting a national agricultural census. Evidently, such a census was originally planned for 1987, but the planned scope may be reduced. FAO may be involved in a more limited set of surveys which would require financing of local costs.

6.2 Other Potential Local Currency Investments

The above proposed local currency uses should be given priority consideration because they help to relieve severe constraints to increased marketing of domestically produced rice in Guinea or provide information that is needed as a basis for improved economic and agricultural policy. However, there are a number of other candidates for local currency financing that could also be considered. These include support for agricultural research, support for extension services, and support for a small-farmer credit program. Funding for these activities should be postponed until further progress is made in reorganizing the Ministry of Rural Development and its various research and extension services. Also, it may be possible to use some of the local currency equivalent of the AEPRP to finance a small farmer credit program. In any event, farmers needs for credit would be better known after the studies (recommended below) on costs of production, household consumption, and product and input marketing are completed.

6.3 Section 108

Section 1111 of the Food Security Act of 1985 authorizes the sale of PL-480 Title I commodities for local currencies and requires that such currencies be used for private enterprise lending in developing countries. Section 108 provides that host country owned local currencies generated in Title I sales on dollar credit terms be jointly programmed for the same purpose, i.e., private enterprise lending. Loans of local currencies would be made to intermediate financial institutions who then re-lend them to privately owned enterprise or private individuals for private enterprise projects or activities.

While the concept of such a program for Guinea is attractive in view of the rapid liberalization and privatization of the economy, it would be prudent to postpone consideration of this program with the GOG until after agreements are reached on the policy reforms to be carried out under the Food for Progress program and the programming of local currencies under Title I are mutually agreed. The information and analysis to be gathered in proposed studies of Guinea's agricultural product and input markets may also provide a rationale for private sector lending. The existence of "intermediate financial institutions" is problematic in Guinea, although the situation is changing rapidly. A section 108 in 1988 or later would be a prudent USAID/Guinea objective.

6.4 Using Local Currencies to Support Civil Service Reform

A major reform of the civil service is underway in Guinea. Under the old regime the number of civil servants had grown to number more than 90,000, the result of a policy of hiring all graduates of institutions of higher education. According to the World Bank, about 7,000 civil servants have been "eliminated" largely from public banking and parastatals organizations, 3,000 have or will retire, and 1,000 have left voluntarily. Local currencies could be used to finance schemes to encourage resignation or early retirement of civil servants. Special facilities could be set up to provide start-up cash payments with minimal access or technical help might induce movement from unproductive employment. Similarly graduates of secondary and technical schools and universities are an economic resource that is likely to be lost to Guinea unless they find productive private sector work. Start up help for new graduates (from agricultural schools for example), settlement on abandoned state farms (FAPAS perhaps), or creation of tractor hire or other input supply firms are all possibilities to realize the potential of these young people. Such approaches to administrative and educational system reform are at least worthy of study.

7.0 RELATED TOPICS

7.1 Commodity Mix

Part of the challenge for USAID/Conakry is to maintain the fiscal value of its aid package while avoiding potential disincentive effects. A partial solution to this challenge might lie in exploring alternatives to rice in the PL-480 package. Unfortunately, the constraints of the PL-480 program leave little flexibility for shifting the commodity mix. This flexibility is further constrained by the already onerous administrative demands of the local AID staff, which at present does not have the capacity to manage a three-commodity food aid program. The possibility of substituting cotton for rice seems to be the most promising of the possible options.

There has also been some discussion of introducing wheat flour into PL-480 shipments. This, however, would likely lead to conflict with the EEC, which is presently the main supplier of wheat flour to Guinea. Also, it may not be advisable to encourage a dependency on the consumption of a commodity which cannot be grown locally. (This topic and the potential for a Section 108 program are covered in Appendix 2.)

7.2 Timing of Food Aid Shipments

Market prices for food crops undergo natural seasonal fluctuations, with prices tending to be at their lowest just after harvest time and to reach their peak just before the harvest. Thus, the extent to which food aid imposes a disincentive effect on production is somewhat sensitive to the point in the growing season which it arrives. If food aid shipments could be timed to arrive during soudure (the "hungry season" just prior to harvest), the disincentive effect could be minimized, and the benefits to consumers of lower retail prices would come when such help is most needed. Conversely, if food aid shipments are delivered during or just after the harvest, the disincentive effects will be maximized by flooding rice on to the market when prices are already at their seasonal low. Careful timing of food aid shipments could thus be an important factor in mitigating potential disincentive effects.

7.3 Supply and Market Management

One potential use for both local currencies and PL-480 rice itself is in defending floor and ceiling prices on domestic rice markets. Widely fluctuating rice prices present risks to both producers and consumers. Farmers' price expectations are a key factor in their planting decisions. If the GOG were to announce a floor price at planting time -- a price at which the GOG would purchase rice from farmers, should market prices fall sufficiently low -- the risk to farmers would be reduced. This could motivate increased production. Local currencies can be reserved to ensure the GOG's ability to defend a floor price.

Similarly, high retail prices (particularly during the pre-harvest "hungry season") are a significant threat to poor consumers. By timing the release of PL-480 (and domestically purchased) rice onto the market to coincide with upward price fluctuations above a pre-determined ceiling, the GOG could dampen retail price shocks.

This type of market operation would probably require several years to become operational in Guinea. Implementation would require adequate storage facilities, as well as the institutional capacity to manage the stocks and the marketing (both purchases and sales). Such an operation would also require substantial technical assistance, for projects such as determining appropriate floor ceiling prices. Programs of this nature operate successfully in Bangladesh and several other countries. A study of the feasibility of this type of market operation in Guinea could be funded under the AEPRP.

7.4 Administrative Considerations

The U.S. food aid program imposes a substantial management burden on the small staff of USAID/Conakry. The logistical problems of managing food aid deliveries are compounded by analytical requirements, policy dialogue with the GOG, and the oversight of local currency spending. Whenever possible, this report has sought to cast its recommendatiosn in such a way as to minimize additional administrative requirements. Nonetheless, the food assessment team endorses the view that USAID/Conakry requires additional staff to assist in the management of food aid and related policy studies.

8.0 SUPPORTING STUDIES TO BE FINANCED BY AEPRP TECHNICAL ASSISTANCE

USAID/Guinea envisages a substantial amount of technical assistance in macroeconomics, agricultural economics, rural finance, and agricultural statistics to support the AEPRP program in Guinea. In the view of the food assessment team (and USAID/Guinea), studies financed by the AEPRP technical assistance project should lend support to policy reform, help identify constraints to increased production and marketing of domestic crops, especially rice, and thereby reinforce the mission's food assistance strategy.

Little is known about Guinean agriculture at the present time. Both basic supply and utilization data for agricultural products and analytical information such as demand and supply elasticities are largely nonexistant. The most comprehensive study of Guinean agriculture is the "Etude des Prix et Incitations aux Producteurs Ruraux" prepared by AIRD (Dyck Stryker et al) published in March 1982. The field work on which that definitive study is based was conducted over a twenty month period in 1980 and 1981. In view of the extraordinary changes in Guinean agriculture in the last two years, much of the analytical work of the AIRD study needs to be redone. Some additional studies that are more directly associated with the food assistance strategy of USAID/Guinea need to be undertaken as well.

The studies in priority order are listed and described briefly below:

1. <u>Costs of Production and Producer Prices</u>: This study would estimate costs of production and producer prices for the principal cropping systems in Guinea, i.e., the various systems of rice production, other cereal crops, and export crops. This study would provide valuable data concerning the profitability of different agricultural enterprises as well as information concerning the comparative advantage of various production systems, especially rice. Information valuable to policy makers particularly on the effects of rice price policy changes and devaluation on the competitive position of domestic versus imported rice would be provided.

2. Urban Food Consumption: The main purpose of this study would be to determine the effect of rice price increases on urban consumption. In view of the need to further devalue the Guinean franc and to adjust (by means of such policy instruments as a tax on imports, variable levy, price stabilization scheme or supply management program) the relationship between the prices of imported and domestically produced rice, information on the elasticity of demand for imported rice is critically needed. Sample surveys would be conducted in Conakry and in a number of other major cities in Guinea, for example, Kankan, Labé, Guéckédou, etc.

3. Marketing of Domestically Produced Agricultural Products: The marketing system in Guinea has undergone profound change. For all practical purposes the state-run public system of marketing and distributing agricultural products has been eliminated. In addition, the elimination of roadblocks has opened up new possibilities for interregional trade. Information is needed about the role of the private sector and how it is responding to new marketing opportunities. A major objective of this study would be to determine how marketing margins (costs of transport, processing, and storage) could be reduced and how local currencies could be invested to improved the marketing system.

