Monetization of Food Aid: Reconsidering U.S. Policy and Practice

Emmy Simmons

Partnership to Cut Hunger and Poverty in Africa

MONETIZATION OF FOOD AID:

RECONSIDERING U.S. POLICY AND PRACTICE

EMMY SIMMONS

June 2009

Use and dissemination of this report is encouraged; however, reproduced copies may not be used for commercial purposes. Further usage is permitted under the terms of the Creative Commons License. The views expressed in this paper are those of the author and should not be attributed to the Board of Directors or funders of the Partnership to Cut Hunger and Poverty in Africa.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS i

FOREWORD ii

EXECUTIVE SUMMARY iv

MONETIZATION iv

MONETIZATION POLICY AND PRACTICE iv

FINDINGS v

RECOMMENDATIONS vii

FULL REPORT 1

I. WHY RECONSIDER FOOD AID MONETIZATION? 1

OBJECTIVES AND APPROACH 2

II. THE CONTEXT FOR MONETIZATION 4

A BRIEF OVERVIEW OF FOOD AID 4

MONETIZATION OF PROJECT FOOD AID 6

TITLE II MONETIZATION IN BRIEF, 1999-2005 9

III. MONETIZATION IN ETHIOPIA 16

THE FOOD AND AGRICULTURAL SITUATION 16

BACKGROUND OF VEGETABLE OIL MONETIZATION 17

CAUSE FOR CONCERN 19

PROGRAM ADJUSTMENTS REGARDING MONETIZATION OF EDIBLE OIL 21

CASE STUDY CONCLUSION 22

IV. Evolving Policy on Food Aid in Rwanda **23**
U.S. Food Aid in Rwanda 23
Market Impacts 25
Conclusions 28

V. The Benefits, Costs, and Risks of Monetization **29**
Considering the Benefits of Monetization 30
Assessing the Costs and Risks Associated with Monetization 35

VI. Conclusions and Recommendations **44**
Policies to Enhance Utility and Accountability 44
Changing Practice: Greater Effectiveness, Lower Costs and Risks 45
Choice of Commodities 46
Commodity Management 47
Analysis 48
Alternative Approaches to Funding Food Security Projects 49

References **51**

List of Tables and Figures

Tables

1. Division of Title II Non-Emergency Tonnage, FY00-05 7
2. Title II Food Aid Monetization by Cooperating Sponsor, FY 99-05 10
3. U.S. Food Aid Recipient Countries: Monetization Summary for FY 99-05 11
4. Food Aid Monetization, FY 99-05 13
5. Economic and Food Assistance to 22 Countries in Which Monetizations Were Most Routine, FY 99-05 15
6: Comparison of Market Prices vs. Cost Recovery Prices of Edible Oil 20
7. Title II Monetized Vegetable Oil's Share of Commercial Imports 26
8. Rwanda Title II Vegetable Oil Monetization Sales 27

Figures

1. Global Food Deliveries 5
2: Ethiopian Edible Oil Supply Presented in Nominal Terms 18
3: Ethiopian Edible Oil Supply Presented in Percentage Market Share 19
4: Monetized Oil Retailed at a Discount to Domestic and Imported Oils 21
5. Rwanda: Title II Percentage by Component, FY 99-05 24
6. Title II Tonnage and Value Monetized, FY 99-05 42
7. Volume and Price of Title II Monetized Bulk Wheat, FY 99-05 43

List of Abbreviations

ADRA	Adventist Development and Relief Agency
CAADP	Comprehensive Africa Agricultural Development Program
CCC	Commodity Credit Corporation
CRS	Catholic Relief Services
EMG	Emerging Markets Group
FAO	Food and Agriculture Organization of the United Nations
FAS	Foreign Agricultural Service, USDA
FSA	Farm Service Agency, USDA
FY	Fiscal Year (October 1 – September 30 for the USG)
GAO	Government Accountability Office
MMU	Monetization Management Unit
NGO	Non-governmental organization
PL 480	The Agricultural Trade Development and Assistance Act of 1954, also known as Public Law 480, the law establishing U.S. food aid policy and programs. The 2008 Farm Bill renamed the Act the "Food for Peace Act."
PVO	Private voluntary organization
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
WFP	World Food Program
WTO	World Trade Organization

FOREWORD

The monetization of U.S. food aid involves the sale in a recipient country, for local currency, of food aid that has been purchased in and shipped from the United States. Over time, such monetization has been highlighted as an important and controversial issue in food aid policy and practice.

In March 2006, the Partnership to Cut Hunger and Poverty in Africa ("the Partnership") hosted a two-day workshop, inviting a diverse set of participants from both the humanitarian and development communities, to "reconsider food aid." The workshop context included preparation for the drafting of the 2007-2011 Farm Bill, within whose authorities U.S. food aid lies, and response to issues raised in the Doha Development Round trade negotiations being conducted by the World Trade Organization (WTO). The Partnership's "Reconsidering Food Aid Project" and subsequent work on food aid received generous financial support from the William and Flora Hewlett Foundation and the Bill and Melinda Gates Foundation, and benefited from the engagement and experience of the workshop participants.

At the workshop, several implementing organizations emphasized the positive aspects of monetization, noting especially that revenues from the sale of food aid are an important source of funding for development projects that address the causes of food insecurity – and potentially reduce the need for future food aid. Other stakeholders expressed a contrary view. They asserted that monetization can undermine the development of markets for local production and disrupt commercial trade, potentially prolonging the need for food aid. In addition, some participants focused on the inefficiency of monetizing food aid, suggesting that the time had come for the U.S. to reject its continued use. The high costs of carrying out monetization operations, these participants argued, make monetization a "second best" approach to promoting food security.

All were aware that the Doha Development Round negotiations at the World Trade Organization (WTO) were trending toward a view that food aid monetization should be "disciplined" in order to reduce the possibility that food aid would displace commercial imports, disrupt local markets, or serve as an export subsidy for producers in donating countries.

Other factors bearing on food aid monetization have come to light in the months following the workshop.

- First, the World Food Program (WFP) has greatly increased its procurement of food aid in or near countries requiring emergency food. This raises concerns that WFP's purchasing operations, including through its new "Purchase for Progress" program, could interact adversely with the sales operations associated with monetization of U.S. food aid.

- Second, both House and Senate versions of the Farm Bill authorized increased levels of food aid for non-emergency (or developmental) programs, with the final bill mandating increasing funding each year of the Bill's duration. Since organizations implementing such programs have, over the last 20 years, monetized a significant share of the food aid flowing through them, this could result in a greater volume of monetized U.S. food aid going forward. A potential surge in food aid monetization might also be encouraged by the July 2008 collapse of the Doha talks, as that collapse removed the possibility of international disciplines being imposed on the practice.
- Third, rising global food and fuel prices since 2006 have potentially made monetization more attractive to low-income food-importing countries. Faced with higher import prices, foreign exchange reserves do not go as far as they once did, so for some recipient countries, the ability to pay for imported food in local currency may be welcome as a way to improve the balance of payments.

Given the complexity of the issues, the significance of monetization in U.S. food aid policy and practice, and the heated nature of the global debate as to its use, the Partnership commissioned further analysis, specifically regarding the use of the resources of Public Law 480 (PL 480) Title II, Food for Peace. Data on Title II monetization through FY 05 were made available by the U.S. Agency for International Development (USAID) to facilitate empirical analysis. The Partnership contracted with the Emerging Markets Group (EMG) for this effort, given that EMG's particular experience in carrying out market analyses underlying the required "Bellmon Determination" in Ethiopia and Rwanda was highly relevant to the challenge of analyzing monetization in greater depth.

This paper draws substantially on the work of Sherry Khan at EMG. The Partnership recognizes with gratitude the expertise and commitment she and her colleagues at EMG brought to the analysis. We also thank several reviewers who commented on earlier drafts, and Anne-Claire Hervy and Christina Edwards, for very helpful editing assistance. The Partnership, however, remains solely responsible for the contents and conclusions in this paper. Comments and criticisms are welcome.

M. Peter McPherson

Chair, Board of Directors

Partnership to Cut Hunger and Poverty in Africa

Emmy Simmons

Member, Board of Directors and report author

Partnership to Cut Hunger and Poverty in Africa

MONETIZATION OF FOOD AID:

RECONSIDERING U.S. POLICY AND PRACTICE

June 2009

EXECUTIVE SUMMARY

Monetization

The monetization of U.S. food aid – the sale in a recipient country, for local currency, of food aid purchased in and shipped from the United States – involved some $1.5 billion in PL 480 Title II resources over the period FY 99 – FY 05. Wheat and vegetable oil were the principal commodities monetized in 33 recipient countries, most of them in Africa. Some 3.8 million metric tons (MT) of wheat and vegetable oil were sold in auctions to local wholesalers or through negotiated sales with wheat millers or other processors. The sales revenues were then used to cover costs associated with distribution of commodities to recipients and/or to implement development projects aimed at addressing the causes of food insecurity in the recipient countries. Nineteen Cooperating Sponsors, mostly U.S. private voluntary organizations (PVOs), were responsible for both the monetization of Title II commodities and project implementation.

Monetization Policy and Practice

The U.S. Government's food aid policy mandates monetization as an approach to food aid programming. The authority to monetize Title II food aid was first introduced in the Food Security Act of 1985. This Act permitted Cooperating Sponsors to sell U.S. donated in-kind food aid in the recipient country as a way to help cover administrative costs associated with food aid distribution. In 1988, the acceptable uses of Title II monetization proceeds were expanded to include development objectives. The minimum monetization level for non-emergency Title II was set at 10 percent. The 1996 Farm Bill increased the minimum to 15 percent.

In practice, the percentage of Title II resources monetized rose from 28 percent of non-emergency tonnage in FY 96 to 70 percent in FY 01. By 2000, some non-emergency programs were entirely monetized. Monetized volumes of Title II peaked at more than 900,000 MT in 2001 and have trended downward since, but were still more than 400,000 MT per year in 2004-05. These high levels make it clear how quickly this tool evolved into a popular funding mechanism to support food security-oriented projects.

Analysis of benefits, costs, and risks associated with monetization requires separate consideration of the monetization process itself – where the impact is largely on markets and prices – from the uses made of the generated local currency revenues: increasing agricultural productivity, expansion of rural infrastructure, community management of natural resources, support for healthcare interventions, and improving girls' attendance in primary schools, to name but a few of the project objectives that have been sought. In practice, most published evaluations of monetization operations focus on the community-level development benefits of the projects carried out and provide little or no data on costs and market impacts. Given that costs and market impacts are the controversial aspects of monetization, this paper focuses on these issues.

Findings

Looking at the specific cases of monetization operations in Ethiopia and Rwanda as well as broader analysis of data from the twenty-two countries in which Title II monetization was most regularly conducted between FY 99 and FY 05, it seems clear that monetization generates various benefits, but also incurs several costs or risks.

- Six potential benefits are identified:
  - additional food availability in the recipient country;
  - the generation of funding for development and distribution activities that promote food security;
  - promotion of market development;
  - stabilization of local prices through timely sale of food aid;
  - additional nutritional benefits to consumers; and
  - the provision of business opportunities for U.S. companies producing, processing, and shipping the commodities.
- Weighing against these benefits are six costs or risks:
  - displacement of commercial imports;
  - a "loss" to American taxpayers as actual costs of purchasing, shipping and selling the commodities exceed revenues;
  - disruption of local markets and the provision of disincentives for production or market development;
  - uncoordinated shipments from various U.S. programs can exacerbate both commercial displacement and local market effects;
  - repeated and routine monetization can lead to dependency on food aid as a resource and raise the risk of market disruption should food aid not be made available; and
  - the risk that U.S. policies – humanitarian, trade, and development – are incoherent and work at cross-purposes.

