AID 1020-24 (10-69)

AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.)

PROJECT AUTHORIZATION

Proj. No. 6250161-
Ref PN
(2)

1. PROJECT NUMBER	3. COUNTRY	4. AUTHORIZATION
[illegible]-11-150-161	CENTRAL/WEST AFRICA REGIONAL	0182 20p.
2. PROJECT TITLE		5. AUTHORIZATION DATE
Grain Marketing, Production and Stabilization		May 5, 1971 PD-AAB-612-B1
		6. PROP DATED
		April 27, 1971

7. LIFE OF PROJECT

a. Number of Years of Funding: 2
Starting FY 19 71; Terminal FY 19 72

b. Estimated Duration of Physical Work
After Last Year of Funding (in Months): 1 year

8. FUNDING BY FISCAL YEAR (in U.S. $ or $ equivalent)	DOLLARS		P.L. 480	LOCAL CURRENCY Exchange Rate: $1 =			
				U.S. OWNED		HOST COUNTRY	
	GRANT	LOAN	CCC + FREIGHT	GRANT	LOAN	JOINTLY PROGRAMMED	OTHER
Prior through Actual FY							
Operational FY 71	205		1,645				
Budget FY 71							
B + 1 FY 72	150		755				
B + 2 FY 73							
B + 3 FY 74							
All Subsequent FY's							
TOTAL	355		2,400				

9. DESCRIBE SPECIAL FUNDING CONDITIONS OR RECOMMENDATIONS FOR IMPLEMENTATION, AND LIST KINDS AND QUANTITIES OF ANY P.L. 480 COMMODITIES

[illegible] Funds will be obligated through a Grant Agreement with the Entente Mutual Aid and Loan Guaranty Fund, which, in conjunction with the governments of Niger and Upper Volta, member states of the Entente Fund, has requested assistance in grain marketing and production from A.I.D., CIDA, FAC and EDF and plans to submit requests also to other donors. A number of donors will meet in Paris late in May with representatives of the Entente Fund and governments of Niger and Upper Volta to consider the request. FY 71 and FY 72 funds [illegible] ([illegible]) [illegible] period of two years plus some equipment, participant training and other costs. Proceeds from the sale by Niger and Upper Volta of PL 480 title II grain will be used to finance operating costs and some capital facilities of the grain marketing agencies.

10. CONDITIONS OF APPROVAL OF PROJECT

The conditions for A.I.D. assistance to this project are stated on page 3 of this PROP.

(Use continuation sheet if necessary)

11. Approved in substance for the life of the project as described in the PROP, subject to the conditions cited in Block 10 above, and the availability of funds. Detailed planning with cooperating country and drafting of implementation documents is authorized.

This authorization is contingent upon timely completion of the self-help and other conditions listed in the PROP or attached thereto.

This authorization will be reviewed at such time as the objectives, scope and nature of the project and/or the magnitudes and scheduling of any inputs or outputs deviate so significantly from the project as originally authorized as to warrant submission of a new or revised PROP.

A.I.D. APPROVAL	CLEARANCES	DATE
Samuel C. Adams, Jr. (SIGNATURE)	AFR/CWR: VBurati	4/27/71
	AFR/DP: DShear	4/3/71
	AFR/TAC: MSBelcher	4/27/71
	AA/AFR: PBirnbaum	
AA AFR (TITLE) (DATE)	A/CONT	

A.I.D.
Reference Cen
Room 1656 NS

NON-CAPITAL PROJECT PAPER

REGION:	CENTRAL/WEST AFRICA REGIONAL (NIAMEY ADO)
PROJECT NUMBER:	625-11-150-161
PROJECT TITLE:	Grain Production, Marketing & Stabilization
U.S. OBLIGATION SPAN:	FY 1971 - FY 1972 inclusive (Phase I)
GROSS LIFE OF PROJECT FINANCIAL REQUIREMENTS:	
U.S. Dollars	$355,000 (Phase I)
Tons of Food (PL 480)	40,000 (Phase I)