4. Marketing and Demand for Agricultural Inputs: Little is known about the extent to which Guinean smallholders use fertilizer and other modern farm inputs in their production systems. Under the old regime, state run import monopolies provided fertilizers and other inputs to state farms and other collective enterprises, but traditional farmers were largely overlooked. This study would determine the potential demand for inputs as well as the potential for private enterprise to supply inputs.

5. Production and Marketing of Export Crops: At the time of independence agricultural exports accounted for most of Guinea's export earnings. Now only about 3 percent of Guinea's export earnings come from agriculture. Guinea ostensibly has a comparative advantage in coffee production (although new DRC analyses taking into account the economic changes of the last two years need to be done to verify this) and an unfilled quota of 15,000 tons under the International Coffee Agreement. Guinea also has the

potential to export bananas, citrus, pineapple, groundnuts, and several other products. Both costs of production and potential market outlets need to be researched. Profitable export crop marketing could become the basis for local currency lending in support of private enterprise development in Guinea.

6. Small Farmer Credit: The present supply and demand for credit to Guinean smallholders is largely unknown. Information is needed about traditional sources of credit as well as potential institutional lenders. Conventional approaches to providing agricultural credit are under examination everywhere. Rather than provide loans to farmers for specific agricultural purposes (which are accompanied by high transactions costs), credit specialists argue for programs that mobilize rural savings as opposed to targeted credit. This probably has more to do with the spread of the commercial banking system and making available interest bearing accounts than it does with specific agricultural lending. In any event, in view of the strong interest in agricultural credit in Guinea, a study of options for financing smallholder agricultural production is clearly desirable.

7. The Viability of a Section 108 Program in Guinea: The potential for shifting from regular programming of Title I local currencies to a section 108 program of lending via intermediate financial intermediaries (IFIs) to private enterprises deserves careful study. The existence and capacity of IFIs in Guinea, the existence and viability of private firms or individuals, the role of PVOs and Coops, AID management considerations, technical assistance requirements, etc. all need to be explored carefully before undertaking a section 108, an otherwise attractive approach to using food aid resources.

8. Using Local Currencies to Support Civil Service Reform: The benefits and costs of various options to speed the reduction of the number of civil servants needs to be explored. Combinations of special credit facilities, technical assistance, lump sum payments, etc. could induce substantial movement out of the bureaucracy. Similarly options for using local currencies to productively employ graduates of secondary, technical, and higher institutes of education should be explored.

APPENDIX 1

I. Production and Trade

Notes on Production and Trade

Tables 1 and 2 present alternative indicators of the impact of food aid on domestic cereals and rice markets depending on high/low estimates of domestic rice output.

- Observations:

  ° Output estimates vary widely. For example, the range of high/low estimates is indicated below

	1975	1979	1985
High/low	2.087	1.820	1.331

  (at least trend is in right direction - hopefully)

  ° Domestic production has been stagnant at best, high estimates show a continual decline in rice output. Rice to total cereals trends are unclear.

  ° Even under low output estimates, PL 480 to-date has had an insignificant impact on total availabilities, accounting for less than 2% of total cereals and 10% of rice availabilities. PL 480's share of total rice imports has fallen.

Table 3 presents the only available time series data found.

Observations:

° Until 1979, consumption appears to be a residual function of supply. After 1979, the data base diverges.

° Acknowledging all of the weaknesses of the date base, if one applies some simple trend analysis (average rates of growth since 1978), projected 1986 and 1987 levels would be:

Year	Domestic Prod.	Imports
1986	259.5	131
1987	271.5	190

These imply:

- that if production response is constant in the short run, import levels would have to rise to a factor of 1.754 a year (not about 1.5) to keep up with population at 2.8 - simply put, we can look forward to rapidly rising imports;

- if imports do not rise and consumption equals availability, the average per capita rice consumption will fall to about 67.3 kg. in 1986. This is consistant with World Bank analyses [10, table 8].

Table 4 shows how sensitive estimates of total rice deficits are to alternative estimates of output and per capita urban-rural consumption.

The results can be summarized as follows:

Rice Deficit
(000mt.)
Assumptions

		Output	
		High	Low
Consumption	High	246	328
	Low	154	236*

Trend analysis from Table 3 tend to support the low output column. Indeed, slightly less than 3/4's of rural demand would be met by domestic production, leaving imports to cover total urban demand and 25% of rural needs.

The following section reports findings concerning the determinants of rice consumption.

*An alternative scenario of setting urban consumption at 105 kg/pc (see table 6) and rural at 70 left a rice gap of 216 thousand metric tons.

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Table 1

Indicators of PL 480 in Domestic Cereals Market
Guinea
High Rice Output Estimates

Output/Imports (000mt.)	1975	YEAR 1979	1985
Total cereals production	1303.7	1085.-	1375.-
Total rice prod.	421.6	347.6	330.-
Rice imports	42.7	61.9	90.-
PL 480 rice	15.0 est.	17.5	21.4
Indicators (%)			
Rice/total cereals	32.3	32.0	24.-
Rice imports/cereals	3.3	5.7	6.5
Rice imports/rice	10.1	17.8	27.3
PL 480/cereals	1.2	1.6	1.6
PL 480/rice	3.6	5.0	6.5
PL 480/rice imports	35.1	28.3	23.4

Sources:

1975/1979: Guinea mission by the World Bank - Market Analysis Report, 2/83, Table 4 [10]

1985 SCETAGRI/Agroprogress, "Etude de Restructuration de Developpement Rural," 4/86. p45 [8]

Notes:

1] Includes rice, fonio, corn, wheat flour, manioc, yams, sweet potatoes, millet/sorghum

2] Data unavailable, actual 1977 PL 480 was 14.4mt

3] SCETAGRI estimate for 1995 is 31.2% with total cereals and rice requirements estimated at 1825 and 570mt. respectively.

Table 2

Alternative Indicators
of PL 480 in Domestic Cereals Market
Guinea
(Import Levels Equal to Table 1)
Low Rice Output Estimates

Output/Imports (000mt.)	YEAR 1975	1979	1985
Total cereals production	1084.-	928.-	1193.-
Total rice production	202.-	191.-	248.-
Rice imports	42.7	61.9	90.-
PL 480 rice	15.0	17.5	21.4
Indicators (%)			
Rice/total cereals	18.6	20.6	20.1
Rice imports/cereals	3.9	6.7	7.5
Rice imports/rice	21.1	32.4	36.3
PL 480/cereals	1.4	1.9	1.8
PL 480/rice	7.4	9.2	8.6
PL 480/rice imports	35.1	28.3	23.4

Sources:

1975 - 1979: Hirsch [2]
1985: Ministry of Agriculture [6. p5]

Total cereals production figures were adjusted to lower rice estimates.

Note: For 1984 Ministry of Planning [7] estimates 1123.6 tons of total cereals with rice output of 502.8 tons.

Table 3

Time Series Data on
Rice Availability and Consumption
(000mt.)

Year	Domestic Production	Total Imports	Food Aid	Total Available	Consumption
1970	220.-	35.-	n/a	255.-	237.5
1971	206.3	35.-	n/a	241.3	271.8
1972	206.3	45.-	n/a	251.3	266.7
1973	199.-	40.-	n/a	239.-	253.2
1974	215.-	35.-	n/a	250.-	232.4
1975	202.-	42.7	n/a	244.7	241.4
1976	237.6	34.7	n/a	272.3	245.2
1977	227.7	51.1	14.4	278.8	265.1
1978	230.-	44.3	34.3	274.3	271.5
1979	191.-	62.5	9.5	200.5	310.5
1980	154.6	61.9	17.5	216.5	249.8
1981	266.8	72 6	12.6	339.4	227.2
1982	270-	82.3	20.8	352.8	346.9
1983	217.8	84.1	16.6	301.9	n/a
1984	221.7	90.4	17.5	312.1	n/a
1985	248.1	90.0	21.4	338.1	484-576 (table 4)

Scurces:

Domestic Production 1970 - 1982: Hirsch [2]
1983 - 1985: Ministry of Agriculture [6]
Total import and food aid 1970-1982 : Jacquot, Segay [5, Table 6]
1983-1985 : Hirsch [2, Annex 6]
1983-1985 : Food Aid = PL 480 per USAID/Conakry
Total available: calculated
Consumption: 1970-1982 : Hirsch [2]

Note: See Tables 1 and 2 for alternative production estimates in selected years.