The Ethiopian case study highlights the importance of taking a changing local context into account in determining the effectiveness of food aid monetization. Beginning in 1990, a group of U.S. PVOs (or Cooperating Sponsors) began to monetize Title II wheat and vegetable oil in Ethiopia. Although Bellmon analyses were completed each year to assure that the monetized commodities did not disrupt local markets or provide negative production incentives, in late 2001, it became evident that there was actually an over-abundance of edible vegetable oil available in the local market. The Ethiopian Oil Millers Association pointed to monetization of food aid vegetable oil as the culprit and charged that such sales were undermining producers. An in-depth, independent analysis commissioned by USAID/Ethiopia showed that it was necessary to consider the volume of distributed as well as monetized vegetable oil to understand the issue. Recipients of vegetable oil provided for personal consumption were "self-monetizing" the oil into the market. This unanticipated practice required the Cooperating Sponsors to adjust their targeted distribution practices as well as their monetization strategies. The case study demonstrates the importance of continuous monitoring systems. Such systems are essential to managing the balance between preserving a flow of resources for project activities while avoiding or mitigating potentially harmful impacts on producers' incentives or markets.

The Rwandan case study illustrates the direct benefits that may be achieved through monetization as well as the high costs associated with the practice and potential risks of market disruption in regional markets. By monetizing Title II vegetable oil through well-planned and fairly-conducted auctions, the program helped small traders to enter and participate competitively in local markets. Available information on revenues from the sale of commodities indicated that, in the 2001-2005 period, 69 cents of every dollar of delivered product cost were recovered. Taking the costs of running the program into account reduced cost-recovery to only 63 percent. These risks and costs were acceptable to the implementing PVOs, however, as the funding supported their food distribution efforts, food-for-work programs, and other development activities. In 2005, however, the Government of Rwanda proposed that food aid distribution should be limited to no more than 20 percent of food aid and no commodities that competed with local production should be included in the food aid basket. The PVOs realized that these new rules would significantly change their programs. They commissioned an independent analysis that considered the track record of food aid monetization as well as their distribution programs. The independent analysts did not find that imported vegetable oil was competing with local production, although there were some indications of possible competition with imports of cheaper oil from the region. Recommendations included using new procedures for determining monetization prices to ensure that sales would not undercut market competition. This independent Bellmon analysis commissioned by the Cooperating Sponsors helped to assure that the government's concerns, especially with the distribution of U.S.-produced commodities that were also grown in-country, were addressed and resolved.

Examination of the quantitative data on monetization provided by USAID indicates that, while the total volume of food aid monetized was but a small part of the global market and an even smaller share of U.S. production, the fact that most Title II commodities monetized

between 1997 and 2005 were shipped to only 22 countries means that food aid can – and did – make up a significant share of reported imports in these countries.

- In Ghana, Haiti, Uganda, and Mozambique, for example, monetized wheat constituted an important share of imports each year between 1999 and 2005, averaging 18 percent, 18 percent, 16 percent, and 26 percent, respectively.
- Monetized wheat also represented more than 10 percent of imports in at least one year of the period in five other countries: Bangladesh, Bolivia, Chad, Kenya, and Nicaragua.
- Monetized Title II vegetable oil accounted for at least 25 percent of commercial imports in at least one year of the period in seven countries – and in four of them it represented at least a third of all imports for a year or more. In Rwanda, for example, the share of imports held by monetized packaged vegetable oil was consistently high, fluctuating between 14 and 29 percent, with an average market share of 21 percent in the time period.

Recommendations

Given these experiences, the paper explores several questions that need to be addressed in considering changes in monetization policy and/or practice:

- Given the potential benefits, costs and risks of monetization, will it continue to be a useful tool in the U.S. Government's food aid toolkit? Under what conditions? What policy measures would enhance the utility and accountability of food aid monetization programs?
- Can its effectiveness in delivering benefits be improved? Further, can monetization be implemented in a manner that does not harm global and regional trade interests as well as local markets while delivering a significant development benefit?
- Do alternative approaches offer a more effective and efficient use of U.S. resources?

Specific recommendations for improving the utility and accountability of monetization programs, changing practice to achieve greater effectiveness with lower costs and risks, and considering alternative approaches are found in the full text below.

The overall conclusion is that the principal benefit of monetization – an enhanced ability of U.S. private voluntary organizations to carry out community-based development activities aimed at improving food security – is achieved with some degree of market distortion, particularly on commercial imports. Inadequate data on market conditions for the monetized commodities and close substitutes, sales prices, program costs and the characteristics of purchasing populations do not permit detailed analysis of the other potential benefits, costs, or risks that have been associated with monetization.

Requiring better data analysis before programs are undertaken, preferably by a disinterested party arraying evidence on all potential benefits, costs, and risks, would help to inform decisions about monetization: go/no go; commodity choice; and management

techniques. The current Bellmon requirements are not broad enough to address commercial import displacement, especially from regional markets and for commodities that could substitute for the monetized food aid commodity.

Further, more systematic, independent monitoring and evaluation of programs as they are implemented would help to demonstrate the U.S. commitment to minimizing market and producer risks in recipient countries and regions even as the 2008 Farm Bill reaffirms U.S. support for the kind of non-emergency or developmental food aid programming by Cooperating Sponsors that generally involves monetization. Evaluations need to examine impacts from the monetization process itself as well as the impact of the projects implemented with the revenues. This implies that significant improvements must be made in data monitoring and reporting.

The provision of dollar resources in the place of Title II commodities would increase the efficiency of food security-oriented program implementation and eliminate the risk of market distortions. Such a shift might, if implemented abruptly, reduce the total amount of food available in the recipient country, especially when global supplies are short. But dollar-funded projects would stretch the American taxpayers' dollar – by more than 50 percent in the case of Rwanda – and the larger agricultural projects that could be funded could foster a larger production response.

However, a transition from food aid-supported programming to dollar-supported programming would be complex. It would require significant leadership from the administration, Congressional approval coupled with a shift in oversight and appropriation responsibilities within the Congress, and a commitment by the U.S. Government to the Cooperating Sponsors to protect their role in providing community-based assistance for food security.

MONETIZATION OF FOOD AID:

RECONSIDERING U.S. POLICY AND PRACTICE

JUNE 2009

I. WHY RECONSIDER FOOD AID MONETIZATION?

On March 15-16, 2006, the Partnership to Cut Hunger and Poverty in Africa (the Partnership) convened a workshop in Washington, D.C. to generate broader dialogue on the future of U.S. food aid. A report entitled "Reconsidering Food Aid: The Dialogue Continues" followed up on the workshop, exploring in particular those issues on which participants were not able to come to a consensus.[1]

One such issue was that of food aid monetization, that is, the sale, for local currency, of in-kind food aid (bought in and shipped from the U.S.) in the markets of the recipient country.

- Several implementing organizations emphasized the positive aspects of monetization, noting especially that revenues from the sale of food aid provided funding for development projects intended to address the causes of food insecurity and thus potentially to reduce the need for future food aid.
- Other stakeholders expressed the contrary view. They asserted that monetization could undermine the development of markets for local production and disrupt commercial trade, actually increasing the potential for greater food insecurity.
- In addition, some raised doubts about the efficiency of monetization as a tool in the fight against hunger and poverty. Costs of procuring food in the United States and shipping it on U.S.-registered vessels, as required by U.S. law, generally exceed the local currency value of the commodity on the local market, resulting in a "loss" on the transaction which must be covered by the U.S. taxpayers.

---

[1] The workshop materials are available on www.africanhunger.org.

Given the complexity of the issues, monetization's significance in U.S. food aid programming, and the heated nature of the global debate about its use going forward, the Partnership commissioned further analysis of food aid monetization policy and practice, and, specifically, regarding the use of the resources of Public Law 480 (PL 480) Title II, Food for Peace. The Emerging Markets Group (EMG) performed this analysis, drawing on the firm's particular experience in carrying out the market analyses underlying the required "Bellmon Determination" in Ethiopia and Rwanda. EMG also contacted a number of implementing organizations to gain further insight into the monetization process and outcomes.

This paper draws substantially on the analysis carried out by EMG, especially Sherry Khan, but includes additional information as well. Congressional action on the 2007-2011 Farm Bill (passed in 2008) strengthened the U.S. commitment to using food aid (and monetization) for non-emergency (developmental) purposes by setting minimum dollar levels for non-emergency programming of Title II food aid. After a number of fits and starts, the global trade talks known as the Doha Development Round collapsed in July, 2008. This potentially reduces the pressures on the U.S. to restrict its practice of food aid monetization.

Objectives and Approach

The objective of this paper is to examine U.S. policy and practice related to food aid monetization, addressing the following underlying questions:

- What makes monetization a useful tool in the U.S. Government's food aid toolkit? What factors argue against its use?
- Can food aid monetization be implemented in a manner that does not harm local, regional, or global markets while delivering a development benefit, especially by funding programs aimed at reducing food insecurity?
- What steps could be taken to increase the benefits of monetization, while reducing the costs and risks involved?

The database used for the analysis consists of: a seven-year sequence of information provided by USAID on the volumes and values of Title II commodities monetized by implementing organizations; country-specific case study material based on analyses done in Ethiopia and Rwanda by Emerging Markets Group; other information provided by private voluntary organizations involved in monetization programs; and written literature on the practice.

The level of analytical rigor that would have been desirable could not be achieved as local market and pricing data in recipient countries is not systematically collected and made available in a usable fashion. The single greatest limitation to drawing firm conclusions with regard to the utility and impacts of monetization is the lack of appropriate data.

However, the paper contributes to the dialogue on monetization by identifying trends, benefits, and risks associated with the practice in Sections II - IV and drawing out, in Section V, the lessons of experience which have implications for its future use. From this,

the paper identifies in Section VI specific changes in practice that could improve the effectiveness and mitigate potential harms from monetization. Key policy options that could improve the developmental return from U.S government investments in developing country market development and food security systems are identified. We also draw attention to key information gaps that need to be addressed to improve the information base for future analysis.

II. The Context for Monetization

A Brief Overview of Food Aid

Since the start of its international food aid program in 1954, marked by passage of the Agricultural Trade Development and Assistance Act (better known as Public Law 480, or PL 480), the United States has been a generous food aid donor, accounting for close to half of global food aid flows. In 2005, U.S. food aid accounted for approximately four million of the 8.25 million tons of food aid delivered to the developing world (WFP, 2006). The European Union was the second largest food aid donor, with less than half the U.S. volume, or 1.5 million tons. Other food aid donors, providing important but substantially smaller volumes, include Japan, China, the Republic of Korea, Canada, and Australia.

The United States structures its food aid programs according to legislative authority and assigns administrative responsibilities to either the U.S. Department of Agriculture (USDA) or the U.S. Agency for International Development (USAID).[2] Section 416(b), managed by the Commodity Credit Corporation (CCC) at USDA, was created and authorized by the Agricultural Act of 1949 in order to facilitate overseas donations of surplus commodities held by the CCC. Section 416(b) is currently dormant, in large part because changes in agricultural policy have virtually eliminated government-held agricultural surpluses.

PL 480's Title II, managed by USAID, is, as of 2008, the only active title of the three titles in PL 480. Title II now accounts for the majority of U.S. food aid, providing resources both for emergency feeding needs and for non-emergency (or developmental) uses aimed at improving food security. Food for Progress, authorized in 1985 outside of the PL 480 framework, is managed by USDA. Commodities are provided for the program through the authorities of both PL 480 Title I and Section 416(b). Food for Progress is intended to support democracy and the expansion of private enterprise. The McGovern-Dole International Food for Education and Child Nutrition program is the most recently-established food aid authority. Since 2002, this USDA-managed program has supported school feeding and child health and nutrition programs.

