Bureau of Humanitarian Affairs, Office of Food for Peace and Global Bureau, Office of Agriculture and Food Security

POLICY SYNTHESIS

for Cooperating USAID Offices and Country Missions

(http://www.aec.msu.edu.agecon/fs2/psynindx.htm)

Number 49 December 1999

USAID/Mali

FOOD AID MONETIZATION IN WEST AFRICA: HOW TO MAKE IT MORE EFFECTIVE

by

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*Views expressed in this paper are those of workshop participants, and not of USAID/FFP staff.

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INTRODUCTION: On April 7-9, 1999, the Food for Peace Office (FFP) and the Sustainable Economic Growth Office of USAID/Mali, in conjunction with the Permanent Assembly of the Malian Chambers of Agriculture (APCAM) and Michigan State University (MSU), held two linked meetings: the first West African regional agricultural market outlook conference, and a regional workshop on food aid monetization. The joint meetings brought together representatives of donors, private voluntary organizations (PVOs), farmers, traders, market information services, and other government officials. They discussed emerging trends in West African food markets and how food aid monetization affects and is affected by them. Rarely do all these actors get together to share perceptions about how their activities affect one another and of how food markets work. The first two days' discussions focused primarily on market outlook, summarized in another publication.[1]

This synthesis focuses mainly on the discussions of the third day, primarily among PVOs and food aid donors, which focused on the effectiveness of food aid monetization in West Africa.

PVO representatives raised a number of issues they are currently facing in implementing monetization programs in West Africa. Major discussion subjects included:

- Regional monetization
- Monetization tonnage
- Monetization regulations
- Private trader involvement/attitudes
- USAID/USDA coordination
- PVO coordination
- Reassessment of monetization objectives

[1] Projet d'Appui au Système d'Information Décentralisé du Marché Agricole (PASIDMA), Observatoire du Marché Agricole du Mali (OMA), and INSAH/PRISAS. *Perspectives d'évolution du marché céréalier de l'Afrique de l'Ouest : Campagne 1998/99--Synthèse des discussions de la conférence régionale sur les perspectives céréalières de l'Afrique de l'Ouest, 7-8 Avril 1999, Bamako.* Bamako: PASIDMA, May 1999. Available at http://www.msu.edu/~cisseyou/synthese1.pdf

1. REGIONAL MONETIZATION

ISSUES: While it is understood that USAID is discouraging (if not completely disallowing) non-adjacent third-country (regional) monetizations, the rationale is not well understood. PVOs are aware that USAID's change in attitude on this issue is related to a recent monetization in Egypt that received unfavorable press coverage in the U.S. They do not know, however, exactly what was bad about the Egypt case, and therefore what they need to avoid in future monetization proposals. The current policy on giving low priority to Title II regional monetization proposals may not be well-suited to West Africa. PVOs are concerned that an effective ban on non-adjacent country monetizations will greatly restrict their ability to provide development assistance, particularly in light of sharp declines in direct funding for such development assistance. These declines render food aid one of the few resources available to fund PVO programs.

The PVOs and other workshop participants point out that the West African countries most in need of assistance are usually those where monetization is most difficult to carry out. They also think that with regional economies expanding, USAID should view "regional" more broadly. In the participants' view, regional groupings such as ECOWAS, SADC, UEMOA, and CILSS would be more appropriate than the "adjacency" criterion suggested in the Lugar Amendment to the food aid legislation. Participants also stated that they believe the Egypt controversy was a result of misinformation that was not adequately corrected, and that Congress is not well enough informed about the merits of regional monetization activities.

RECOMMENDATIONS: PVOs thought USAID should take a proactive approach in educating Congress about the pros and cons of regional monetizations. An accurate accounting of what happened in the Egypt case and lessons learned should be shared with PVOs and Congress.

2. MONETIZATION TONNAGE

ISSUES: There has been a dramatic increase in the number of monetization activities and proposals in the region in recent years. Title II tonnage in West Africa has increased from 10% of total U.S. food aid shipments to the region in 1990 to 36% in 1999. At the same time, market opportunities for doing monetization in the region appear very limited, particularly if regional monetizations are not possible. Recognizing that markets cannot accommodate all the proposals in the region, a difficulty becomes how to select which ones to approve. It is hoped that the USAID West Africa Strategy, currently being drafted, will provide some definition of priority sectors of interest to USAID. The CILSS/Club du Sahel Food Aid Charter, to which the U.S. is a signatory, provides some elements to guide a specific USAID West Africa food aid strategy. USAID also needs support to undertake a systematic analysis of the monetization prospects for West Africa. This is critical to providing USAID an analytical base when different PVOs reach conflicting conclusions about monetization prospects in the same country. An additional concern raised is whether there is or should be a maximum percentage of food aid that can be allowed for monetization.