Table 4

Crude Sensitivity Analysis of
Rice Deficits
1985

		Demand	Supply	Difference
Low Output/ High Consumption				
Urban		232	56	176
Rural		344	192	152
	Total	576	248	328
Low Output/ Low Consumption				
Urban		140	56	84
Rural		344	192	152
	Total:	484	248	236
High Output/ High Consumption				
Urban		232	75	157
Rural		344	255	89
	Total:	576	330	246
High Output/ Low Consumption				
Urban		140	75	65
Rural		344	255	89
	Total:	484	330	154

See attached fo: assumptions

Assumptions for Table 4

Population: of 5.85 million, 4.30 rural and 1.55 urban
Source: average of estimates by SCETAGRI and World Bank [14] for total, urban estimated at 1.55 in South

Output Trade: High/low rice estimates from Table 1 and 2 respectively.
Trade: used 45% commercialized and allowed 1/2 of commercial trade to flow to urban

Consumption/Demand		Kg/per capita/year
High:	Urban	150
	Rural	80
Low:	Urban	90
	Rural	80

Notes on Production and Trade

Unknowns

Post harvest losses:

Ministry of Agriculture [6] reports a global figure of 15%
SCETAGRI [8] p.36 calculates losses (plus seeds) of 18%

Rice Transformation:

Most sources use .55 as conversion of paddy to rice; however, SCETARGI's calculations indicate a rate of .65 - still low for world, including LDC, standards.

Internal Trade and Storage/Stocks:

	YEAR (000mt.) 1977	1982
Carry over stocks	55.6	-0-
Internal trade	20.1	1.5
Comm. imports	36.7	62.-
Food aid	14.4	24.-

[10, Table 8]

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Thus, stocks and trade fell 74.2 mt. while aid and trade rose 34.9. This information is for the urban sector.

Ministry of Agriculture [6] estimates that 40-50% of rice output is commercialized but does not state how much flows to urban areas. The above implies very little.

II. Determinants of Consumption

Population (Table 5)

With a population growing between 2.4 and 2.8 per cent per year and urbanization (habitations over 10,000) at 5.5%, agriculture will face increasing demands to supply food, especially to Conakry which is estimated to be growing at over 9% per year. Migration of an expanding young population will probably fuel demand and erode the agricultural labor supply.

Using World Bank population estimates, the 1985 rice imports (Table 1) of 27.3% total rice availability matched a 27% urban population.

Only SCETAGRI [8] presents projections of both population and demand for rice and other cereals. Their stimates indicate that, between 1985 and 1995, total rice demand/consumption will grow 30% greater than population growth and 10% greater than demand for other cearals, assuming no change in the structure of agricultural production.

Tastes and Preferences

Rice is already the established major staple food and local rice commands a significant premium in urban markets. (S. Block to supply price data).

Health/Nutrition

Although hard data are extremely scanty, it appears [14] that Guinea has the world's highest rate of infant mortality (186/1000) and a high rate of maternal mortality. Malnutrition, though not high relative to some neighbouring countries, is still widespread especially for females in the North. Since these mortality variables are susceptible to amelioration in the short run (CCCD), one would expect an expanded demand for food supplies as mortality decreases.

Table 5

Population Estimates
Guinea
(Millions)

Year	Total	Urban	Rural
1972	5.143	-	-
1977	5.227	-	-
1983	5.781	-	-
1985	6.100	1.647	4.453
1985 B	5.5	2.250	3.250
1995	7.25	3.850	3.400

Sources:

1972-1985: World Bank [14]
1985 B-1985: Scetagric [8, p6] - Estimates Conakry population at .7 and 1.2 respectively for 1985 and 1995.

Income/Substitution Effect

Household survey data is almost non-existant. Surveys by Stryker [9] and Charlot [1], a more punctual attempt, were the only two reports found. Both report high levels of household expenditures on food, largely rice, averaging 60-70%. Estimates of per capita annual consumption by income class are reported in Table 6. These data are consistant with more casual observations and guesstimates. It is interesting to note, however, that the two data sets are very close at the middle income and average total but diverge at the lower and higher income groups. Stryker estimates that rice consumption rises across income groups in both sectors while Charlot's data indicate that consumption levels are much less variant and fall slightly as income rises.

Only the Stryker survey gives information about income elasticities and marginal properties to consume (Table J-11). As noted by the World Bank, these data imply that "..the majority of the population of Conakry... is still literally hungry in the sense that as their income begins to rise they buy more of all basic foodstuffs, so that their consumption of both calories and proteins increases. "[11, p15]. Thus, at least in the short run, if incomes rise, rice consumption will likely rise across all income groups and there will be only a low substitution effect away from rice.

Table 6

Estimates of Per Capita
Annual Rice Consumption (Kg.) by Income Class and Sector
- Conakry -

Sector Income Group	SOURCE Stryker [9] 1980	 Charlot [1] 1984
Public - low	78	108-
medium	99.6	98.4
high	120-	n/a
average	94.8	n/a
Private -low	81.6	104.4
medium	108	103.2
high	123.6	99.6
average	102-	n/a
Unemployed	n/a	87.7
Total Average	98.4	102-

SCETAGRI [8] reports a Conakry estimate of 107 for 1985.

Note: Charlot's six categories have been reclassified into the two major sectors.

References:

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3. IDA, "Guinea: Structural Adjustment Program," IDA/R86-6, 1/22/86

4. IMF, Staff Report on the First Review under the Stand-by Arrangement and Request for Modification," 7/23/86

5. M. Jacquot et L. Seguy, "Rapport de Mission en Guinee," 10/85

6. Republique de Guinee, Ministere du Developpement Agricole, "La Riziculture en Guinee," mars 1985

7. R.G. Ministere du Plan et de la Cooperation Internationale, Direction de la Statistique. Enquete Agricole - 1984

8. SCETAGRI/Agroprogress, "Etude de Restructuration des Services Agricoles et de Schemes Directeurs Regionaux de Developpement Rural," avril 1986

9. D. Stryker, H. Tuluy, B. Decaluwe et A. Sisson, "Etude des Prix et Indications aux Producteurs Ruraux," 1982.

10. World Bank, "Guinea Mission by the World Bank - Market Analysis Report", February 1983

11. - "Draft-Guinea's Food Imports and Coffee Exports" March 1983

12. - "Agricultural Credit" 2/83

13. - "Agricultural Sector Review," GUI-4672, August 83

14. World Bank, Department of Population, Health and Nutrition, "Le Secteur de la Population, de la Sante et de la Nutrition - Guinee," février 1986.

APPENDIX 2

Draft Cable Concerning the Use
of P.L. 480 Sec. 106/108 Programs

①

1. SUMMARY. REF. A PRESENTS AN OPPORTUNITY FOR EMBASSY AND USAID/CONAKRY TO EXPLORE SIGNIFICANT LONG-TERM DEVELOPMENT STRATEGY, WHICH, IF PURSUED, WILL HAVE MAJOR IMPACT ON EMBASSY/AID APPROACHES TO DEVELOPMENT, ALLOCATION OF MANAGEMENT RESOURCES, AND BI-LATERAL RELATIONSHIPS. DESPITE THE DETAILED GUIDANCE PROVIDED IN REFTELS, MISSION, WITH REDSO/WCA GUIDANCE, HAS SERIOUS RESERVATIONS CONCERNING IMPLEMENTATION OF SEC. 106/108 BEFORE INTRODUCING THE CONCEPT TO GOG, BEFORE INCLUDING IN CDSS, AND BEFORE ADVANCING FY 87 TITLE I NEGOTIATIONS. MISSION INTERPRETS GUIDELINES, REF. A, AS ALLOWING GUINEA THE OPPORTUNITY TO OPT FOR AS MUCH SEC. 108 AS POSSIBLE, 75-100 PERCENT. THE REALITIES OF POLITICS AND FINANCE MAY REQUIRE A TOKEN PORTION TO STAY IN CLCC, HOST COUNTRY OWNED CURRENCIES. IF THE MISSION'S CONCERNS CAN BE RESOLVED, THERE IS REASONABLE CERTAINTY THAT THE LOAN MECHANISMS MADE AVAILABLE, REF. A, MAY, WITH PRUDENT AND SPECIFIC GUIDANCE, FIND A RECEPTIVE CLIMATE IN LIQUIDITY-STARVED GUINEA FOR THE NEXT 5 YEARS. BEFORE MISSION CAN PRESUME TO BECOME THE FINANCIAL MANAGER OF A SMALL PART OF GUINEA'S INVESTMENT PORTFOLIO, MORE GUIDANCE MUST BE FORTHCOMING. IF THE FOLLOWING CONCERNS ARE SATISFIED, MISSION MAY CONSIDER SENDING GOG A NOTE OF EXPLANATION, WITH NO ATTEMPT TO ESTABLISH A TIME-LIMIT, BUT HOPING FOR FY 87 ACCEPTANCE.