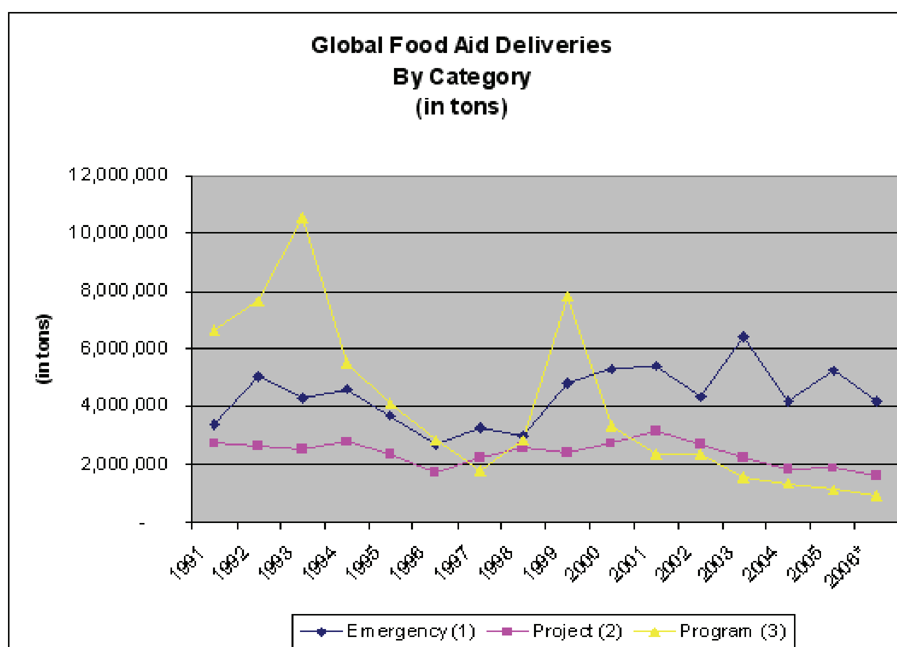
The World Food Program (WFP) tracks global food aid flows according to use (Figure 1).

- **Emergency food aid** is donated in response to humanitarian crises and in disaster situations. As noted, the United States provides emergency food aid through the authority of PL 480, Title II, which is managed by USAID. USAID channels most Title II emergency food aid through WFP and/or private voluntary organizations (PVOs) or non-governmental organizations (NGOs) with a humanitarian mission. Emergency food aid has accounted for the largest share of U.S. and global food aid in recent years.

---

[2] www.fas.usda.gov/info/factsheets/foodaid.asp

Figure 1. Global Food Deliveries



Source: WFP, Interfais, June, 2006.

- **Project food aid** is intended to support social and economic development activities in recipient countries, generally on a community level, and to address the causes of hunger and malnutrition. Project food aid includes food-for-work, school feeding programs, and food distributions to targeted vulnerable individuals or groups. In addition, as is discussed further below, project food aid can also involve monetization or the sale of food aid in recipient countries; revenues generated by the sale are then used to support the development project activities. PL 480's Title II, the McGovern-Dole International Food for Education and Child Nutrition and some Food for Progress programs all serve as sources of U.S. project food aid.
- **Program food aid** in the WFP lexicon encompasses all government-to-government food transfers. Such food aid constitutes balance of payments support and often involves donor-provided loan financing on concessional terms, although grant terms have also been extended for some programs. For the first 30 years of PL 480, Title I was the dominant form of U.S. food aid and it was all delivered in the "program" format. The food would be sold by the recipient government to increase available supplies and the local currency proceeds allocated for agreed-upon uses, often developmental in nature. This type of food aid is now less common among the large food aid donors; the only remaining program food aid appears to be between South Korea and North Korea.

Monetization of Project Food Aid

Monetization is the term used to describe the process whereby donated food is sold into local markets in recipient countries and the local currency revenues thus generated are used for specified purposes, often related to strengthening the food security of low-income populations.[3]

Monetization of U.S.-donated project food aid, the topic of this paper, involves the sale or barter of food, generally through the actions of PVOs or NGOs (also known as "Cooperating Sponsors"). Title II (non-emergency) is by far the most important source of project food aid volumes monetized and is the primary basis for the analysis in this paper. The other principal sources of U.S. project food aid, Food for Progress and the McGovern-Dole International Food for Education and Child Nutrition program, also allow for monetization in which PVOs, NGOs, or the WFP are active participants. Where available, information on these programs will also be considered.

The authority to monetize Title II project food aid was first introduced in the Food Security Act of 1985. This Act permitted implementing PVOs or NGOs to sell U.S.-donated in-kind food aid in the recipient country as a way to help cover administrative costs associated with food aid distribution. It also mandated that a minimum five percent of non-emergency Title II and Section 416(b) commodity value be monetized for this purpose.

In 1988, the acceptable uses of Title II monetization proceeds were expanded to include development objectives. The minimum monetization level for non-emergency Title II was increased to 10 percent. The 1996 Farm Bill increased the minimum yet again – to 15 percent.

On October 16, 1998, USAID issued the current "Monetization Field Manual."[4] Updated in April 2001, the Manual emphasizes that USAID "promotes the integration of food aid with other USAID assistance resources *and the use of monetization proceeds to complement activities aimed at enhancing agricultural productivity and improving household nutrition (*emphasis added*)*." OMB Circular A-133 of March 2004 reaffirms as policy: "A portion of Title II commodities can be monetized by Cooperating Sponsors to fund complementary development interventions to enhance the impact of food programs and contribute to food security."

In practice, monetization has claimed a progressively higher share of non-emergency Title II food aid since its introduction. The percentage of Title II resources monetized rose from 28 percent of non-emergency tonnage in FY 96 to 70 percent in FY 01. By 2000, some non-emergency programs were entirely monetized. Monetized volumes of Title II peaked at

---

[3] There are some (apparently rare) exceptions to the general rule of sales for local currency. Food aid can sometimes be sold in "third countries" (i.e. neither the donor nor the recipient country). The revenues generated by sales there are transferred for programs in an intended recipient country. Where these countries share a currency (as in the francs CFA zone), this poses no currency exchange issues. In situations where inflation is high, guidelines permit conversion of local currency generations to dollars for conservation of value until use. We were unable to identify actual cases in which third country monetization was carried out.

[4] See www.usaid.gov/our_work/humanitarian_assistance/ffp/monetiz.htm

more than 900,000 MT in 2001 and have trended downward since, but were still more than 400,000 MT per year in 2004-05. These high levels make it clear how quickly this tool evolved into a popular funding mechanism for development projects implemented by U.S. PVOs and non-profit organizations through Title II (Table 1).[5]

Table 1. Division of Title II Non-Emergency Tonnage, FY00-FY05[6]

Year	Monetization	Distribution
FY00	53%	47%
FY01	70%	30%
FY02	64%	36%
FY03	66%	34%
FY04	62%	38%
FY05 (estimate)	53%	47%

Source: See footnote 6.

The expanded monetization of food aid came under international scrutiny in the context of the global trade negotiations known as the Doha Development Round. The Declaration issued at the conclusion of the WTO Ministerial Meeting held in Hong Kong in December, 2005, essentially defined in-kind food aid for non-emergency purposes and, specifically, food aid monetization, as an export subsidy from the supplying country. While reconfirming the international community's commitment to the use of food to deal with emergency situations, and agreeing "to maintain an adequate level and to take into account the interests of food aid recipient countries," the Declaration goes on to state that "we will ensure elimination of commercial displacement. To this end, we will agree effective disciplines on in-kind food aid, monetization and re-exports so that there can be no loop-hole for continuing export subsidization." (WTO, 2005)

The United States has engaged in vigorous debate on these proposals, with trade officials reaffirming the U.S. commitment to providing in-kind food aid and emphasizing the positive development impacts that have been achieved through food aid monetization.[7] USAID's Monetization Field Manual recognizes, however, that monetized food aid "can have serious negative and positive impacts on food prices, marketing, and production incentives" and establishes guidelines for "understanding and minimizing potential disincentives while maximizing the potentially positive effects of monetized food aid." Many believe that the requirements for analysis that underpin

---

[5] Monetization percentages were calculated by dividing Title II non-emergency tonnages in the Congressional Budget Justification by monetized tonnages in the USAID dataset.

[6] Monetization values were taken from the USAID dataset, 2006. Non-emergency totals were taken from Congressional Budget Justifications for several years. For FY 05, only an estimate for non-emergency tonnage was available. All non-emergency tonnages not monetized were estimated to have been distributed.

[7] See, for example, www.usmission.ch/Press2006/0421AgNegs.html

the Bellmon Determination are adequate in this regard.[8] Further, many argue that the total volume of monetized food aid is so small in relation both to global and local markets that its potential to cause harm or to displace significant quantities of commercial imports is minimal (MacKay and Shaw, 2006).

Many implementing organizations, or Cooperating Sponsors, also vigorously defend the practice in terms of its impacts. The Alliance for Food Aid, a coalition of 15 PVOs that strongly supported monetization, for example, focused on the impact of the programs conducted with the revenues generated to assert that "monetization and barter contribute to food security."[9] ACDI/VOCA, in its 2003 *Monetization: Best Practices Manual*, notes that monetization is much more than the process of generating proceeds by selling commodities and implementing development projects. Rather, ACDI/VOCA indicates that PVOs can "use monetization as a development tool in and of itself to stimulate trade among small businesses, to teach transparency in marketing systems, and to create a forum for traders to interact and create new relationships."

Other Cooperating Sponsors, however, have noted that monetization is difficult to manage and can have local market effects that undermine the goals they are trying to achieve with other programs. In June, 2006, CARE issued a policy statement that declared that organization's intention to move away from the monetization of food aid: "By September 30, 2009, CARE will transition out of monetization…the only exceptions will be where it can be clearly demonstrated that monetization can be used to address the underlying causes of chronic food insecurity and without causing harm to markets or local production. CARE will use monetization *only* when it is sure that the food which is monetized reaches vulnerable populations and has effective targeting of poor people with limited purchasing power. This will result in minimum or no displacement of domestic production. CARE will advocate the adoption of a principled approach by the U.S. Government and PVOs that addresses the potential harm to markets and local production as well as the high management costs associated with monetization." (CARE, 2006)

This decision was surprising to many as, over the FY 99-05 period, as documented below, CARE led all other PVOs in Title II monetization by a large margin. As the news headlines suggested in mid-2007, CARE was walking away from money on the table, an act that many other charitable organizations consider unthinkable (Dugger, 2007; Ryan, 2007). Without the resources that monetization provides, these PVOs argue, it will be impossible to carry out the kinds of important development activities that are now carried out.

---

[8] See, for example, USAID's specific guidelines for conducting Bellmon analyses in West Africa (www.usaid.gov, May, 2002).

[9] The website from which this statement was taken is no longer available. The Alliance reformed itself in late 2008 as the Alliance for Global Food Security. The views of this new Alliance on monetization are not clearly stated on its website, www.globalfoodsecurity.info.

Title II Monetization in Brief, 1999-2005

Over the period from FY 1999 to FY 2005, according to data provided by USAID, 4.4 million metric tons (MT) of Title II food aid commodities purchased in the United States were delivered to recipient countries and sold, or monetized, on local markets. While the amount of revenue generated by the monetization is not known,[10] USAID records on the commodity and transport costs put the value of monetized food aid at $1.4 billion, or an average of just over $200 million a year.

Nineteen Cooperating Sponsors, principally U.S. private voluntary organizations, were responsible for the Title II monetization and the programs funded with the revenues generated (Table 2).

- Three organizations (CARE, Catholic Relief Services (CRS), and World Vision/US) led the group in terms of monetization, with half of the tonnage and 40 percent of the total value. The average annual cost of commodities monetized by these three organizations (including ocean and inland freight as well as the commodity itself but not including any administrative or management costs) was $115 million. These organizations worked in as many as 20 countries in which monetization was a part of the food aid program.
- The next five largest food aid monetization programs were managed by ADRA (the Adventist Development and Relief Agency), Africare, ACDI/VOCA, Caritas, and Save the Children/US. They handled 20 percent of the volumes and 22 percent of the value of Title II monetized, with an average annual value of approximately $60 million.
- The remaining 11 organizations handled much smaller volumes and worked in fewer countries.