RECOMMENDATIONS: USAID/FFP should develop a strategy, linked to the USAID West Africa Regional Strategy if possible, that discusses the role of regional food aid activities and further defines the role of monetization in West Africa. This strategy should take account of the principles laid out in the Club du Sahel Food Aid Charter. FFP, in conjunction with the PVOs, should undertake a comprehensive study of the monetization prospects in West Africa.

3. MONETIZATION REGULATIONS

ISSUES: Participants noted that some monetization regulations are not well adapted to the West Africa context and should be reviewed, particularly cost-recovery and non-reexport requirements.[2] The rationale for the cost-recovery benchmark is to ensure fair value for the commodities and to avoid undercutting markets. However, in practice the policy is overly-restrictive, preventing monetizations from taking place that would be beneficial from a humanitarian, developmental or market-promotion perspective. The constraints imposed by the cost-recovery benchmark will be particularly restrictive if regional monetizations are being discouraged, since the countries where assistance is most needed are those least able to meet cost-recovery requirements, given low incomes and hence effective demand among the population. Furthermore, the cost-recovery criteria effectively bias the geographic distribution of monetizations towards locations closer to the U.S., where U.S. exports are most cost-competitive.

One alternative suggested is a “price parity” approach in which commodities would be required to be sold at the going rate in the market. Another alternative is to increase waivers to the current policy, especially for specific commodities or in emergency situations. In particular, price parity or an increase in waivers for processed commodities could promote USAID’s objective of increasing value-added in food aid commodities. These alternatives could also allow for an approach to monetizing commodities that would target low-income consumers, which would bring benefits beyond the mere use of the funds generated. The alternatives would also reduce the contradiction that results when such commodities are directly distributed, only to be indirectly monetized by local populations at below cost-recovery benchmark prices.

Secondly, the non-reexport clause was questioned and considered inappropriate in

[2] USAID stipulates that monetizations must cover at least (a) 80% of the combined costs of purchasing the commodity in the U.S. and its shipment to the recipient port (C&F), port clearing and handling costs and duties, estimated transport costs to the point of sale, and expenses associated with marketing the commodity; or (b) 100% of the Free Alongside Ship (FAS) cost of the commodity at the point of export, whichever is greater. A waiver is required to monetize commodities that do not meet this cost-recovery benchmark. (USAID, Bureau of Humanitarian Affairs, Office of Food For Peace, *Monetization Field Manual*, p. 13. (http://www.info.usaid.gov/hum_response/ffp/monetiz.htm). The food-aid legislation also prohibits recipient countries from re-exporting U.S. food aid.

the case of monetization. Given the increasing regionalization of the West African economy, this requirement makes monetization more difficult, particularly when by-products derived from processing food-aid commodities have markets in other countries. Indeed, it is striking that USAID, in its development assistance over the past 25 years, has worked hard to promote regional trade and integration in West Africa. Yet in its food aid policies, the Agency follows a policy that assumes all countries are autarkic and punishes those that engage in regional trade of monetized food aid. This no reexport requirement is difficult to enforce and runs counter to USAID efforts at promoting regional economic integration.

RECOMMENDATIONS: In reexamining the cost-recovery requirement, as is USAID's stated intention, particular consideration should be given to alternatives of either a "price parity" benchmark or of increasing the granting of waivers for specified commodities and purposes. This re-examination of the cost-recovery benchmark should be done in close consultation with PVOs to ensure that the pros and cons of alternative policies are well-understood. Also, the possibility of making the non-reexport requirements in the case of monetization in West Africa less stringent should be discussed. Although current legislation seems to preclude a regional Bellmon analysis for the region, such a regional Bellmon, given porous borders and high trade levels in West Africa, makes eminent sense and should be discussed.[3]

4. PRIVATE TRADER INVOLVEMENT/ATTITUDES

ISSUES: Participants noted that many private sector participants are "out of the loop" with respect to timing of food aid shipments and participation in monetization sales. As a result, many private traders, processors, producers and policy makers in the region have negative attitudes towards food aid.