2. THE BROAD AUTHORITY TO ACT WHICH REF. A GIVES TO THE FIELD, REQUIRES CLARIFICATION. THE MISSION'S CONCERN IS THAT EMBASSY/AID MANAGEMENT RESOURCES ARE OVER-BURDENED ALREADY, AND CANNOT MEET THE ADDITIONAL PROGRAMMING REQUIREMENTS MADE EXPLICIT IN REF. A. THE MISSION LACKS THE PL 480 TITLE I EXPERTISE TO APPROACH THE GOG WITH A CLEAR EXPLANATION OF REF. A, WHICH MUST BE A PREREQUISITE TO OPENING NEGOTIATIONS. IF THIS FIRST GATE IS PASSED, AND THE PRINCIPLES OF SEC 106/108, PARTICULARLY SEC. 108, ARE ACCEPTED BY GOG, IMPLEMENTATION MAY BEGIN. HOWEVER, THE IPG/GUINEA, YET TO BE NOMINATED, WOULD BE HARD PRESSED TO ADDRESS THE MINIMUM REQUIREMENTS, REF. A. IF FURTHER GUIDANCE IS INADEQUATE OR NOT RECEIVED PRIOR TO MID-OCT, MISSION CANNOT ATTEMPT TO IMPLEMENT SEC 106/108 FOR FY 87.

A. 2, II, C. QUOTE. PROGRAMS SHOULD BE DESIGNED IN A MANNER WHICH ASSURES CONSISTENCY WITH, OR DOES NOT UNDERCUT, EFFORTS OF THE U.S. GOVERNMENT OR IFIS TO PROMOTE FINANCIAL SECTOR POLICY REFORMS. END QUOTE. WHO DESIGNS PROGRAMS AND WHAT IS THE DESIGN/APPROVAL PROCESS? THE MISSION SIMPLY CANNOT AFFORD THE MANAGEMENT RESOURCES TO EMBARK ON AN ADDITIONAL PROGRAM OF THE SCOPE IMPLICIT IN REF. A. CAN QUALIFIED TECHNICAL ASSISTANCE BE ASSIGNED TO ASSIST MISSION?

B. 2, XI, C. COMPETITION WITH U.S. AGRICULTURAL COMMODITIES IN WORLD MARKETS. THE IMMEDIATE TARGETS IN

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GUINEA (NEXT 5 YEARS) FOR SEC. 106/108 APPLICATIONS SEEM TO BE IN THE REHABILITATION OF PRIVATE AGRO-INDUSTRIAL INFRASTRUCTURES. IF SUCCESSFUL, THE LOCAL PRODUCTION NECESSARY TO MEET F. TORY DEMANDS, WOULD, IN THE SHORT RUN, DENY U.S. MARKET EXPANSION, ESPECIALLY RICE. PERHAPS LONG TERM TRADE BALANCES WOULD BENEFIT. HOWEVER, IT IS DIFFICULT TO RATIONALIZE ENCOURAGEMENT OF RICE, COTTON, OR VEGOIL PROCESSING FACILITIES THAT ENCOURAGE LOCAL PRODUCTION WITH THE COMPETITION CLAUSE. DOES DCC FOOD AID SUB-COMMITTEE HAVE A LONG-TERM RATIONALE FOR THIS DILEMMA? X

C. 2, IV, A. QUOTE. PRIOR TO COMMENCEMENT OF TITLE I NEGOTIATIONS, THE IPG/WASHINGTON SHALL EXERCISE CENTRAL BUDGET CONTROL AND ALLOCATE FUNDING LEVELS REQUESTED FOR SEC. 106/108 USES, INCLUDING AMOUNTS TO BE ALLOCATED ON A GRANT BASIS. END QUOTE. IT WOULD APPEAR TO BE TACTICALLY WISE TO APPROACH SEC. 108 AS A COMPLETELY NEW BALL GAME FOR GUINEA. I.E.; ALL TITLE I AMORTIZATION SCHEDULES FOR PL 480 AGREEMENTS, CLCC TERMS, 1962 THROUGH 1986, WOULD CONTINUE AS IS. THIS IMPLIES ACCEPTANCE OF WHATEVER ROUTINE REPORTS ARE REQUIRED, INCLUDING A FINAL, LINE-DRAWING ANNUAL SELF-HELP COMPLIANCE REPORT, FY 86. BEGIN FY 87 WITH A MAXIMUM COMMITMENT TO LCC TERMS, AND RE-WRITE SELF-HELP MEASURES IN TERMS OF U.S. ASSUMING MANAGEMENT OF GOG'S INVESTMENT PROTFOLIO FOR APPROX DOLS 8 MIL, ANNUALLY. THIS ALSO RAISES THE QUESTION OF CURRENT

AMORTIZATION SCHEDULES UNDER CLCC TERMS. WOULD IT BE POSSIBLE TO CONVERT ANY OF THE UNPAID INTEREST/PRINCIPAL INSTALLMENTS TO LC REPAYMENT TERMS TO MAKE U.S. OWNED L/C AVAILABLE NOW? COULD L/C PROCEEDS FROM FFPR BE REMITTED BY GOG TO FINANCE THESE PAYMENTS, OR PAYMENT FOR FY 87 SEC. 108 COMMODITIES?

D. 2, VI, A. QUOTE. FOR SEC. 108 LENDING PURPOSES, IT IS EXECUTIVE BRANCH POLICY THAT ONLY PRIVATELY OWNED IFIS, WITH NO PUBLIC SECTOR OWNERSHIP, SHALL BE ELIGIBLE TO RECEIVE LOANS. END QUOTE. GUINEA HAS GIVEN AMPLE EVIDENCE THAT IT IS SINCERE IN ITS POLICY TO DE-SOCIALIZE/DE-CENTRALIZE/DIVEST GOVERNMENT OWNERSHIP IN STATE TRADING, BANKING, AND INDUSTRIAL FACILITIES. SUCH DE-CONTROL CANNOT HAPPEN OVER-NIGHT. THAT THE DIVESTITURE HAS PROGRESSED TO THE DEGREE THAT IT HAS SINCE DEC. 1985, MARKS THE FORCE OF THE GOG COMMITMENT. IT IS NOT SURPRISING THAT IN THE TRANSITION TO PRIVATIZATION, GOG FINDS IT POLITICALLY PRAGMATIC TO RETAIN A DEGREE OF OWNERSHIP IN KEY FINANCIAL AND INDUSTRIAL COMPLEXES. THE TRANS LA ATION OF QUOTE SOCIETE MIXTE, END QUOTE, WILL BEG SPECIFICITY FOR A LONG TIME. THIS IS TO SAY THAT WITHOUT SOME MODIFICATION OR CONDITIONALITY TO THE TERMS QUOTED ABOVE, NEGOTIATIONS STOP HERE. THE SAME APPEAL FOR RELAXATION OF UNCONDITIONAL TERMS APPLIES TO 2, VII, A, (D). QUOTE. THE STATUTE IS

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CLEAR IN ITS INTENTION THAT THE SUB-LOANS BE MADE TO WHOLY PRIVATE FIRMS AND INDIVIDUALS, NOT SUBJECT TO GOVERNMENT CONTROL. END QUOTE. IF THIS STATUATORY REQUIREMENT IS ENFORCED, IT WOULD APPEAR THAT SEC. 106/108 LEGISLATION IS NOT INTENDED FOR ANY OF THE EX-COLONIAL AFRICAN NATIONS IN TRANSITION.

E. 2, III, B. QUOTE. TO THE EXTENT PRACTICABLE THESE ANNUAL ESTIMATES WILL INCLUDE AMOUNTS INTENDED TO BE ALLOCATED TO PVO'S AND CO-OPS ON A GRANT BASIS FOR START-UP COSTS. END QUOTE. THE GRANT TERMS, WHICH APPLY TO BOTH SEC 106/108, AGREEMENTS ARE UNCLEAR. WHAT IS THE SOURCE OF THE GRANT FUNDS? TO WHAT EXTENT MUST AID GRANT ACCOUNTING PROCEDURES BE APPLIED? WHO DRAWS UP THE GRANT AGREEMENT, AND WHO ARE THE SIGNATORIES? WHAT ARE THE PARAMETERS FOR DEFINING, QUOTE, START-UP EXPENSES, END QUOTE? ARE MODEL AGREEMENTS, CLEARED BY GENERAL COUNCIL, AVAILABLE?