I. SUMMARY DESCRIPTION

The objective of this multidonor, regional project is to assist the Entente States through the Mutual Aid and Loan Guarantee Fund of the Entente Council to undertake programs to improve the production and marketing of domestic food grains. The program is divided into two phases. Phase I will be a two-year pilot project in Upper Volta and Niger. After the two-year period Phase I will be evaluated to determine whether or not A.I.D. assistance will be extended into Phase II in Upper Volta and Niger and to expand the program to the other Entente States--Ivory Coast, Togo and Dahomey--and probably also to Ghana.

A.I.D. is cooperating in this project with the Entente Council and the Canadian International Development Agency and has discussed possible contributions to the project with the aid agencies of the European Common Market and Government of France.

This project will initially emphasize the development of effective national grain policies, establishment and operation of cereals marketing offices and of effective regional cooperation among cereal producing states. One of the major objectives is to create the conditions and incentives which will induce farmers to increase their production of cereal grains. However, where practicable, during Phase I help will also be given to improve production technology, although this aspect of the program will be more extensively treated in the later phases. The long-range aim of the program is to create stability of price and supply of cereal grains in the region.

A.I.D. help will be extended in the following ways:

1. By the assignment of U.S. contract advisors to the national marketing corporations or agencies to assist in all aspects of marketing, including government policy, research and statistics, pricing, storage, transportation and production technology. Technical assistance will be financed under grant agreements with the Entente Council which will assist in coordinating the projects in the several countries into a comprehensive regional program.

2. U.S. grain will be shipped to the countries under PL 480 Title II. The governments will be permitted to sell a substantial portion of these shipments to acquire some of the funds needed to finance the operations of the grain marketing agencies and to build some of the storage, grading and cleaning facilities that will be needed in the marketing apparatus.

3. As the program develops beyond Phase I of the pilot project, A.I.D. may consider an agricultural sector loan to provide both operating expenses and capital finance.

In Phase I, A.I.D. is cooperating closely with the Canadian International Development Agency (CIDA) and has opened discussions with FAC and FED on their possible cooperation in this project. The Entente is playing the leading role as coordinator among the donors. For instance, it has: analyzed the CIDA report on cereal grains in Niger and the A.I.D. financed Kansas State University report on Upper Volta; synthesised the two; and on that basis prepared a project for the two countries and a request for assistance to be submitted to A.I.D., CIDA, FED and FAC and perhaps other donors.

A.I.D. assistance as proposed in this PROP is conditioned on the following factors:

1. A clearly defined, step-by-step program worked out by the Entente Council and donors with the concurrence of its member states.

2. The assurance of support by other donors and a multidonor level of support sufficient to sustain an effective program at each phase.

3. Agreement among the donors, the Council and recipient countries that additional long-term assistance after Phase I will depend upon definite evidence that the recipient countries are willing increasingly to adopt the policies, and to use the resources necessary, to reach the project objectives.

NON CAPITAL PROJECT FUNDING (OBLIGATIONS IN $000)

PROP Date
Original
Rev. No.
Project No. 625-11-150-161

Regional CWR Grain Production, Marketing & Stabilization

	Ap	L/G	Total	Cont	Personnel Serv. AID: PASA: Cont	Participants U.S. : Cont AGENCIES	Commodities USDA:Cont CCC: FOOD GRAINS:	Dir &: Cont U.S. Ag	Other Donor
Prior through Act. FY 70									
Oper. FY 71			205		180	0	1,645	15	10
B + 1 FY 72			150		100	40	755	10	
B + 2 FY 73									
B + 3 FY __									
Total Life			355						