RECOMMENDATIONS: Monetization proposals should more explicitly demonstrate dialogue with a variety of private-sector participants and that proposed sales modalities are consistent with standard competitive marketing practices. Food aid shipment and monetization information should also be incorporated into national market information systems that have been developed in the region. The food aid monetization working group should work with one of the African market information system teams to develop educational materials explaining food aid monetization more clearly to private traders, cooperatives, and farmers, including how

[3] PL 480 legislation requires that before food aid can be provided for direct distribution or monetization, the agency handling the distribution must carry out an analysis to establish that: (a) adequate storage facilities are available in the recipient country, and (b) "the distribution of the commodities in the recipient country will not result in substantial disincentive to or interference with domestic production or marketing in that country." Such studies are named "Bellmon analyses" after the author of the amendment to the food aid legislation that establishes this requirement. (See USAID, op. cit., p. 7.)

they can get information on how to participate in such monetizations. This may also open up new Title II monetization markets.

5. USAID/USDA CORDINATION

ISSUES: Participants noted that USAID and USDA have widely different standards and criteria for accepting/rejecting monetization proposals, with USAID generally being far more restrictive. Examples were noted where USDA permitted large monetization sales in places where PVOs had already planned to monetize but could not due to USAID restrictions.

RECOMMENDATIONS: Recognizing that USAID and USDA objectives do differ, efforts should still be made to harmonize their respective monetization guidelines better. The two agencies should also communicate better with each other about their respective monetization intentions in the region.

6. COORDINATION AMONG PVOs

ISSUES: Workshop participants raised the need for better information-sharing among PVOs with respect to monetization intentions. The feasibility and appropriateness of any individual proposal depends on whether other PVOs also intend to monetize in that country, and what/how much they intend to monetize. In addition, individual Bellmon analyses cannot be considered independently from what other UN and non-governmental-organizations plan to do with food aid in the recipient country. This suggests the appropriateness of conducting joint Bellmon analyses in countries where two or more PVOs plan to operate.

RECOMMENDATIONS: The Food Aid Management (FAM) group would be appropriate as an information clearinghouse for PVO proposals. USAID should encourage that joint Bellmon analyses be conducted in countries where two or more PVOs have Title II activities. Joint analyses may reduce duplication of effort and result in higher quality Bellmon analyses as well as economies of scale if umbrella monetizations can be undertaken.

7. REASSESSMENT OF MONETIZATION OBJECTIVES

ISSUES: Participants thought USAID should take a broader and more creative view of food aid monetization in West Africa. The "food-as-food" perspective, if interpreted too narrowly, is a step backward in food aid programming for food security purposes. As recognized in U.S. food aid legislation, the key to food security is increasing incomes and agricultural productivity. Thus, using monetization funds (even from regional monetizations) to promote agricultural productivity and income generation can be equally effective, or more effective, compared to direct distribution, as a tool for achieving food security in West Africa. Monetization and cash-based development/humanitarian activities can promote sustainable market development essential for economic growth, whereas direct distribution programs, if not administered carefully, may distort market development. Participants also expressed the need to divorce the generation of funds from the use of the funds. This follows from the view expressed above that the places where assistance is most needed are generally those that are most difficult for monetization, especially in light of current cost-recovery benchmarks. Finally, using monetized proceeds in tightly controlled situations to purchase regionally produced food was also suggested as a way to meet immediate food aid needs efficiently.

RECOMMENDATIONS: West Africa, which has benefited from extensive agricultural production and marketing research, would be an excellent focus region in which to investigate alternate approaches to food security than just that of "food-as-food." Such investigation could test broader and more creative approaches to food aid programming that fully recognize the benefits monetization can offer as a tool for achieving sustainable food security in West Africa. Of the 14 countries in West Africa, 13 are ranked in the lowest 20% on the UN Human Development Index. All are Low-Income Food-Deficit Countries as classified by the FAO. These countries are among the most food insecure in the world and will be dependent on food imports for the foreseeable future. Yet, in part because of the difficulties of monetization discussed above, the region receives relatively low levels of food aid. Workshop participants suggested that West Africa would make an excellent "test case" for trying out some of the recommendations in this note on a pilot and strictly controlled basis. (As one example, the workshop participants thought that bulgur wheat could be monetized at less than cost-recovery in Liberia, contribute to increased processed commodity levels, and help to end dependence on distributed food aid in post-conflict Liberia.) Participants expressed the view that if some of the suggestions in this note could be tried, Title II food monetization would be more effective in helping the region to find durable food security solutions.

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