F. AN IMMEDIATE OPERATIONAL CONCERN THAT IS NOT ADDRESSED IN REF. A IS THE COMMODITY MIX, AND EXPORT MARKET VALUE OF SEC. 106/108 AGREEMENTS. THERE ARE ALREADY SUFFICIENT INQUIRIES IN GUINEA TO POSTULATE THE CONCEPT THAT SMALL INCREMENTS, IN TONNAGE AND VALUE, OF SEVERAL COMMODITIES MAY STIMULATE PRIVATE SECTOR REHABILITATION. PRESENT PL 480 ADMINISTRATIVE REQUIREMENTS, BOTH IN U.S., AND AT MISSION LEVEL, ARE NOT GEARED TO SMALL SCALE LOGISTICS AND

ADMINISTRATION. E.G.: GUINEA IS TARGETED FOR EARLY SIGNING FY 87 TITLE I AGREEMENT. THE ASSUMPTION IS THAT IT WOULD BE MUTUALLY BENEFICIAL TO WRAP UP AN AGREEMENT FOR DOLS 6-8 MILLION IN RICE BY 30 DEC. 86. MISSION IS AWARE OF AN INQUIRY ON THE PART OF A GOVERNMENT OWNED TEXTILE MILL, SCHEDULED TO BE TRANSITIONALLY PRIVATIZED BY 1 MARCH 87. A TRANSITION PERIOD OF MIXED OWNERSHIP OF UNKOWN DURATION IS ANTICIPATED. THERE IS AN IMMEDIATE REQUIREMENT FOR 800 MT OF U.S. BALED RAW COTTON. THE DILEMMA THIS PRESENTS TO THE MISSION IS: THE PRIVATIZATION ASPECT FITS PERFECTLY 106/108 GUIDELINES BECAUSE AN EXPANSION LOAN THROUGH AN IFI IS INCLUDED. IMPLEMENTATION OF A SEC. 108 AGREEMENT FOR 800 MT AS PART OF THE FY 87 AGREEMENT MAKES SENSE IN TERMS OF A SEC. 108 AGREEMENT, BUT CAN MISSION AFFORD THE TIME AND MANPOWER RESOURCES TO GO AFTER AN AGREEMENT FOR LESS THAN DOLS 1.0 MIL EVEN IF IT IS PART OF THE TOTAL FY ~~86~~ 87 AGREEMENT? UNFORTUNATELY, THE ANSWER SEEMS TO BE NO, AS LONG AS MISSION ADHERES TO PRESENT AID MANAGEMENT PRINCIPLES AND PRIORITIES. SIMILAR SEC 106/108 PRIVATIZATION OPPORTUNITIES HAVE POTENTIAL USES WITH SMALL SCALE PL 480 COMMODITIES WHICH COULD BE USED IN long range (10-20 years) AGRO-INDUSTRIAL REHABILITATION SCHEMES: ~~REFINED~~ raw COTTON, refined or UNREFINED VEGOIL, wheat, TALLOW, EVEN RAW TOBACCO. THE ASSUMPTION IS THAT THE COMMODITY MIX IS EQUALLY IMPORTANT AS THE CASH

X

LIQUIDITY THAT IT REPRESENTS. THE DILEMMA IS COMPOUNDED BY ADDMITTING THAT 55,000 MT RICE, COMBINED PL 480 TITLE I AND FFPR, 1986, CONTRIBUTES TO TOTAL PROJECTED RICE IMPORTS OF PROBABLY 120,000 MT, FY 86 URBAN RICE REQUIREMENTS FOR ONE YEAR FOR GUINEA ARE ESTIMATED AT 165,000 MT. AS LONG AS GOG CAN PROVIDE ADEQUATE RICE FOR ITS URBAN CONSUMERS, WHERE IS THE MARKET FOR LOCALLY PRODUCED RICE, INCENTIVES NOTWITHSTANDING? EVEN CROSS-BORDER TRADING of locally produced rice MAY LOSE ITS ADVANTAGES. PL 480 TITLE I RICE INTO SIERRA LEONE EQUALS THE GUINEA TITLE I LEVEL, SO GENERAL AVAILABILITY OF RICE IN SIERRA LEONE SHOULD REDUCE CROSS-BORDER TRADE. THE MISSION WANTS TO SUSTAIN THE FY 87 TITLE I LEVEL AT DOLS 6.0 To 8.0 MIL. BY SUBSTITUTING OTHER PL 480 COMMODITIES FOR RICE, BUT THE OPTIONS (VEGOIL, WHEAT FLOUR, RAW COTTON, TALLOW) ARE EXTREMELY LIMITED, AND SMALL SCALE.

6. 2, II. QUOTE. THE CONFEREES STATE THAT THEY INTEND TO JUDGE THE PERFORMANCE OF THE ADMINISTRATION OF THE AUTHORITIES ON THE QUALITY OF INVESTMENTS MADE UNDER THE PROGRAM, AND NOT UPON THE VOLUME OF THE FUNDS DIRECTED TO THE IFIS. END QUOTE. THE ISSUE, 2 F, ABOVE, IS A COMPONENT OF THE FOLLOWING CONCERN. THE LOAN PROCESS AND MARKET IN GUINEA REMAINS, BY AND LARGE, STILL UNKOWN.

(8)

MUCH FURTHER TRAINING AND RESEARCH IS NEEDED BEFORE THE MISSION CAN FULLY COPE WILL ALL OF THE REQUIREMENTS, REF A. YET THE NEED FOR SUCH LIQUIDITY BECOMES MORE APPARENT EVERY DAY. WITH APPROPRIATE GUIDANCE THE LOANING INSTITUTIONS AND SUB-BORROWERS MAY START DRAW-DOWNS OF U.S. OWNED L/C FASTER THAN ANTICIPATED. THE MISSION SEES THE IMPLEMENTATION SCENARIO AS GETTING THE SEC 108 U.S. OWNED CURRENCY IN PLACE IN ANY GIVEN FY (87,88,OR 89) BY CONVERTING WHOLE OR PART AGREEMENTS TO LCC REPAYMENT TERMS WITH GOG'S FULL UNDERSTANDING AND CONCURRENCE. AFTER ESTABLISHING THE SEC 108 L/C ACCOUNT, DRAW DOWNS MAY COMMENCE DURING THE NEXT YEAR OR TWO, AS IFIS, BORROWERS, PROJECTS ARE REVIEWED AND APPROVED. INITIAL DISBURSEMENTS MAY BE SLOW AND SMALL, BUT THE REQUIRED PROMISE OF EVENTUAL CONVERTIBILITY OF L/C DEPOSITS TO DOLLARS PROVIDES ADEQUATE RISK PROTECTION IF THE VOLUME OF LOANS IS LESS THAN ANTICIPATED. MISSION IS ASSUMING THAT FIRST PRIORITY IS TO ESTABLISH PROCEDURES THAT WILL OPEN UP LCC REPAYMENT TERMS, AND U.S. OWNED L/C ACCOUNTS. FUNDING IFIS, SUB-BORROWERS AND PROJECTS FOLLOWS APACE, WITH, FOR EXAMPLE, OPIC ASSISTANCE.

3. CONCLUSION: PRUDENT APPLICATION OF ALL ASSISTANCE RESOURCES AVAILABLE TO THE FIELD DEMANDS THAT THE

INITIATIVE OFFERED, REF A, BE REVIEWED FOR APPLICABILITY TO DEVELOPMENT IN GUINEA. THIS ANALYSIS TABLES OPERATIONAL AND IMPLEMENTATION ISSUES THAT: (1) ARE OF IMMEDIATE CONCERN TO CDSS CONSIDERATIONS AND BILATERAL NEGOTIATIONS; (2) ANTICIPATE ADDITIONAL REQUIREMENTS FOR EXPERT TECHNICAL ASSISTANCE; (3) REQUIRE FURTHER CLARIFICATION BEFORE APPROACHING GOG; (4) PUT LOANS TO IFIS, REF A, IN CONTEXT OF PRESENT ASSISTANCE PORTFOLIO INCLUDING ON-GOING DA PROJECTS, AEPRP, PRESENT TITLE I CLCC LOANS AND SELF-HELP MEASURES, AND FFFR; (5) TEST THE PRACTICALITY OF SEC 106/108 LEGISLATION. AT THIS POINT, MISSION IS EXTREMELY UNCOMFORTABLE WITH THE REF A'S EXPLICIT/IMPLICIT MANAGEMENT/ADMINISTRATIVE REQUIREMENTS VIS-A-VIS ALREADY OVER-COMMITTED RESOURCES. MISSION PREFERS TO APPROACH SEC 106/108 VERY CAUTIOUSLY. MISSION ANTICIPATES NEED FOR FURTHER TECHNICAL ASSISTANCE IN PL-480 ADMINISTRATION, CAPITAL LOAN ANALYSIS, PROJECT DESIGN BEFORE THE PROPOSAL, REF. A, CAN BE REVIEWED WITH GOG, IFIS, AND PRIVATE SECTOR. THE MISSION WILL CONSIDER IMPLEMENTATION OF SEC 108 IN FY 87 ONLY IF THE ABOVE CONCERNS CAN BE ADDRESSED BY MID-OCT. 1986. THE DELIBERATIONS, REF. A, COINCIDE WITH THE ON-GOING FOOD ASSESSMENT, THE RECASTING OF THE CDSS, EARLY SIGNING OF FY