Project No. 625-11-150-161

Fiscal Years	AID-Controlled Local Currency U.S. - owned	AID-Controlled Local Currency Country - owned	Other Cash Contribution Cooperating Country	Other Donor Funds ($ Equiv.)	Food for Freedom Commodities Metric Tons (000)	Food for Freedom Commodities Value & Freight (#000)	Food for Freedom Commodities World Market Price ($000)
Prior through Act. FY 70							
Oper. FY 71					27	1,645	
Budg. FY 71					27	1,645	
B + 1 FY 72					13	755	
B + 2 FY 73							
B + 3 FY ___							
All Subs							
Total Life (Phase I)					40	2,400	

1/ 40,000 Tons grain sorghum

II. PROJECT SETTING:

The West African states bordering on the Sahara have generally experienced annual deficits of the staple food crops--millet and sorghum. Research has determined that production can be increased in order to meet food requirements and even produce a surplus. A team of the Food and Feed Grain Institute of Kansas State University in an A.I.D.-financed survey of several West African countries has concluded that "West Africa has a latent potential to produce much more grain than its food needs" through improved seeds and production technology, without major investments. However, the African farmer has little incentive to increase his production or to make the minor investments necessary for such a production increase. The present system consists of merchants purchasing harvested grain at the lowest possible price. When the harvest is good the merchants force the price down further, with the result that the farmer may not benefit from their increased production.

Therefore the purpose of this project is to assist the concerned governments to establish a pricing policy which will stimulate the farmer to increase production of these staple crops to provide for national requirements and to provide a surplus for utilization in years when climatic conditions limit production.

There are no real technical problems limiting production. Therefore, it is necessary to find methods to stimulate the African farmer to want to increase production. The African farmer will respond to a price incentive, as has been clearly evidenced by the numbers of African farmers who have turned to the cultivation of export crops, for which there is an assured market and a fair price.

A.I.D. has financed several studies of this problem: the Weitz Hettelsatter report, the Checchi report and a third report by the Kansas State University. Canada has financed a study of the cereal problem in Niger.

All reports have recommended that in order to break the cycle, it will be necessary to A) establish national policies giving high priority to cereals production and B) establish cereal marketing offices which will operate in the market to influence prices both to the producer and the consumer.

All the West African countries in the savannah zone experience large annual fluctuations in rainfall. There are also pronounced variations in geographic patterns of rainfall in most years. As a result, crop production, except on irrigated land, varies greatly from year to year and by areas within the region. Serious shortfalls occur on the average of once every four years. It is impossible to accurately forecast good or bad harvests since neither the time cycle nor the geographic pattern of rainfall is regular or predictable. Since 1960, Upper Volta and Niger have had periodic and increasing food deficits of staple crops, necessitating large emergency food imports.

Another natural limitation on West African Agriculture is the scarcity of highly productive land. Most reports tend to emphasize that only a small percentage of the total land area is under cultivation and that large increases in production can be brought about simply by increasing the area under cultivation. What is not mentioned is that the best land is presently being farmed and that limited available sources of critical agricultural inputs make it virtually impossible to increase production appreciably through utilizing more acreage. Animal traction or better farm implements financed by medium to long term credit are a prerequisite to any significant increase in cultivated acreage. Crop and soils research in the region clearly prove that improved cultural practices can more than double current average yields in most areas. Far more land lies fallow each year than soil and climate conditions require. Even though the region is not blessed with huge areas of highly productive land, primitive farming methods rather than poor soils is the primary factor limiting increased production of the major food grains. Although adverse climatic conditions and poor soils will continue to cause wide fluctuations in West Africa's cereal production, these natural forces are not the primary reason for the increasing frequency of severe food grain shortage. The more significant causes are found in the national agricultural development policies. For years, major emphasis in agricultural development in West Africa, under both colonial and national governments has been on expansion of production and marketing of a few export crops such as palm oil, peanuts and cotton. Many African farmers have been converted to these crops which benefit from an organized pricing and marketing system. Some emphasis has also been given to community development programs and to investments in infrastructure. The promotion of production and marketing of millet, sorghum and corn has been a low priority. In most of the countries in the Entente region, problems of food production and marketing are not taken seriously until the emergence of increasingly frequent, and severe, food shortages make such consideration mandatory. Even then the governments of these countries rely on shipments of grains from relief organizations to carry them through difficult periods and do little, if anything, to resolve the basic problems which create these situations.