With in-country staffs in the countries in which they work, PVOs or Cooperating Sponsors that monetize food are in a position to understand the local markets in which monetization is done and to design and implement projects that can have lasting positive impact on the food security of project participants. Their challenge is to manage the conflict of interest that could arise when their needs for project funding exert pressures to monetize food aid even when there is a possibility that local producers or markets might be adversely affected. Monetizing Cooperating Sponsors, especially those working on agricultural activities, must find the delicate balance between obtaining sufficient project funding without undermining the incentives faced by the agricultural populations they are trying to help.

---

[10] According to the USAID Monetization Manual, Cooperating Sponsors are to "certify that the amount of currency generated in the monetization transaction(s) will meet or exceed the cost recovery benchmark," but there does not appear to be any systematic central reporting of actual local currency revenues generated.

Table 2. Title II Food Aid Monetization by Cooperating Sponsor, FY 1999- FY 2005

Cooperating Sponsor/PVO	Tonnage of Food Aid Monetized ('000 MT)	Value of Commodity Monetized ($ ' 000)	Value of Transport ($ ' 000)
CARE	1,266	255,648	118,062
CRS	712	155,493	77,277
World Vision/US	751	126,320	71,052
ADRA	375	91,748	38,645
Africare	165	51,351	34,549
ACDI/VOCA	194	46,653	28,867
SCF	240	45,417	26,069
Caritas	98	41,962	8,134
FHI	167	33,027	24,523
Prisma	75	32,245	6,297
Technoserve	101	18,300	11,648
OICI	44	11,366	4,322
PCI	56	10,479	7,622
REST	44	10,469	6,463
SHARE	27	5,821	2,314
EOC	29	5,789	3,725
Land O'Lakes	14	2,338	3,780
GTG/Title II	2	1,205	828
Counterpart	3	853	453
TOTAL	4,362	946,483	474,631

Source: USAID/FFP (2006)

Thirty-three recipient countries were involved in Title II monetization in the 1999-2005 period: six in Latin America; three in Asia; and 24 in sub-Saharan Africa. Monetization took place regularly in about two-thirds (or 22) of the countries, that is, with deliveries every year or every year but one. In nine countries, programs involving monetization occurred in only one, two, or three years. In two countries, monetization was done in four or five of the seven years. Monetization was also done in two regions, west and southern Africa. Table 3 summarizes results for those 22 countries in which monetization was done every year, or all but one of the years, during the 1999-2005 period.

Table 3. U.S. Food Aid Recipient Countries: Monetization Summary for FY 1999- FY 2005

Region/Country	# of years food aid monetized, 1999-2005	Tonnages monetized	Main commodities monetized	Total value of commodities monetized ($ millions)	Number of Cooperating Sponsors
Latin America					
Bolivia	7	181,518	Wheat flour	88.4	5
Guatemala**	7	237,630	Bulk corn, soybean meal, crude vegoil	62.6	4
Haiti**	7	406,720	Wheat	99.2	4
Honduras	7	108,724	Wheat	27.4	5
Nicaragua	6	133,520	Wheat	34.6	4
Peru	7	359,450	Vegoil, wheat	180.1	6
Asia					
Bangladesh**	7	821,520	Wheat, vegoil	188.4	3
India	6	58,630	Vegoil	36.6	2
Africa					
Benin	7	37,630	Wheat, rice	15.6	1
Burkina Faso**	7	51,390	Wheat flour, rice	27.1	2
Cape Verde	7	118,920	Bulk corn, wheat, peas	24.2	2
Chad**	7	24,820	Wheat flour	14.4	1
Ethiopia**	7	225,380	Vegoil, wheat	80.5	8
Ghana	6	320,310	Wheat, rice	81.8	4
Guinea	6	24,120	Vegoil	22.8	3
Kenya	7	222,970	Vegoil, wheat	62.5	6
Madagascar**	7	99,450	Veg oil, wheat	37.5	3
Malawi**	6	29,450	Wheat, vegoil	14.7	1
Mozambique**	7	475,330	Wheat, vegoil	119.0	6
Niger**	6	41,830	Rice, vegoil	25.7	1
Rwanda	7	22,590	Vegoil, wheat	25.1	3
Uganda**	7	146,460	Wheat, vegoil	73.5	6
Total for Top 22 Recipients		**4,148,362**		**1,341.7**	

Source: USAID/FFP (2006). ** indicates that the country was designated by USAID as a "priority country" for receipt of non-emergency food aid.

Several points of interest emerge from this data on food aid and other assistance information for these 22 countries.

First, there were ***multiple Cooperating Sponsors monetizing food aid in each country***, with an average of four per country. Unless these organizations coordinated their marketing efforts, there was a risk of uncoordinated – and possibly competitive – marketing by the different actors.

While the USAID dataset does not indicate whether one of the organizations managed the monetization process of behalf of all others, such a practice has been encouraged precisely because it fosters coordinated marketing. It is likely that such collective marketing – in which an "umbrella" PVO manages all the logistics of procurement, shipping, and marketing in the recipient country on behalf of other PVOs – was carried out. The revenues as well as the administrative costs are then shared according to prior agreements. In Ethiopia, for example, CARE managed monetization for all participating Cooperating Sponsors between 1996 and 2001 (Riley et al., 2002). In Rwanda, ACDI/VOCA monetized on behalf of CRS and World Vision as well as their own organization between 2002 and 2005 (Swanson, 2004).

A concern is whether Food for Progress or other USDA-managed programs in these same countries were monetized in coordination with the Title II sales. Anecdotal evidence indicates that, in part because of the different approaches taken by USAID and USDA, uncoordinated sales of U.S. food aid commodities sourced through different programs have taken place. In Uganda, for example, Food for Progress wheat has been monetized on an occasional basis.[11] According to a former PVO monetization unit staff member, whereas 15,000 to 20,000 MT of Title II wheat have been monetized annually since 2000, USDA Food for Progress awarded contracts in FY 04 that allowed an *additional* 25,000 MT of wheat to be monetized, more than doubling the volume on the market that year.[12] As USDA and USAID have different policies with regard to pricing and cost recovery, such a lack of coordination may contribute to real market confusion (USDA/FAS, 2001).

Second, ***wheat and wheat products were by far the most important commodities monetized*** by volume (Table 4). Fully 75 percent of the total Title II tonnages monetized were wheat or wheat products; 61 percent of the value was also accounted for by wheat. This translated into just over 3 million MT of wheat/wheat products or an average of about 440,000 MT annually. While this is a significant tonnage, it is, on average, less than two percent of U.S. wheat exports over the period. As will be discussed further below, however, wheat monetized in specific countries accounted for more than 20 percent of all wheat imported into the country – indicating the potential for a significant impact on local markets.

---

[11] Note that while Uganda was not the only country that received both Title II and Food for Progress commodities in the time period analyzed, it is one where Food for Progress information could be obtained.

[12] Note that this additional volume does not appear on the table of programmed food aid on the USDA FAS website.

Table 4. Food Aid Monetization, FY 1999-FY 2005 by Commodity, 22 Regular Recipient Countries

Commodity	Tonnage (MT)	Commodity Value ($ '000)	Transport Costs ($ '000)
Wheat			
Flour	214,378	54,072	52,178
Grain, bagged	90,553	13,687	20,462
Bulk	2,781,798	422,379	248,981
Rice	102,240	26,952	22,750
Corn	251,950	26,353	20,918
Pulses	1,220	758	152.4
Soybean meal, bulk	56,220	10,814	4,666
Vegetable oil			
Packaged	121,393	96,540	28,592
Bulk	368,380	156,986	30,429
Crude degummed	154,690	87,992	14,821
TOTAL	4,142,822	896,533	443,950

Source: USAID/FFP (2006).

Various forms of vegetable oil or processed soy products were second in importance as commodities for monetization, especially in value terms. Sixteen percent of tonnages were vegetable oil or soybean meal; over 30 percent of the value of monetization came from these products. Vegetable oil appears to be a preferred commodity for landlocked countries. Oil has a higher value-per-weight than grains and inland transport costs are minimized. The cost per delivered ton of vegetable oil/soybean meal products was $615/MT compared to just $263/MT for wheat. All other commodities (corn, rice, pulses) accounted for less than 8 percent of monetized value.

Third, ***monetized food aid was an important share of total food aid in many of the countries in which monetization was a regular practice***. More than half of the value of food aid provided by the United States to five of the 22 countries (Benin, Cape Verde, Ghana, Mozambique, and Peru) was monetized over the 1999-2005 period (Table 5). Title II

programs in Cape Verde were dominated by monetization: 89 percent of all food aid provided to this country over the period was monetized. Monetized Title II food aid represented less than ten percent of total U.S. food aid in only two of the 22 countries over the 1999-2005 period (India and Ethiopia). Overall, 24 percent of all food aid to the 22 countries was monetized over the whole period.

Fourth, ***Title II food aid was an important part of the total package of U.S. economic assistance***, accounting for almost 40 percent of U.S. aid provided to the 22 countries in which food aid was most regularly monetized (Table 5). Food aid comprised more than 50 percent of the assistance package in five of the 22 countries (Burkina Faso, Cape Verde, Ethiopia, Niger, and Bangladesh) and more than 30 percent of the U.S. aid package in eight more. Cape Verde might represent the most extreme case of "food aid dominance" in U.S. assistance. Food aid accounted for 94 percent of the average annual $7 million U.S. assistance package to that country and, as noted before, nearly all of that was monetized.[13]

In short, even within this fairly limited group of 22 countries in which monetization of food aid was significant and routine over the seven-year period 1999-2005, there are very large differences with regard to: (a) the importance of food aid in the total assistance package; (b) the relative importance of food aid distribution versus sales/monetization within the country; and (c) the absolute size of the food assistance package.

Ethiopia, for example, stands out as a unique case: its food aid program is larger than the total amount of food aid provided to all the other 13 African countries in which monetization is routinely carried out. Ethiopia's U.S.-provided food aid accounted for nearly 75 percent of the average annual U.S. assistance package of $357 million to that country over the FY 99 – FY 05 period, but monetization, although an annual event, is relatively limited in scope (i.e., only 4.4 percent of the total food aid value). For the other 13 African countries, by contrast, average annual U.S. assistance was only $55 million, food aid was only 31 percent of this package, but more than a third of the food aid provided by the United States was monetized every year.

While it would be useful to examine each of the country programs in more detail, we illustrate the various approaches to and issues addressed in food aid monetization in two countries for which more in-depth information could be obtained: Ethiopia and Rwanda.

---

[13] The implementation of the Millennium Challenge Corporation compact with Cape Verde, signed in October, 2005, will change this calculation. If the MCC Compact is implemented as planned, four disbursements should be made: the first two, $34 and $37 million respectively, will provide resources to Cape Verde significantly greater than the $7 million level of U.S. assistance from 1999-2005.

Table 5. Economic and Food Assistance to 22 Countries in Which Monetizations Were Most Routine, FY 1999- FY 2005

Country	Economic Assistance ($ millions)	Food Aid ($ millions)	Food Aid as % of Total Economic Assistance	Value of Monetized Food Aid ($ millions)	Monetization as % of Total Food Aid
Benin	171.5	30.5	17.8	15.6	51.1
Burkina Faso	117.1	87.5	74.7	27.1	31.0
Cape Verde	29.1	27.3	93.8	24.2	88.7
Chad	138.7	67.5	48.7	14.3	21.3
Ethiopia	2,505.3	1,845.0	73.6	80.9	4.4
Ghana	447.1	141.1	31.6	81.8	58.0
Guinea	293.5	75.9	25.9	22.8	30.0
Kenya	908.9	315.9	34.8	62.4	19.8
Madagascar	370.1	84.7	22.9	37.5	44.3
Malawi	320.9	49.5	15.4	14.7	29.7
Mozambique	798.7	190.7	23.9	119.0	62.4
Niger	81.1	54.6	67.3	25.7	47.1
Rwanda	352.5	113.4	32.2	25.1	22.2
Uganda	994.7	334.7	33.6	73.5	22.0
Bolivia	1,279.2	197.2	15.4	88.3	44.8
Guatemala	599.0	216.1	36.1	62.6	29.0
Haiti	798.8	231.7	29.0	99.2	42.8
Honduras	610.2	168.7	27.6	27.4	16.2
Nicaragua	376.9	146.5	38.9	34.6	23.6
Peru	1,591.3	308.6	19.4	180.1	58.3
Bangladesh	822.8	439.0	53.4	188.4	42.9
India	1,373.4	545.3	39.7	36.6	6.7
TOTAL	14,980.8	5,671.4	37.9	1,341.9	23.7

Sources: Information on monetization is from the Food for Peace database, Annex 1. Data on economic assistance and total food aid are from USAID's "Greenbook," in current dollars. www.usaid.gov.