87 TITLE I, BILATERAL POLICY DIALOGUES COVERING PRIVATIZATION, AND AEPRP PROGRAM DESIGN. MISSION WILL NOT, CAN NOT, OPEN DISCUSSIONS WITH GOG, IFIS, OR PRIVATE SECTOR IN GUINEA UNTIL ABOVE ISSUES ARE RESOLVED TO MISSION'S SATISFACTION.

MITHOEFER

APPENDIX 3

AGREEMENT BETWEEN

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

AND

THE GOVERNMENT OF THE REPUBLIC OF GUINEA

FOR AGRICULTURAL COMMODITIES

UNDER

FOOD FOR PROGRESS

FY 1986

45

PREAMBLE

The Government of the United States of America (hereinafter referred to as the Government of the Exporting Country) and the Government of Guinea (hereinafter referred to as the Government of the Importing Country);

In an effort to use the food resources of the United States in support of countries that have made committments to introduce or expand free entreprise elements in their agricultural economies through changes in commodity pricing, marketing, input availability, distribution, and private sector involvement;

Recognizing the extent to which the Government of the Importing Country is committed to or is carrying out policies that promote economic freedom, private, domestic production of food commodities for domestic consumption, and the creation and expansion of efficient domestic markets for the purchase and sale of such commodities;

Desiring to set forth the understandings that will govern the supply of agricultural commodities to the importing country pursuant to the Food For Progress Act of 1985 (hereinafter referred to as the Act), and the measures that the two Governments will take in furthering the above policies;

Have agreed as follows:

PART I GENERAL PROVISIONS

ARTICLE I

A. The Government of the Importing Country is carrying out and agrees to continue to carry out policy reforms as provided in Attachment A, which is attached hereto, and made part of this Agreement.

B. The Government of the Exporting Country agrees to provide, in support of the Importing Country's policies specified in Attachment A, the agricultural commodities and quantities thereof specified in the Commodity Table in Part II of this Agreement, and, if specifically included in Part II, ocean transportation costs for the commodities provided.

C. Except as may be authorized by the Government of the Exporting Country, all deliveries of commodities provided under this Agreement will be made within the supply period specified in the commodity table in Part II.

ARTICLE II

A. WORLD TRADE

The Government of the Importing Country:

1. Will take all possible measures to insure that total commercial imports will equal at least the quantities of agricultural commodities specified in the Usual Marketing Table set forth in Part II, Item III during each subsequent comparable period in which commodities provided under this Agreement are being delivered;

2. Will not sell or transship to other countries the commodities supplied pursuant to this Agreement; and

3. Will take maximum precautions to prevent the export of any commodity, as defined in Part II, Item IV, of either domestic or foreign origin during the export limitation period there defined, except as may be specified in Part II or specifically approved by the Government of the Exporting Country.

B. TERMS AND CONDITIONS

Other terms and conditions for implementing this Agreement, including commodity purchases and shipment of commodities, claims procedures and reports, are set forth in Attachment C which is attached hereto and made a part of this Agreement. In the event of any inconsistancy between Parts I, II, III and Attachement C, the provisions of Parts I, II, and III will apply.

C. COMPLIANCE AND REPORTING

In addition to any other reports agreed upon by the two Governments, the Government of the Importing Country shall furnish, in such form and at such time as may be requested by the Government of the Exporting Country, a report covering the supply period specified in Part II, Item I of the Agreement and containing: statistical data on imports by country of origin to meet usual marketing requirements specified in Part II, Item III of the Agreement; a statement of the measures taken to implement the provisions of Section A of this Article; and statistical data on exports by country of destination of commodities the same as or like those imported under the Agreement, as specified in Part II, Item IV of the Agreement..

On or before September 30 of each year of the Food for Progress Program, the Government of the Importing Country will prepare and transmit to USAID: (1) A report on the policies and reforms measures to be implemented during this Agreement as contained in Attachment A and (2) a report on tonnage received and distributed under this Agreement.

PART II PARTICULAR PROVISIONS

ITEM I - Commodity Table

Agricultural commodities to be made available in United States Fiscal Year 1986 to the Government of the Importing Country are as follows:

Commodity	Supply Period (U.S. Fiscal Year)	Total Quantity (metric tons)	Approximate World Market Value (U.S. dollars)
RICE	1986/1987	30,000	5.4 million
Ocean Transportation			4 65 million
TOTAL			10.05 million

A. Subject to availability of commodities and of funds, and to the continued carrying out by the Government of the Importing Country of the policies identified in Attachment A, it is the intention of the Government of the Exporting Country to agree with the Government of the Importing Country to furnish an additional 40,000 metric tons of rice in United States Fiscal Year 1987 and an additional 30,000 metric tons of rice in United States Fiscal Year 1988. The furnishing of additional commodities may be either on a donation, or on a credit sale basis as the two Governments may agree.

B. The specifications of the rice to be provided by the Government of the Exporting Country and the packaging descriptions will be in accordance with the specifications in Attachment B, attached hereto and made a part of this Agreement.

ITEM II - Payment of Costs

Reprocessing, packaging, transporting, handling and other charges incurred in furnishing the commodities will be apportioned as follows:

A. The Government of the Exporting Country will donate the rice without charge and will pay the following costs: processing, handling, packaging, transport costs to U.S. port(s) of allocation, ocean transportation from U.S. ports to port of entry, and survey fees.

B. The Government of the Importing Country agrees to arrange freight forwarding and booking and pay the following costs: inland transportation, distribution and handling within Guinea.

ITEM III - Usual Marketing Table

Commodity Usual Marketing	Import Period (U.S.Fiscal Year)	Usual Marketing Requirements (metric tons)
RICE	1986	62,800
RICE	1987	62,800

ITEM IV - Export Limitations

A. Export Limitation Period:

The Export Limitation Period shall be United States Fiscal Year 1986, or any subsequent United States Fiscal Year during which commodities financed under this Agreement are being imported.

B. Commodities to which export limitations apply:

For the purposes of Part I, Article II.A.3. of this Agreement, the commodity which may not be exported is rice in the form of paddy, brown or milled.

ITEM V - Suspension of the Agreement

The Government of the Exporting Country will review, at least annually, the performance and implementation of this Agreement by the Government of the Importing Country. If the Government of the Exporting Country finds that the provisions of this Agreement, including implementations of the policies identified in Attachment A, are not being substantially met, no further agricultural commodities will be made available under this Agreement.

PART III FINAL PROVISIONS

A. This Agreement may be terminated by either Government for any reason by notice of termination to the other Government.

B. This Agreement shall enter into force upon signature.

C. This Agreement shall be executed in both the English and French languages. In the event of any conflict between the two versions, the English language text will control.

IN WITNESS WHEREOF, the respective representatives, duly authorized for the purpose, have signed the present Agreement.

Done in Conakry on the 15 th of September Nineteen Hundred and Eighty Six.

FOR THE GOVERNMENT OF
THE UNITED STATES OF
AMERICA

William Mithoefer
Charge d'Affaires of
the Ambassy of the
United States of America

FOR THE GOVERNMENT OF
THE REPUBLIC OF
GUINEA

Edouard Benjamin
Minister of Plan and
International Cooperation

Attachment A

GUINEA FOOD FOR PROGRESS - FY 1986

PROGRAM DESCRIPTION

Item I. POLICY REFORMS

The Government of Guinea (hereinafter GOG) has undertaken a series of major policy reforms which entail a firm shift away from a centralized system to a system based more securely on free enterprise and private initiative, with particular attention to agriculture. The new government has made significant political and economic changes. Key economic reforms include major changes in policies affecting the agricultural sector, the currency and banking system, and state involvement in the economy. Key political reforms include the abolition of the country's single political party; and the replacement of its local party celles with freely elected district councils has begun. Specific measures undertaken include:

A. Agricultural Sector

- Abolition of over 300 state farms and 34 regional state trading companies which had a mandate to control trade in agricultural products;

- Elimination of practices, such as taxation in kind and roadblocks, which prevented free trade and commerce within the country;

- Abolition of the heavily subsidized food rationing system;

- Elimination of state trading companies which had a monopoly over food imports;

- Significant reduction of subsidies on rice and fuel;

- Significant increase in the prices of major agricultural exports (coffee and palm nut).