Specifically, one of the most serious problems has been that prices paid to farmers for most food crops are not sufficient to induce increases in food grain production commensurate with population growth. This problem was magnified by the continued maintenance of relatively attractive prices, often through subsidies, for peanuts and cotton. During most of the 1960s the prices of millet, sorghum and corn at harvest time have averaged 8 to 10 francs CFA per kilogram. Peanut prices during the same period averaged 20 francs CFA and above. This disparity in prices is highlighted by agricultural experiment station findings on farmer returns from peanuts and millet. When essentially equivalent farming prices are employed for both crops on land with similar characteristics a farmer's net return per hectare and per hour of labor are approximately the same.

Another major difficulty is the lack of effective national markets for food. Lack of a market in which to sell grain in excess of family requirements is a major deterrent to expansion of food grain production.

This difficulty was aggravated by successful efforts to establish marketing systems for export crops. In addition, most of the emphasis of the small national agricultural credit and extension services has been, and continues to be, on peanut and cotton production and marketing. The only market for food grains available to farmers is usually that provided by traders or speculators who historically pay very low prices immediately after harvest and resell during the period of short supply preceeding the next harvest--in many cases to the same producers they purchased from.

Mark-ups of 800 to 1,000 percent are not unknown between harvests; however, 300 to 400 percent is more the average.

In Niger and Upper Volta the lack of a marketing and pricing policy has led to a system of speculation whereby the speculator purchases the crop just after the harvest for an extremely low price (5 to 6 CFA a kilogram) and holds the grains until the shortage period just prior to the next harvest when he sells the cereals at prices averaging from 15 - 25 CFA a kilogram. The farmer is usually forced to sell at the low prices offered as he requires cash to pay taxes, and make what few cash purchases are required. If the farmer does make an effort to increase production, the speculator drops the price even further. Thus the farmer is trapped in a vicious circle of being forced to sell at the lowest price to obtain the cash required for his pressing needs and rarely being able to collect a cash surplus or to hold his crops in order to benefit from the rising prices during the shortage period.

Consequently, the farmer has neither the incentive nor the resources to increase production beyond his own requirements. As national requirements increase with a rising population and increasing rate of urbanization, per capita production is decreasing. When the lower rate of per capita production is combined with periodic years of drought, the situation becomes catastrophic and emergency food imports are required to avoid famine.

The response of West African farmers to the low prices and lack of markets for the major food grains and to the more attractive prices and assured markets for the export crops has been logical. Food grain production in recent years has not kept pace with population growth. This situation has been further aggravated by the rapid trend to urbanization which is attracting a high percentage of the rural youth to the large population centers. Land planted to food crops has decreased appreciably relative to increases in total population.

The origin, during the colonial period, of these contrasting agricultural policies and developments in West African agriculture appears to be a basic misconception of the economics of agricultural production and marketing. Traditionally, food grains have been produced almost exclusively on a subsistence basis. Only small fractions of the total production are marketed. Nearly all sales are direct from producers to consumer in small local markets, or, as previously mentioned, to traders. Many people, including former colonial officials and their successors in the new national governments, come to believe that the food grains always would be subsistence crops outside the market economy. Moreover, there was general acceptance of the principle that adequate production of food grains would be assured by the producers' own demand for food. The corollary of this concept is that markets and market prices are not important in stimulating increases in food grain production.

In contrast, there was widespread recognition that substantial cash incentives and assured markets had to be offered to producers. in order to induce expansion of the production and marketing of peanuts and cotton. Finally, there was little recognition, until food shortages developed, of the possibility that an unbalanced agricultural development policy would have adverse effects on the national food supply.