III. MONETIZATION IN ETHIOPIA

Ethiopia has been a recipient of in-kind food aid from the United States for over three decades. Even during the worst of the civil conflict that marked the decade of the 1980s, U.S. food aid reached many hungry populations affected by both war and drought. Title II food aid has been monetized in Ethiopia since 1990. Between 1999 and 2005, Title II wheat and vegetable oil stocks valued at $80.9 million (commodity plus transport) were monetized. The story of this program illustrates how market variability, "self-monetization" by recipients of distributed food aid, and different pricing approaches need to be taken into account if risks of market disruption and producer disincentives are to be avoided.

The Food and Agricultural Situation

Ethiopia is a predominantly agricultural country with as much as 85 percent of the population reliant upon crop and animal production for all or part of its livelihood. Production potential is highly variable given the great ecological diversity of the country. In the highlands, producers grow the uniquely-Ethiopian grain crop teff as well as wheat, barley, maize, sorghum and pulses. Coffee is a major export as Ethiopia is the country of origin for this crop. Dairy production for both family consumption and sale is common in the highlands. At lower altitudes, cropping patterns increasingly include maize and sorghum; sheep and goats dominate in the lowland animal production systems. The agricultural sector is a significant contributor to the economy, providing about 50 percent of the Gross Domestic Product.

Civil conflict in the 1980s combined with drought to increase the level of food insecurity in the country. Crisis struck in the middle of the decade and millions of Ethiopians died of hunger and related diseases. While Ethiopia has focused on agricultural development since 1991, agricultural productivity still lags behind levels experienced in neighboring countries and rural poverty is endemic. The 2007/8 Human Development Report ranks Ethiopia 169th (out of 179) in terms of human welfare.

While some progress has been made in improving overall agricultural conditions, the sector is characterized by declining farm size due to population pressure, widespread land degradation, tenure insecurity, erratic rainfall, little irrigation, weak research and extension systems, under-developed rural financial markets and poor communications and transport infrastructure. Ethiopians therefore remain vulnerable to drought and routinely experience deficits in food supplies at both national and household levels. According to studies done at the household level, it is likely that between five and eight percent of Ethiopians experience chronic hunger, unable to produce enough food to feed their families and too poor to procure needed supplies in markets (Sharp et al., 2003). And, overall, the Food and Agriculture Organization (FAO) estimates that 46 percent of the population was undernourished in 2002-2004; food supplies, including imports, provided an average of only 1,850 calories per capita, below the level required. For all these reasons, Ethiopia is a regular recipient of in-kind food aid as well as cash assistance targeted to very poor households.

Most of the food aid is distributed directly to poor households and individuals through programs managed by NGOs, WFP, or local relief organizations. Some Title II food aid is used as food for work. Over the 1999-2005 period, some 4.4 percent of the Title II food was monetized.[14] The wheat monetized was valued at $53 million; the vegetable oil, at $27 million.

Since Ethiopia's agro-climate is so varied, many experts both inside and outside of Ethiopia have recommended that particular attention be paid to diversification of production and the production of high-value products that could ensure greater capacity to import staple commodities, if needed. For example, Ethopia's agro-climate is particularly suited to the cultivation of a wide variety of oilseed crops (niger seed or nug, linseed, rapeseed, sesame, sunflower and cottonseed), so efforts to promote increased cultivation of these crops have been intensified in recent years. The nation has, however, been producing such crops for many years, and the export of bulk oilseeds began in the 1960s, rising in volume to a point where they constituted the third most important agricultural export prior to the conflict with Eritrea in 1998-2000. FAO data indicate nearly a doubling of exports of sesame and other oilseeds from 2002-2004. Given the importance of rising agricultural productivity for Ethiopia's future, it is critical that local producers are not harmed by monetization of similar or competing food aid commodities.

Background of Vegetable Oil Monetization

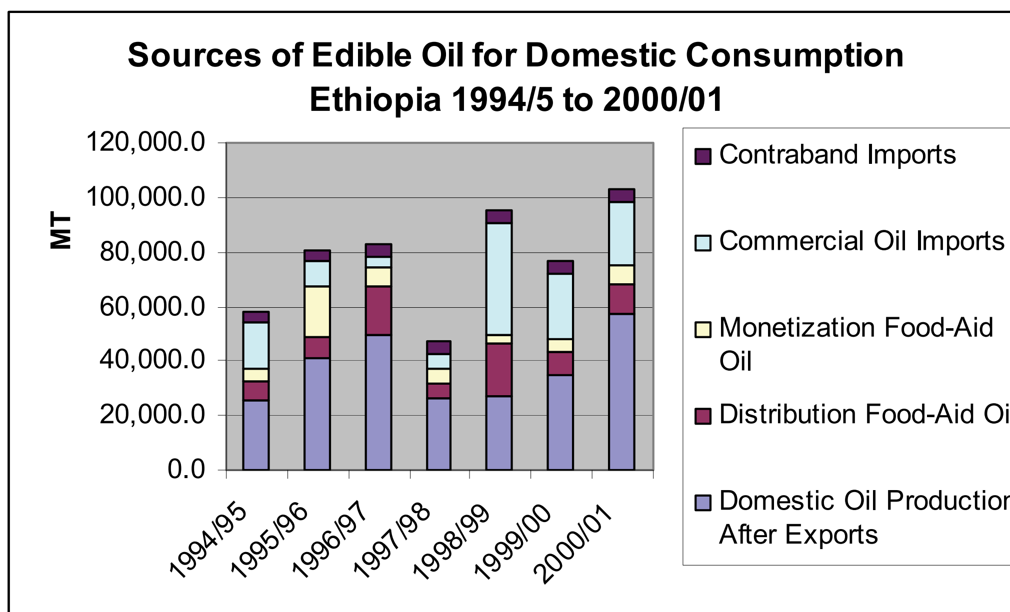
Title II monetization began in Ethiopia in 1990. CARE served as the "umbrella" organization charged with running the Monetization Management Unit (MMU). This Unit had responsibility for selling Title II food aid commodities through competitive tender auctions and distributing the proceeds on behalf of all Cooperating Sponsors. As with all Title II programs, Cooperating Sponsors were expected to conduct an annual Bellmon analysis or "update" to certify, among other things, that neither distribution nor monetization programs would cause disincentives to local producers. Standard practice up until 2001 was for each organization to self-certify that there were no such issues with respect to vegetable oil monetization. In 2001, this practice was called into question.

As Figure 2 illustrates, the amount of oil consumed in Ethiopia was generally on the rise over the last half of the 1990s, with supplies coming from a variety of sources, including food aid. A one-time grant of U.S. vegetable oil for monetization was made in 1995 (apparently under Food for Progress), although, in general, more vegetable oil was distributed for free through food aid distribution programs (including food for work) than sold.

---

[14] It is clear from USDA/Foreign Agricultural Service records that Section 416(b), Food for Progress and Food for Education were also provided to Ethiopia during this period, but it was not possible to get a complete set of records indicating the amounts made available each year. Based on information available for FY 2000, however, volumes of wheat that were supplied through these other programs were significant. It is not clear how much was monetized, however, although it is likely that some of it was (given the generally high levels of Food for Progress monetization). The Food for Education program provided take-home rations as well as school feeding.

Figure 2: Ethiopian Edible Oil Supply Presented in Nominal Terms



Source: Deloitte and Touche (EMG) Bellmon Assessment, 2002.

In mid-2001, however, a series of events and conditions conspired to create a "perfect storm" of problems in the domestic oilseeds industry in Ethiopia. Absolute tonnage of domestic oilseed production was on the increase from 1997 – 2001, but the closing of the Eritrean border in 1998 due to regional conflict severely disrupted the traditional export of oilseeds, cake and oil through Eritrea to final destinations. At the same time, commercial and contraband imports were expanding and contributed materially to domestic supply. By the end of 2001, therefore, there was actually an over-abundant supply of edible vegetable oil available to the domestic market.

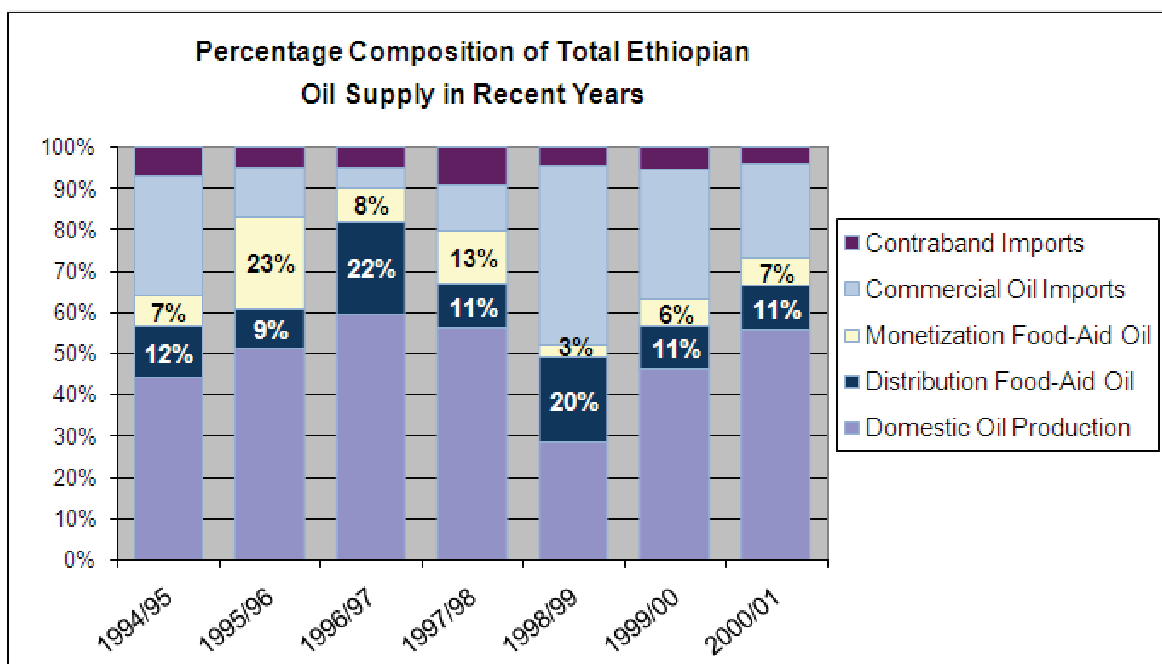
Local millers began feeling the effects of that situation in the form of declining prices for their domestically-produced oil and they spoke out. When making preparations for FY 2002 food aid programming, USAID/Ethiopia noticed an upsurge of negative press by the Ethiopian Oil Millers Association against the practice of food aid vegetable oil monetization. The Association mounted an aggressive publicity campaign through the Ethiopian Chamber of Commerce and the Ministry of Agriculture, asserting in the local press that the monetization of U.S. food aid vegetable oil was undermining local production. Concerned about the criticism, USAID/Ethiopia decided to sponsor an independent Bellmon study of food aid wheat and oil monetization before deciding what Title II commodities and monetization program levels to approve for FY 2002.