B. Currency and Banking

- Major devaluation, supported by a weekly auction system to establish an exchange rate which reflects market conditions;

- Introduction of a new currency, the Guinean Franc;

- Closing of all government-owned banks, and their replacement with a private banking system.

C. State Role in the Economy

- Beginning the liquidation or privatization of parastatal corporations;
- Beginning the reduction of excess government employment, including practices to test employees' competence, and restructuring government services to increase efficiency.

During the remainder of 1986, the Government is committed to a series of additional reforms, including:

- Further adjustment of major commodity prices to reflect import costs;
- Privatization of remaining viable parastatals;
- Major reduction in civil servants (from approximately 90,000 to 60,000);
- Increase decentralization of government functions;
- Establishment of market prices for public utility and transportation services;
- Introduction of a simplified tariff structure and customs procedures;
- Promulgation of new mining, commercial, petroleum and investment codes.

Item II. FOOD FOR PROGRESS - SUPPORT FOR POLICY REFORM

In the context of these sweeping policy changes, Food for Progress resources will be used both to ensure the maintenance of reforms already undertaken, and to facilitate the on-going reform process. The reforms in rice marketing are particularly important, since a lack of adequate rice at reasonable prices could undermine support for a wide range of other economic reforms:

1) During the first year of rice marketing reform (1986), Food for Progress rice will be used primarily to assure adequate levels of properly timed rice imports. Such imports are necessary both to meet market demand, and to help ease the tensions caused by recent rice shortages and price increases. Rice would be released on a timely schedule to private retailers by the joint venture company Soci_t_ G_n_rale de Commerce and/or selected private guinean trading companies deemed capable of handling efficiently its recept and storage.

2) In the second and third years, Food for Progress rice would continue to help guarantee adequate supplies, as local producers and private importers respond to the new incentives created by the policy reforms. Whether this objective would be achieved by developing a formal stabilization stock (releasing food into the market only when price levels exceed an established threshold price) or by assuring a well-timed source of imports to be marketed directly, will depend heavily on how rapidly local producers can increase production.

The Government of the United States of America (USG) and GOG will jointly study and determine the desired import levels and distribution mecanism.

Item III. POLICY REFORM PERFORMANCE EVALUATION FACTORS

The rice marketing reform is integral to the sucess of the broad economic reform program undertaken by the GOG. Food for Progress evaluation factors during the initial year of the Agreement (1986) will be focused on the performance of the GOG in effectively implementing private sector rice pricing and marketing policy reforms which stimulate increased domestic agricultural production. Performance on the six factors below will be evaluated before approving commodities for the second year under this Agreement. Additional performance evaluation factors may be negotiated for future years.

1) The policy of permitting private imports of rice should continue, without the imposition of restrictions which would provide an unfair advantage to government entities. Ove the course of the Agreement, the percentage of rice imported privately should increase, with increasing competition being reflected by an increase in the number of private importers (i.e. other than Soci_t_ G_n_rale de Commerce).

2) Food rations should not be reintroduced.

3) Food subsidies to consumers should not be reintroduced.

4) The GOG should progressively remove officially established prices for privately imported rice. The USG and GOG will develop a mutually agreeable schedule for doing so during the first year of the Food for Progress Program.

5) The GOG shall move toward market pricing of agricultural inputs, and support free, competitive markets in the import and sale of agricultural inputs. The USG and GOG will develop a mutually agreeable schedule for doing so during the first year of the Food for Progress Program.

6) The GOG should undertake measures to improve security in the Port of Conakry.

Item IV. IMPLEMENTATION PROCEDURES

It is agreed that representatives of the two Governments will consult with respect to the implementation of this Agreement.

Item VI. PROPOSED DELIVERY SCHEDULE

Delivery:	10,000 Metric Tons	September 1986
	10,000 " "	October 1986
	10,000 " "	November 1986

Note: Should the above schedule change, the Government of the Importing Country will promptly inform the Chief, Export Operations Branch, KCCO, P.O. Box 205, Kansas City, Missouri 64141, Telephone (816) 926-6707. Generally, at least 60 days notice is required in order to assure delivery of commodities at U.S. ports by the desired date.

Attachment B

DONATION OF AGRICULTURAL COMMODITIES MADE AVAILABLE UNDER SECTION 416 (B) OF THE AGRICULTURAL ACT OF 1949 IN ACCORDANCE WITH FOOD FOR PROGRESS AGREFMENT

A. COMMODITY SPECIFICATION

Unless provided otherwise in the Food for Progress Agreement, the quality of agricultural commodities and the packaging description will be in accordance with the following specifications.

Milled Rice: U.S. No. 5 or better containing not in excess of 20 percent broken. Short, medium or long grain at USG option. Milled rice shall be either well milled or reasonably well milled.

B. PACKAGING AND MARKINGS

Packaging: 110 pounds net (50 kgs net) in polypropylene bags.

Markings: Markings will be determined by CCC (Commodity Credit Corporation).

C. TENTATIVE PORT OF DISCHARGE

For Rice: Conakry Port

D. CONSIGNEE

Ministry of Plan and International Cooperation.

Attachment C

GENERAL TERMS AND CONDITIONS APPLICABLE TO THE DONATION OF AGRICULTURAL COMMODITIES UNDER SECTION 416 (B) OF THE AGRICULTURAL ACT OF 1949 IN ACCORDANCE WITH FOOD FOR PROGRESS AGREEMENT

This Attachment contains the terms and conditions governing the donation of agricultural commodities made available under the authority of Section 416 (B) of the Agricultural Act of 1949, as amended, for use in carrying out the Food for Progress Act of 1985.

A. DEFINITIONS

1. "AID" means the Agency for International Development or any successor Agency, including, when applicable, each USAID. "USAID" means an office of AID located in a foreign country or an AID Representative or AID Affairs Officer. "AID/W" means the Office of AID located in Washington, D.C.

2. "CCC" means the Commodity Credit Corporation, a corporate agency and instrumentality of the United States within the U.S. Department of Agriculture (USDA).

3. "ASCS" means the Agricultural Stabilization and Conservation Service, USDA.

4. "KCCO" means the Kansas City Commodity Office, ASCS.

B. COMMODITY ARRANGEMENTS

1. Unless the Food for Progress Agreement provides otherwise, title to the agricultural commodities shall pass to the Government of the Importing Country at the time and place of delivery F.A.S. vessel at the U.S. ports.

2. CCC will pay reprocessing, packaging, transporting, handling, and other charges incurred in making commodities available to the Government of the Importing Country as agreed upon in this Food for Progress Agreement.

3. All costs and expenses incurred subsequent to the transfer of title to the Government of the Importing Country shall be borne by that government except that CCC may pay or make reimbursement for transportation costs from U.S. ports to designated ports or points of entry abroad when, and to the extent specifically provided in the Food for Progress Agreement or upon the determination by CCC that it is in the best interest of the program to do so.

4. Shipment of commodities and the payment of ocean freight shall be made in accordance with the following procedures:

(A) (1) Where the Government of the Importing Country agrees to pay ocean transportation costs and perform freight forwarding and booking functions, KCCO will furnish the Government of the Importing Country with a Notice of Commodity Availability (CCC-512) which will name the receiving country, quantity, U.S. port and date of delivery at U.S. port.

The Government of the Importing Country will arrange ocean transportation and freight forwarding so as to comply with the requirements of the Government of the Exporting Country regarding the quantities made available under the Agreement that must be carried on U.S. flag vessels. Non-vessel operating common carriers (NVOCC) may not be employed to carry U.S.-flag shipments. Approval of ocean transportation arrangements must be obtained from the Agricultural Stabilization and Conservation Service ASCS/KCCO/USDA, P.O. BOX 205, Kansas City, Missouri 64141, Telephone: (816) 926-6707.