Other factors that have encouraged national governments to neglect food grains and encourage export crops were the needs for foreign exchange. Also, the political appeal of low food prices to urban voters cannot be ignored. Experience has proven that low food grain prices have failed to protect basic consumer interest. Low prices have led to food shortages which are becoming increasingly serious, and to a retardation of economic growth. A large percentage of the increase in foreign exchange obtained from export crops is being used to purchase imported food stuffs to meet rising deficits. In those countries where food grain production is some 50 to 80 percent of total farm output, a low rate of expansion of food grain production has a significantly adverse impact on agricultural and general economic development. Lack of adequate production incentives to farmers, lack of markets for food grains result in low farm incomes which lead to generally poor performance in the agricultural and general economy.

Ten years after independence the old colonial economic concepts and policies still strongly influence national agricultural programs. There is, however, a growing awareness among many government officials that something is radically wrong with these policies and they are beginning to become aware of the need for raising producer prices for food grains and for developing organized market channels. In some countries where producer prices for cereals, although still low, have been increased substantially during the past four years farmers have responded by increasing production.

The gap between recognition of the agricultural policy problem and development of effective policies and programs is wide. To bridge this gap requires expertise in agricultural policy formulation and administration. For example, it is not easy to determine the specific producer prices and price ratios that will induce farmers to increase food grain production by a desired quantity. It is even more difficult to develop and to administer the national programs needed to put these policy decisions into effect and still provide food at prices the urban poor can pay.

III. STRATEGY:

The basic strategy is to assist the development and operations of the national cereals offices, which, following the recommendations of the various studies, the Governments of Upper Volta and Niger have established and to support the Entente Council in its coordination of programs within the Entente. The purposes of the cereals offices are:

(a) to stabilise buying and selling prices at a reasonable level through the purchase and sale of cereals during the periods of extreme price variations; and (b) to provide buffer stocks which can be utilized during periods of extraordinary shortage rather than emergency food imports. Following the harvest national cereal offices will purchase cereals at announced prices assuring more substantial revenue to the producer. During the shortage season, the offices will release cereals at a price considerably below that normally offered by the speculators, thus stabilizing the price to the consumer. Reasonable charges will be levied by the cereal offices for their marketing and storage services.

A.I.D. and other donors will strengthen these offices through:

a. Providing experts in grain marketing, transport, storage, financial management, and production.

b. Training Africans in the management and technical skills required by the offices.

c. Providing commodity support to the offices.

d. Shipping PL 480 food grains to the national cereal offices: (1) some of which may be sold with the proceeds being used for working capital; and (2) to be held as buffer stocks.

These actions have two immediate objectives; namely, to increase supplies of food grains and farm income. This will benefit the economy of the countries involved both by increasing incomes and thus generating more economic activity and increasing the tax base.

IV. <u>PLANNED TARGETS</u>:

The planned targets for the project are as follows:

A. <u>Ultimate</u>:

The establishment: (1) in each of the cooperating countries of viable national food grain agencies or offices composed of high-level officials who are familiar with the domestic agricultural situation and its problems; and (2) a coordinating office within the Entente Council. These offices will be responsible for planning, developing and implementing food grain policy through the following functions:

- Assure reasonable prices paid to producers and reasonable prices paid by consumers;
- Establish and manage buffer stocks of grain;
- Establish and operate efficient receiving, storage and disbribution facilities;
- Provide transportation for grain from surplus to deficit areas;
- Reduce seasonal and geographical variations in prices to the extent permitted by reasonably efficient handling, storage and transportation;
- Engage in trade in food grains with other countries;
- Participate with the appropriate regional organizations outside the Entente in the operation of mutually advantageous policies for inter-country grain trade; and
- Assist, in conjunction with the private traders, in establishing and operating a truly national and international grain marketing system.

B. Intermediate:

The intermediate targets will be accomplished during the initial two year period of Phase I funded under this PROP. This will include efforts to:

1. Determine what changes will be necessary in national agricultural development policies in order to place on the production and marketing of food crops an amount of emphasis comparable to that

existing for export crops. Once decisions have been made as to the policy changes which will be required, programs incorporating these basic reforms will be formulated and submitted to the appropriate governments agencies for their consideration and required political action.