Deloitte & Touche Kenya, Agridev (a local contractor), and Emerging Markets Group (EMG) were selected to conduct an independent Bellmon study to assess the situation (Deloitte and Touche, 2002).

Cause for Concern

In order to gain a good understanding of the problem, market data on supply and demand for edible oil was collected by the Bellmon study team for the seven years leading up to FY 2002. Figure 3 recasts the information in Figure 2 in percentage terms.

Figure 3: Ethiopian Edible Oil Supply Presented in Percentage Market Share



Source: Deloitte and Touche (EMG) Bellmon Assessment, 2002.

The importance of in-kind food aid vegetable oil from both monetization and free distribution programs in Ethiopian consumption is clear. Over a seven year period, monetized vegetable oil accounted for more than 10 percent of market supply (a benchmark for concern identified by the USAID Monetization Field Manual) only on two occasions. However, the *combination* of free and monetized vegetable oil surpassed 10 percent in all years and exceeded 20 percent of supply for a majority of that time. This led the Bellmon study team to explore further the phenomenon of "self-monetization," in which recipients of free vegetable oil sell that oil on local markets, and to try to evaluate its potential impact on pricing and local market conditions.

Field trips and rural store shelf inspections revealed that vegetable oil that had been distributed directly to recipients either as pay for food-for-work or as part of a free food ration was being sold, or self-monetized, often at reduced prices. Due to carton markings, it was possible to distinguish vegetable oil that had been distributed for free to households from vegetable oil intended for monetization. Interviews with shopkeepers confirmed the reflow of distributed food aid vegetable oil into the domestic traded supply. The self-monetization phenomenon thus deserved (and continues to require) special attention in the case of Ethiopia.

The propensity of participants to self-monetize part of their food aid rations in order to purchase a more diverse bundle of goods is apparently high when households receive more than average consumption levels or when other sources of income are so limited that sale of a readily marketable commodity like vegetable oil can make a difference. Cooperating Sponsors in Ethiopia now have a heightened awareness of this risk and take it into account in their sales strategy. For instance, shortly after one food aid auction in FY2005, traders reported that excess distribution oil had been observed in at least two important regional markets, Dessie and Mekele. That extra volume caused the MMU to postpone the subsequent month's tender for monetization of vegetable oil.

Another important line of inquiry for the Bellmon analysis involved the pricing of monetized oil and its potential impact on the market. This began with a test of whether the MMU had been recovering 100 percent of FAS (free alongside) or 80 percent of CIF (cost insurance freight) cost of the commodity as suggested by the USAID guidelines in effect at the time. Analysis of MMU sales data revealed that the Monetization Management Unit had kept good control over auction prices to ensure that they were able on all occasions to recover either 100 percent of the FAS value of the commodity or 80 percent of the value landed after adding insurance and freight. This evidence is presented in Table 6 below.

Table 6: Comparison of Market Prices vs. Cost Recovery Prices of Edible Oil

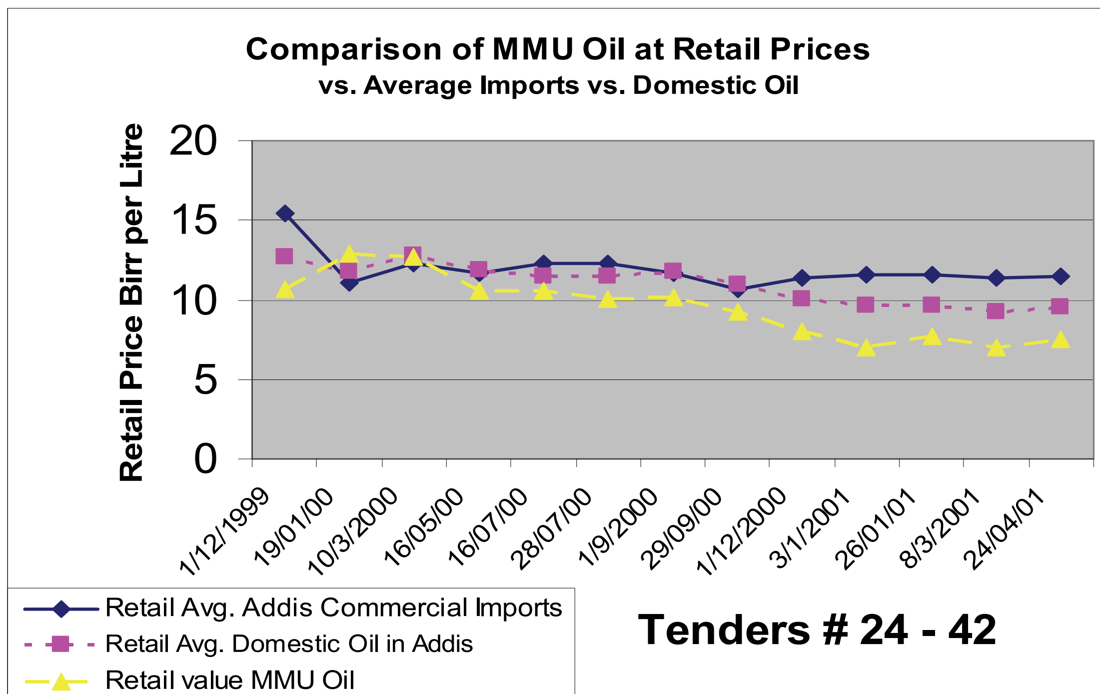
1	2	3	4	5	6	7	8	9
MMU Tender Date	FAS $ Price per MT	80% of foreign flag CIF	Prevailing Exchange Rate	MMU Revenue Birr per liter	FAS Price Birr per liter	Retail Avg Addis Commercial Imports	Retail Avg Domestic Oil in Addis	Retail value MMU Oil
1/12/99	724.21	716.17	8.13	10.38	6.41	15.42	12.64	10.68
19/01/00	724.21	710.17	8.14	10.62	6.41	11.07	11.76	12.88
10/3/00	712.36	700.69	8.16	12.37	6.33	12.31	12.76	12.67
16/05/00	720.28	712.22	8.2	10.31	6.43	11.71	11.88	10.61
16/07/00	720.28	712.22	8.23	10.30	6.45	12.26	11.49	10.60
28/07/00	720.28	712.22	8.23	9.80	6.45	12.26	11.49	10.10
1/9/00	720.28	712.22	8.25	9.82	6.47	11.7	11.79	10.12
29/09/00	714.29	697.43	8.25	8.97	6.41	10.68	10.99	9.27
1/12/00	714.29	697.43	8.31	7.72	6.46	11.4	10.01	8.02
3/1/01	714.29	697.43	8.33	6.67	6.48	11.59	9.64	6.97
26/01/01	714.29	697.43	8.33	7.44	6.48	11.58	9.64	7.74
8/3/01	704.38	656.7	8.39	6.70	6.43	11.32	9.21	7.00
24/04/01	704.37	656.7	8.41	7.25	6.45	11.46	9.55	7.55

Source: Deloitte and Touche (EMG) Bellmon Assessment, 2002.

Table 6 provides clear reassurance that the local currency price per liter of monetized vegetable oil obtained by the MMU (column 5) was higher than the FAS cost (Column 6) for the commodity. However, the margin between the two was declining over time and did not reveal the entire picture.

The study team decided to explore local market conditions more deeply and was pleased to note that the MMU had been tracking the resale price of MMU-monetized oil in retail markets (Column 9). For comparison purposes, data was collected on the average price of two substitutes or competing oil sources—commercial imports (Column 7) and domestic oils (Column 8). Only when local market data became the focus of analysis did it become apparent that monetization oil was, in fact, retailing at a fairly significant discount to alternative sources of oil in local markets. This is visually portrayed in Figure 4 below.

Figure 4: Monetized Oil Retailed at a Discount to Domestic and Imported Oils



Source: Deloitte and Touche (EMG) Bellmon Assessment, 2002.

In light of these data, the study team reported in the Bellmon analysis that the margin for error within the Ethiopian marketplace had narrowed significantly and a change in oil monetization strategy was needed to avoid harm to markets and to domestic producers and millers in the industry. The report stated:

> "It is not possible, nor, in our judgment, necessary to identify the degree of causality attributable to monetization oil for the decline of prices in the Ethiopian marketplace. Given all the other factors contributing to a supply glut, it is our view that the Ethiopian market would be in the same position it is in today, whether monetization oil had been a source of supply over the past years or not. In other words, the

Monetization Management Unit has likely operated as a "price taker" in an adverse market and has not caused a disincentive to local production or marketing. Nonetheless, it is also our view that the margin for error within the Ethiopian marketplace has narrowed significantly and a continuation of oil monetization along present lines would be harmful to the oil sector."

Program Adjustments Regarding Monetization of Edible Oil

The FY 2002 independent Bellmon study team recommended, first, that the quantity of food aid-supplied vegetable oil monetized in FY 2002 be reduced and, second, that import parity pricing be introduced as an alternative pricing benchmark when evaluating the potential impact of Title II commodities on the Ethiopian market. Both of these recommendations were embraced and adopted by USAID and the community of Cooperating Sponsors. The changed procedures caused temporary financial hardship to those PVOs whose programs relied upon the income stream from monetized oil, but USAID did what it could to search for supplemental funding through cash (development assistance) resources.

After 2002, it became possible to resume modestly higher tonnages of Title II edible oil. By using import parity pricing as a benchmark, domestic producers were given greater breathing room to competitively price their output. The MMU also became more careful with respect to the timing and quantities of food aid edible oil issued into the local market.

Monetized Title II vegetable oil has consistently sold at or above import parity prices and the MMU has been able to sell all lots in the sponsored auctions. This suggests that there is robust demand for U.S. edible oil among the "market dependent" population of Ethiopia who have means and willingness to pay for quality. Further, subsequent Bellmon analyses have found that monetized Title II vegetable oil has no "discernable" effect on local production as it competes primarily with other imports. Commercial displacement might still be a concern, but the innovation of international parity pricing provides a basis for fair competition.

Case Study Conclusion

This case study highlights the importance of taking a changing local context into account in determining the impact or potential impact of food aid monetization. The unanticipated practice of self-monetization by food aid recipients required the Cooperating Sponsors to adjust their targeted distribution practices as well as their own monetization strategies. The case study also demonstrates the importance of sound analysis and continuous monitoring systems in managing the balance between preserving a flow of resources for project activities while avoiding or mitigating potentially harmful impacts on producer incentives or markets. It further emphasizes the benefits of Cooperating Sponsors, USAID and independent analysts working together to use timely and accurate information to make substantive and thoughtful modifications in monetization practice to improve program implementation.

IV. EVOLVING POLICY ON FOOD AID IN RWANDA

Rwanda is the most densely populated country in Africa. Nearly 80 percent of Rwanda's more than 8 million residents rely on agriculture as their primary economic activity. The agriculture sector is dominated by subsistence farming, although small plot sizes and low levels of productivity mean that many farmers have too few resources to achieve a minimum level of food security by this means (Diao et al., 2007). Production per capita has been stagnant since 1995, although the incidence of undernourishment dropped from 51 percent of the population in 1995-97 to 36 percent in 2001-03.[15] Staple crops produced in the country include sweet potato, cassava, cooking banana, Irish potato, and sorghum. Beans are grown by most farmers and are the main source of protein. After a turbulent period of conflict and genocide in the early 1990s, Rwanda has focused on increasing the productivity of agriculture as the basis of livelihoods for its largely rural population. The country is still, however, a net importer of food. Much of the food is sourced commercially from other countries in the region, especially other members of the regional free trade zone, the Common Market for East and Southern Africa (COMESA), and a significant share is provided by donors as food aid.