(A) (2) The Government of the Importing Country will complete the CCC-512 indicating name of steamship company, vessel name, vessel flag and estimated time of arrival at U.S. port, sign and return the completed form to KCCO/USDA, with a copy to Public Law 480 Operations Division, Foreign Agricultural Service, USDA. KCCO/USDA will then issue instructions to have the commodities shipped free alongside vessel to U.S. port for consignment to the Government of the Importing Cot try as specified in the CCC-512. U.S. ports will be selected on the basis of the lowest cost to CCC unless provided for otherwise in of this Food for Progress Agreement or unless mutually agreed to by both the Government of the Importing Country and KCCO/USDA.

(B) (1) When the Government of the Exporting Country agrees to pay ocean transportation costs and the Government of the Importing Country agrees to perform freight forwarding and booking functions, the KCCO/USDA will furnish the Government of the Importing Country with a Notice of Commodity Availability (CCC-512) which will name the receiving country, quantity and date at U.S. port. The Government of the Importing Country will arrange ocean transportation and freight forwarding so as to comply with the requirements of the Government of the Exporting Country regarding the quantities of commodities made available under this Agreement that must be carried on U.S. flag vessels. Non-vessel operating common carriers may not be employed to carry U.S.-flag shipments. Approval of ocean transportation arrangements must be obtained from ASCS/KCCO/USDA, P.O. BOX 205, Kansas City, Missouri 64141, Telephone: (816) 926-6707.

(B) (2) The Government of the Importing Country will complete the CCC-512 indicating ocean freight rate as stated in the Federal Maritime Commission (FMC) tariff (with tariff identification), name of steamship company, name of vessel, flag of vessel, and estimated time of arrival at U.S. port, sign, and return the completed form to KCCO/USDA, with a copy to Public Law 480 Operations Division, Foreign Agricultural Service, USDA. KCCO/USDA will then issue instructions to have the commodity shipped free alongside vessel to U.S. port for consignment to the Government of the Importing Country as specified in the CCC-512. U.S. ports will be selected on the basis of lowest landed cost to CCC, unless provide for otherwise in the Food for Progress Agreement or unless mutually agreed to by both the Government of the Importing Country and KCCO/USDA.

(B) (3) CCC will pay the Government of the Importing Country or the ocean carrier, as may be agreed upon, for ocean transportation costs within 30 days of receipt by Public Law 480 Operations Division, FAS, USDA of the following documentation: (A) one copy of completed CCC-512 (as indicated above); (B) three copies of freighted "On Board" bill of lading signed by originating carrier; (C) two copies of booking note and/or contract covering ocean transportation of subject cargo;

(D) request for payment, indicating amount due and certification that payment has been made to ocean carrier or request for direct payment to ocean carrier.

C. OBLIGATIONS OF THE GOVERNMENT OF THE IMPORTING COUNTRY.

1. The Government of the Importing Country will be liable to CCC for any failure to export the agricultural commodities from the United States, or for reentry of any of the agricultural commodities into the United States. For any such failure, the Government of the Importing Country will reimburse CCC for all costs paid by CCC in making the agricultural commodities available to the Government of the Importing Country including the acquisition cost to CCC at the time CCC acquired the agricultural commodities under its price support program.

2. The Government of the Importing Country will not be liable to CCC with respect to any agricultural commodities which, before or after export from the United States, are lost or damaged, destroyed or deteriorated to the extent that they cannot be used for the purposes described in the Food for Progress Agreement unless such loss or damage was due to the fault or negligence of the Government of the Importing Country.

3. In the case of landlocked countries, transportation in the intermediate country to a designated inland point of entry in the recipient country shall be arranged by the Government of the Importing Country unless otherwise provided in this Food for Progress Agreement.

4. If the Government of the Importing Country books cargo for ocean transportation and is unable to have a vessel at U.S. port of export for loading in accordance with the agreed shipping schedule and CCC thereby incurs additional expenses, the Government of the Importing Country will reimburse CCC for such expenses if CCC determines that the expenses were incurred as a result of the fault or negligence of the Government of the Importing Country.

D. ARRANGEMENTS FOR ENTRY AND HANDLING IN FOREIGN COUNTRY

1. The agricultural commodities will be admitted duty free and exempt from all taxes.

2. The Government of the Importing Country will make all necessary arrangements for receiving the agricultural commodities and will assume full responsibility for storage and maintenance of the agricultural commodities from time of delivery at port or point of entry abroad.

3. If packages of agricultural commodities are damaged prior to or during discharge, and therefore must be repackaged to ensure that the products arrive at the distribution point in wholesome condition, CCC will not reimburse the Importing Country for expenses incurred for repackaging.

E. DISPOSITION OF COMMODITIES UNFIT FOR AUTHORIZED USE.

Damaged commodities are to be disposed of in accordance with AID Regulation 11, 211.5 (22 CFR Part 211). Such a disposition should be reported to the Chief, Claims and Collections Division, KCMO, P.O. BOX 205, Kansas City, Missouri 64141.

F. LIABILITY FOR LOSS AND DAMAGE OF IMPROPER DISTRIBUTION OF COMMODITY - CLAIMS AND PROCEDURES.

1. Notwithstanding the transfer of title to the Government of the Importing Country, CCC will have the right to file, pursue and retain the proceeds of collections from claims arising from ocean transportation cargo loss and damage, including loss and damage occurring between the time of transfer of title and loading aboard a vessel. CCC assumes general average contributions in all valid general average incidents which may arise from the movement of commodity to the destination port. CCC will receive and retain all allowances in general average. The Government of the Importing Country will promptly notify CCC of any situation involving the loss, damage, or deterioration of the agricultural commodities, and of any declaration of general average. Instructions will be issued by and all loss documents should be forwarded to: Chief, Claims and Collections Division, Kansas City Management Office, P.O. Box 205, Kansas City, Missouri 64141. These instructions must be followed by the Government of the Importing Country. The Government of the Importing Country will prompty furnish such office any assignment of rights which may be requested. Where the Government of the Importing Country pays the ocean freight or a portion thereof, it will be entitled to pro rata reimbursement received for the portion of claims related to ocean freight charged.

2. The Government of the Importing Country will prompty provide written notice to AID or the diplomatic post of the circumstances pertaining to any loss, damage, or misuse of commodities occurring within the recipient country or intermediate country. Proceeds from any resultant claims actions will be forwarded to AID for the account of CCC.

3. CCC, Claims and Collections Division, KCMO, will arrange for the services of an independent cargo surveyor to survey the discharge of commodities at the foreign discharge port.

4. The Government of the Importing Country will send copies of all reports and documents pertaining to the discharge of commodities to Chief, Claims and Collections Division, Kansas City Management Office, P.O. BOX 205, Kansas City, Missouri 64141.

5. Claims arising prior to loading of the agricultural commodities on ocean vessels and claims against ocean carriers will be handled according to procedures established by CCC.

6. Claims arising from the circumstances described in Paragraph 2 will be valued as follows: the value will be determined on the basis of the market price at the time and place the misuse, loss or damage occurred or, in cases where it is not feasible to obtain or determine such market price, agricultural commodities other than diary products will be valued on the basis of the F.O.B. or F.A.S. commercial export price of the commodity at the time and place of export, and dairy products will be valued on the basis of the General Agreement on Tariffs and Trade (GATT) minimum prices for dairy products. Ocean freight charges and other costs incurred by the Government of the Exporting Country in making delivery to the Government of the Importing Country will also be included in the commodity value. When the value is determined on a cost basis the Government of the Importing Country may add to the value any provable costs they have incurred prior to the delivery by the ocean carrier. The value of misused, lost or damaged commodities may be determined on some other justifiable basis, at the request of the Government of the Importing Country and/or upon the approval of the USAID Mission of the diplomatic post and AID/Washington.

G. RECORDS AND REPORTING REQUIREMENTS

1. The Government of the Importing Country will maintain records and documents for a period of three years from the date of export of the agricultural commodities in a manner which will accurately reflect all transactions pertaining to their receipt.

2. The Government of the Importing Country will furnish reports at such time and in such manner as the Government of the Exporting Country may request pertaining the implementation of the policies set-forth in Attachment A of the Food for Progress Agreement.

H. ADDITIONAL RESPONSIBILITIES OF THE GOVERNMENT OF THE IMPORTING COUNTRY

1. The Government of the Importing Country will, within thirty (30) days after export, furnish evidence of export from the United States of the agricultural commodities; two copies of the on-board carrier bill of lading or consignee's receipt authenticated by a representative of the U.S. Customs Service will be furnished. The evidence of export must show the kind and quantity of agricultural commodities exported, the date of export and the destination country.

2. The Government of the Importing Country will cooperate with and give reasonable assistance to United State Government representatives to enable them at any reasonable time to examine records and facilities pertaining to receipt and storage of agricultural commodities under this program.