2. Based on the programs that are developed, prepare estimates of the African administrative technical personnel and the capabilities that will be required during the implementation phase. Simultaneously, a survey of available personnel possessing any of these qualifications will be developed in order to determine the requirements for the training program.

3. Initiate training for African personnel who have been selected to staff the programs. This training will be conducted in the cooperating countries by the technicians assigned to the project.

4. Survey the existing distribution and marketing facilities for food grains and draw up recommendations for the development of an adequate market system that will insure reasonable access for farmers to buying stations and provide reasonable cash settlements to producers at the time of grain delivery.

5. Determine the price incentives that will be required to motivate farmers to increase production of cereals keeping in mind the world price and that maximum prices to consumers must be realistic. Once the price to the producer has been established steps should be taken to insure that this information is made available to the farmer on a timely basis.

6. Determine the quantity of grain required to establish an adequate reserve, and from this, calculate the amount of storage capacity required. A survey of existing silos and their general condition will determine the need for construction of additional grain storage facilities.

7. Develop plans for storage facilities that may be required keeping in mind local cost factors and efficiency of operation vis-a-vis existing climatic condition.

8. As adequate price incentives and markets become available, develop educational and extension programs involving the use of credit, improved tools, cultivation methods, improved varieties, etc., to be implemented by the agricultural services of the cooperating countries.

V. COURSE OF ACTION:

Agreements will be signed with the Entente Council and participating states in the spring of 1971. It is estimated that the experts provided under the agreements will be on site in the fall of 1971 at the time of the harvest. The operations during the first two years will be concerned with the effective establishment of the offices and the development of operating procedures. The program will then be reviewed and a definitive long range plan established. The following assistance will be provided in Phase I:

A. Technical Assistance

A team of five technicians to advise the grain marketing offices of the Entente Council and member countries. This team would include the:

1. General Manager (experienced in grain operations who will also act as team leader).

2. Grain Marketing Pricing Economist.

3. Agricultural Engineer (specialist in grain storage structures).

4. Transportation Expert (grain and grain products).

5. Accounting Systems Specialist (experienced in grain accounting).

A Farm Management/Production Specialist will be added in Phase II.

B. Loans

While no commitments on loan assistance in support of such programs can be made at present, A.I.D. will give sympathetic consideration to loan applications from regional entities having the authority to engage in borrowing provided that two or more countries engage in the type of programs described in this proposal and these programs have reached a point to warrant such additional investment.

C. P.L. - 480 Title II

To the extent food grain imports can be effectively used by each cooperating country, the United States--alone or in cooperation with other donors--will provide PL 480 grain shipments as appropriate during each year of the two year period. Such U.S. grain is to arrive in time for at least a part of it to be sold during the period of extreme need prior to the harvest. Sales proceeds will be utilized to defray essential internal transportation costs of the U.S. grain. Remaining revenues will be deposited in a special account to be released jointly by both governments for purposes contributing directly to the objectives of the program, i.e., development of domestic capabilities for food grain production and distribution. The U.S. Government does not make PL 480, Title II grants for commodities except on the basis of specific requests for which justification has been made. Therefore, final approval of U.S. grain shipments can only be given when a specific request is received following mutual agreement on country programs which are components of this regional program.

At the end of the two-year Phase I period, the project will be evaluated to determine if satisfactory progress has been made and whether A.I.D. should consider continued and possibly expanded support to this project for an additional period of eight years.

Criteria for the evaluation will include the following:

1. Have the marketing agencies and the regional office been effectively established?

2. Have they developed the policies to be recommended to the participating governments?

3. Have the governments indicated a disposition to cooperate in effectuating those policies?

4. Have other donors contributed to the project?

5. Have the participating countries contributed to the project satisfactorily within their limitations?