In 2005, the Government of Rwanda noted potentially disruptive effects of food aid programs. Among its concerns was that donor-supported Food for Work programs challenged the government's own cash-for-work program. The Government, therefore, requested that food aid distributions be limited to 20 percent of all food aid. It also requested that no food aid commodities that competed with local production should be provided.[16]

Given this changing food aid policy, the PVOs in Rwanda contracted with an independent organization, Emerging Markets Group (EMG), to conduct the FY07 Bellmon analysis. This analysis serves as the basis for the case study reported here. The independent nature of this analysis seemed to lend credibility to its findings in the eyes of the Government of Rwanda. The Government now supports food aid distribution to the most vulnerable segments of society as part of its long-term food security strategy and the cap of 20 percent of food aid for direct distribution has been removed.[17] In addition, new procedures for determining appropriate prices for monetization have been defined.

U.S. Food Aid in Rwanda

Rwanda receives both emergency and non-emergency Title II food aid. Food aid is provided through the World Food Program (WFP) and three PVOs: ACDI/VOCA, World Vision, and

[15] FAO at www.fao.org/FAOSTAT/foodsecurity/countries/EN/Rwanda_e.pdf

[16] Letter dated September 20, 2005 from Nshuti Manasseh, Rwanda Ministry of Finance and Planning to Kevin Mullally, USAID / Rwanda Mission Director, Subject: 2005-2009 Proposed USAID Food Assistance Program for Rwanda.

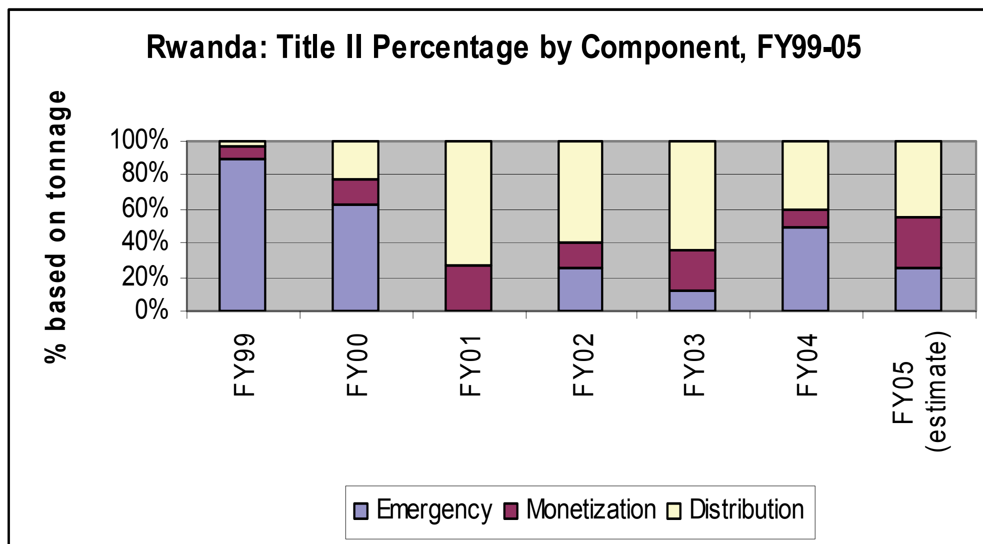
[17] Letter dated August 4, 2006 from Rwanda Minister of Finance and Planning to Kevin Mullally, USAID / Rwanda Mission Director, Subject: Government of Rwanda Position on Food Aid.

CRS. Since FY 2000, ACDI/VOCA[18] has served as the umbrella monetization agent for the three PVOs that participate in the monetization program – ACDI/VOCA, CRS and World Vision. ACDI/VOCA, as the monetization manager, stores all incoming food aid, organizes the auctions and negotiated sales, and distributes the revenues and costs to each Cooperating Sponsor in proportion to the volume sold. Examples of projects funded with monetization proceeds include developing and building capacity of farm cooperatives, linking those cooperatives to markets, operating orphanages, and road rehabilitation (Swanson, 2004).

Rwanda has over time received a variety of Title II commodities: beans, corn, corn soy blend, cornmeal, peas, wheat, bulgur, and vegetable oil. Based on the Government of Rwanda's request in 2005 that no food that is or may be locally produced be imported as food aid, beans and peas are no longer provided.

Monetized food aid accounted for 22 percent of all Title II food aid provided to Rwanda in the FY 99- FY 05 period (Figure 5). With the exception of one shipment of wheat monetized in 2003, packaged vegetable oil was the only commodity consistently monetized. Because packaged vegetable oil is a high-value, low-volume commodity, it is a good choice, from an economic perspective, to ship to a landlocked country such as Rwanda. Of the $25 million of delivered cost of commodities monetized in Rwanda between FY99 and FY05, only 30 percent was used for transport (ocean and inland freight costs). The value of the vegetable oil itself accounted for 70 percent. Revenues from monetizations conducted by ACDI/VOCA between FY 00 and FY 05 were reported to be $14.7 million (Swanson, 2004). This implies a 64 percent cost recovery rate over this period.

Figure 5. Rwanda: Title II Percentage by Component, FY 99-05



Source: USAID dataset, 2006

[18] ACDI/VOCA's experiences as a monetizing agent in Rwanda and elsewhere are well-reflected in the "Monetization: Best Practices Manual" published by ACDI/VOCA in December, 2003.

The monetization managers estimated that approximately 5.5 percent of proceeds were used for administrative costs associated with monetization. Thus, for every U.S. taxpayer dollar put toward monetization of food aid in Rwanda, approximately $0.61 was generated for the funding of development projects.

The vegetable oil was monetized principally through sealed bid auction either every month or every two months. Auctions were designed to both maximize revenue for development projects *and* to assist in enhancing the capacity of traders. ACDI/VOCA ensured that five to 10 new traders (including women traders) participated in at least one sale per year. In order to build the competitiveness of smaller traders and maintain competitiveness of sales in general, between 700 and 900 MT were sold at each auction. While it might be expected that smaller volumes would be more conducive to market development, experience in Rwanda showed that, if smaller volumes (around 450 MT) are sold, there is a tendency for individual traders to attempt to corner the market. The larger volumes are beyond the capacity of any single trader to purchase.

In FY 06, ACDI/VOCA monetized 1,100 MT of hard wheat through a negotiated contract sale to each of the two commercial mills in Rwanda. As both of these mills were small start-ups, the monetized wheat was intended to serve as an incubator of sorts. Millers were offered payment terms that allowed them to pay for the monetized wheat in local currency on an incremental basis. Since millers must pay for commercial imports on an upfront basis, the incremental payment approach should have benefited their cash flow management.

Market Impacts

As just noted, a key benefit of the monetization program from the perspective of the Cooperating Sponsors, and especially ACDI/VOCA as the monetization agent, was the development of a larger number of traders capable of competing in the national vegetable oil market. It is difficult, however, to gauge the impact of the training provided and the participation of various numbers of traders in the monetization auctions.

Rwanda produced no significant commercial supplies of vegetable oil domestically in the 2000-2005 period. To secure marketable vegetable oil outside of the monetization auction process, traders either needed to import, either from neighboring countries or world markets, and/or to purchase supplies from wholesalers for retailing. Most of the vegetable oil available as recorded imports was from regional markets and was largely palm oil.

It seems clear that the nation as a whole has developed some degree of reliance on the food aid vegetable oil imports. Between FY99 and FY05, monetized vegetable oil claimed between 12 percent and 22 percent of the Rwandan vegetable oil market every year (Table 7). USAID’s monetization guidelines call for further analysis when the monetized product represents two percent of market share for five or more years or 10 percent for a single year. Such further analysis is warranted in the Rwandan case. Unanticipated removal or significant reduction in monetized volumes, such as might occur if commodity prices rise against stable food aid budgets, would undoubtedly result in a shock to the marketing chain.

Table 7. Title II Monetized Vegetable Oil's Share of Commercial Imports

Year	Share of Commercial Imports
FY99	14%
FY00	27%
FY01	29%
FY02	22%
FY03	29%
FY04	14%
FY05	23%

Source: USAID dataset, 2006 and USDA PSD database.

The relatively large share of food aid-supplied vegetable oil in the Rwandan market would also seem to indicate a substantial risk of commercial displacement of either international or regional imports.

To do the comparison regarding possible displacement of U.S. commercial trade, an import parity price (IPP) was calculated and used in the FY07 Bellmon analysis. The IPP assumes transport of U.S. soya oil from the United States to Kigali, via Rotterdam port on a non-U.S. flag sea carrier. All landed duties, taxes and a small wholesale margin are included in the IPP.

Table 8 presents the volume and average prices per monetization auction between February 2005 and February 2006, compared to the IPP. During this period the price of monetized vegetable oil varied in relation to IPP – sometimes at par with it, sometimes lower, and sometimes higher. As would be expected, the highest volumes were sold when the sales prices were lowest in comparison to the IPP, suggesting a degree of commercial displacement of oil from global markets in those instances. The fact that sales continued even when local prices exceeded the IPP, however, indicates that the imported food aid vegetable oil may have established a specific niche in the market.

Table 8. Rwanda Title II Vegetable Oil Monetization Sales

Date	Volume Sold (MT)	Average Price (USD/MT)	IPP Price[19] (USD/MT)
Feb 8, 2006	926	1072	1122
Dec 6 & 21, 2005	4	1129	1132
Nov 15, 2005	970	1045	1156
Oct 4 & 26, 2005	591	1200	1182
Sep 5-27, 2005	20	1089	1135
Jun 20-30, 2005	759	1088	1155
Mar 15 & 22, 2005	461	1284	1137
Feb 8, 2005	3	1323	1069

Source: EMG Bellmon Analysis, 2006. Monetization manager records for volumes and sales prices, IPP prices calculated on basis of soya oil FOB Rotterdam prices from FAO and USDA.

The potential for displacement of commercial imports from countries within the region was more difficult to assess. Rwanda sources a substantial volume of commercially imported edible oil from countries in the East Africa region, but data that would permit a comparison to the IPP used above are not available. Even though the monetized and regional products are of differing varieties and qualities, they are sold alongside each other in the market places in Kigali. Traditional consumer behavior suggests that if prices are low enough, consumers will substitute one product for the other.

Finally, in the course of analyses conducted for the Bellmon Assessment in 2006, efforts were made to consider whether the regular monetization of vegetable oil was not only encouraging new traders to get into the market but whether these traders were solely focused on sales of food aid vegetable oil. While the survey of a sample of traders in April 2006 was small, the majority of traders interviewed noted that they purchased the bulk of their edible oil from monetization auctions, indicating some risk of dependency on the food aid program as a source of inventory. The monetized vegetable oil represented a predictable, easily obtainable supply. The question is whether the new traders will find it difficult to sustain operations if monetization of food aid should cease. ACDI/VOCA, which has continued to serve as the monetization agent, indicates that, to its knowledge, the traders who got their starts in vegetable oil auctions in Rwanda have become more diversified and are not exclusively dependent on the monetization process. However, USAID and its Cooperating Sponsors need to be aware of this risk.

[19] Based on soya oil FOB Rotterdam; source of prices, FAS USDA.

Conclusions

This case study illustrates direct benefits that may be achieved through monetization as well as potential risks.

First, it shows that monetization of food aid through well planned and fairly conducted auctions can help small traders participate competitively in local markets. Since food aid vegetable oil has been monetized in volumes adequate to claim a consistently high share of the commercial edible oil market in Rwanda, though, there is a risk that the larger marketing chain for this product may be exposed to instability should the food aid vegetable oil become unavailable.

Second, this case illustrates that the extent to which a Title II product occupies a niche market may affect the extent to which it displaces other imports. The food aid oil in Rwanda seems to be consumed primarily by the affluent, as indicated by the fact that some vegetable oil was auctioned at rates higher than import parity. This needs further analysis, though, as a substantial volume of the vegetable oil was also sold below import parity prices of oil from the world market. Further, the potential for displacement of regional commercial imports needs to be monitored, especially if the price of the monetized oil falls below that of regional imports.

Third, the importance of independent analysis of the situation is underscored. Without the completion of the independent Bellmon analysis, the food aid environment in Rwanda would be considerably different than it is today. Without the external analysis, food aid distribution would have been severely scaled back in Rwanda. The analysis had credibility in the eyes of the Government because the Bellmon team members did not have a stake in the food aid monetization or distribution processes. Further, the team met frequently with the government to assure that their points of view were addressed.

V. THE BENEFITS, COSTS, AND RISKS OF MONETIZATION

As the previous sections have shown, monetization of food aid poses complex policy, management, and trade questions. The impacts that stem from the import and sale of food aid commodities are separate from those associated with the implementation of projects using the revenues generated. Most available evaluations focus on the outcomes of the development activities and their efforts to improve food security and provide little or no attention to the market impacts.

The perspectives of different groups and interests involved in monetization vary widely – what is good for one group may be harmful to another. The Bellmon assessment process primarily focuses on the ability of the recipient country's market to absorb the proposed food aid commodities without distorting local trade and causing disincentives to producers of that commodity. As a result of shifting international and regional trade patterns, however, the perspectives of food-exporting countries that otherwise might have responded to an import market opportunity in the recipient countries should also be considered. The project analyses that underpin the Multi-Year Assistance Program proposals focus on the specific communities and groups that will participate in the activities, not on the market or consumption impacts that might be associated with the monetized commodities.

In this section, we build on the first two questions underlying this paper to consider benefits, costs, and risks associated with food aid.

- What makes monetization a useful tool in the U.S. Government's food aid toolkit? What makes it attractive to recipient countries? Can these benefits be quantified? Are those benefits appropriately measured?
- What factors argue against its use? Can food aid monetization be implemented in a manner that does not harm producers and markets while delivering a development benefit by funding programs aimed at reducing food insecurity? Are the costs and risks acceptable in light of potential benefits to be realized?

In this section, we summarize available evidence on these points. It is not an easy task. In an ideal world, any assessment of benefits, costs, and risks would be solidly grounded in empirical analysis of what actually happened. We would combine this historical information with good estimates of the essential counterfactuals, that is, what would have happened had the actual course of action not been pursued. As already noted, there is a paucity of quantitative information at all levels. Further, most analyses are partial in nature – dealing with only one aspect of monetization and ignoring the rest.

Six principal benefits are generally cited for monetization:

- it increases food availability in recipient countries;
- the sales proceeds fund development activities that promote food security (and, according to conventional wisdom, these activities would not otherwise be funded, so these projects, too, are "additional" to the assistance that would be available) ;
- the monetization process itself can promote market development;

- timely food sales can stabilize local prices;
- the quality of the food can provide additional nutritional benefits to consumers; and
- monetization creates business opportunities for U.S. companies producing, processing, or transporting the commodities.

Six principal costs or risks are identified:

- commercial exporters lose some markets, that is, they do not export as much as they might have to food aid-recipient countries;
- American taxpayers "lose money" on monetization as local currency revenues generated are lower than actual costs;
- food aid monetization can disrupt local markets and provide disincentives for production or further market development;
- uncoordinated shipments and monetization of food aid from various U.S. programs (Title II, Food for Progress, and McGovern Dole International Food for Education) can exacerbate both commercial displacement and local market effects;
- repeated and routine monetization of food aid commodities over time can lead to market dependency on this source – and raise the risk of market disruption (shortages, price spikes) should food aid supplies not be available; and
- there is a risk that U.S. policies – humanitarian, trade, and development – will be increasingly incoherent.

Each of these benefits, costs, and risks is reviewed in turn.

Considering the Benefits of Monetization

The monetization of U.S. food aid expands food availability in the recipient country.

The "additionality" of food aid has been a long-held tenet of the global food aid community. As the Cairns Group's website recently reiterated in the context of the WTO Doha debate, it still is: "Food aid shall result in additional consumption that would otherwise not have taken place."[20] If one assumes that this is true for all monetized Title II commodities, then between 1999 and 2005, the consumers in the 33 recipient countries benefited from an *additional* 4.3 million MT of food, most of it wheat or vegetable oil, that was made available in their local markets.

To determine what "would otherwise have been available" from imports, the food aid community has long used the concept of "usual marketing requirements (UMRs)." USDA is expected to estimate UMRs for U.S. Cooperating Sponsors, using a five-year average of imports as the base (ECFR, 2008). The usual marketing requirements are, in principle, monitored by the Consultative Subcommittee on Surplus Disposal (CSSD) to ensure that food aid provides "additional consumption" (FAO, 2001).

---

[20] www.cairnsgroup.org/proposals/export_competition_fc.html

Determining "what would otherwise have been available for consumption" from domestic production is the job of the Bellmon analysis (USAID, online). The analytical guidelines established in the Bellmon Amendment are intended, in part, to assure that the U.S. food aid donation provides "no substantial disincentive to domestic production and marketing." Generally, this guidance is narrowly interpreted. Wheat is often selected as the food aid commodity of choice for monetization operations, for example, because few developing countries grow significant amounts of wheat and all import some or all of their needs. Little analytical effort is directed toward understanding how the sale of U.S. food aid wheat might affect the markets for other domestically-produced grains or tubers which serve as dietary substitutes for wheat. Nor are supplies from informal regional trade systematically taken into account. In the case of Rwanda, for example, little information on informal cross-border imports of similar oils from a neighboring country was available so the analysis did not extend to estimating the impact on these producers and their trading opportunities.

In any event, the few available quantitative *ex post* analyses of monetization operations suggest that only part of the volume of monetized food aid results in net additions to the quantities available in recipient countries.

Barrett concluded, for example, that "…food aid clearly displaces commercial sales of food contemporaneously in recipient countries…the evidence somewhat favors the conclusion that most of the displacement comes out of commercial imports" (Barrett, 2002). Lowder's thesis on food aid, trade, and developing country cereal production built on Barrett's earlier analysis of food aid and its trade impacts, and effectively confirmed his results (Lowder, 2004). Lowder's empirical work found that "neither targeted nor program food aid affect food production in the countries receiving them and that both result in import displacement. However, the degree of import displacement is greater for program food aid [that is, food aid sold on local markets] than for targeted food aid."

Since many recipient countries explicitly welcome the monetization of food aid as a means for saving foreign exchange on imports, [21] this supports the conclusion that food aid monetization is readily seen as a substitute for commercial imports. Use of UMRs and Bellmon analyses (as well as the funding limitations of Title II) are intended to ensure that no food aid monetizations completely replace imports or displace local production in markets, however, so an "additional supply" benefit may still be claimed. We return to the costs and risks associated with this expanded availability below.

Monetization proceeds fund development activities critical to long-term food security.

To most Cooperating Sponsors, however, the critical way in which monetized food aid expands available food supplies is with a time lag: successful implementation of the development projects funded with the local currency revenues from monetization promote increased agricultural production at the household or community level and/or the capacity to bring

---

[21] As noted, for example, in a presentation by Luis Sitoe at a December, 2007, conference hosted by the Alliance for Food Aid (www.allianceforfoodaid.com).

greater volumes of food to markets in future years. Beijuka (2000:9) points out, for example, that the use of monetization proceeds to support the Uganda Oilseed Processors Association oilseed multiplication program has fueled a dramatic increase in oilseed production.

Further, many Cooperating Sponsors believe that the U.S. Government is not prepared to make equivalent amounts of direct (cash) funding available for such activities, so monetization of food aid is a key avenue of support for such food security-oriented projects.

The general statistics on monetization presented in Section II and the case studies in Sections III and IV illustrate the importance of monetization revenues as a source of funding for development projects. These projects are intended to address the underlying causes of hunger and malnutrition and are expected, if all goes as planned, to both expand local food availability and reduce the need for greater volumes of emergency food assistance over time.

If 80 percent of the total cost of the delivered commodities was recovered as revenues from the sale of Title II food aid monetized by the United States between FY 99 and FY 05 and invested in development projects, this benefit alone would have had a value of some $1.2 billion for the 19 Cooperating Sponsors. Even a more conservative cost-recovery rate of 60 percent would have providing $900 million in project support. Additional revenues for development activities were generated by the Food for Progress and McGovern-Dole Food for Education and Child Nutrition programs.

According to data from USAID, assistance provided for agricultural development from all other USAID funding sources during this same period totaled $2.9 billion. If all of the additional $1.2 billion provided through Title II had gone into boosting agricultural production and marketing, it would have increased USAID investments in the sector by more than 40 percent, a sizable increase.

USDA's "2001 Report to Congress on Monetization" provides a flavor of the kind of project outcomes anticipated: promoting competitive markets in Armenia, promoting agricultural development in Cape Verde, strengthening the private sector in Uganda, funding agricultural lending in Moldova and Zimbabwe, promoting women's access to credit in Armenia and Karabakh, improving nutrition and micro-enterprise development in Indonesia.

Estimates of the benefits realized by these projects are, however, less readily available than one might wish. Evaluation reports are often descriptive rather than analytical and cover only the project period and specific target households, making estimates of sustainability and broader impact difficult. To demonstrate the potential benefits of projects conducted with revenues from monetization, it is useful to look at a few of the more comprehensive efforts to understand the food security outcomes of monetization-supported projects that have been made from time to time.

Save the Children, for example, not only commissioned its own evaluation of the impacts of its multiyear, multisector project in Nampula, Mozambique, but also worked with an independent evaluation team from Michigan State University (MSU) to assess the impact of the agricultural component of the project (McSween et al., 2006). The project was funded with 100 percent monetization of wheat and with small grants of development assistance (DA). Over the 1996 – 2005 period, Save the Children monetized 41,680 metric tons of wheat valued at a total of $10.4 million (commodity and transport). Sales revenues were generated every year between FY 99

and FY 04 to support its projects in Mozambique, although the exact amount made available for the project is not reported.

The MSU team found that the Nampula project's efforts, begun in 2002, to introduce a new variety of cassava tolerant to the widespread cassava brown streak disease were highly successful. The disease was so severe that many families were finding as many as 80 percent of their cassava plants infected and were unable to meet their food needs. The new variety, named Nikwaha, "was characterized by a very high rate of return on investment (approaching 95%). Conservatively estimated, net benefits will nearly reach one million dollars by 2006. Adoption projections are consistent with net benefits exceeding five million dollars in 2010" (MSU, 2004/5:8).

A comprehensive evaluation of a cluster of Title II projects carried out between 1993 and 2001 was conducted in Ethiopia by a team of independent analysts; the evaluation included consideration of the food supply-expanding impacts of activities carried out with the proceeds of monetization (Riley et al., 2002). This evaluation concluded that the projects had individually had some short-term beneficial effects on participating households. The team noted, however, that caution needed to be exercised, as such outcomes as increased agricultural productivity were often the result of factors other than project interventions (e.g., good or poor rainfall) and, perhaps more importantly, "What is not apparent is the effectiveness of impact of any particular set of interventions in producing more water or more food – or the likelihood that these improved situations will endure long enough – especially in these drought-prone semi-arid regions – to constitute changed food security status" (Riley et al., 2002:89). Further, even though the total amount of food aid resources was significant, the scale of the efforts was small in relation to the total magnitude of agricultural production in Ethiopia.

A more econometrically-based and independent study conducted by Abdulai and others in Ethiopia, however, concluded that in Ethiopia both food aid monetization and distribution helped to improve agricultural production if certain market factors were taken into account (Abdulai et al., 2005). And an analysis by Levinsohn and McMillan of the impacts of food aid in Ethiopia found that, in the short term, as most households in Ethiopia are net buyers of wheat, most benefited from the price-lowering effect of wheat imported as food aid (some of which was monetized), and that poorer households benefited proportionately more (Levisohn and McMillan, n.d.).

In short, there would seem to be clear evidence that the use of food aid, and, specifically, effective programming of the revenues from monetization, can support expanded food availability and other beneficial outcomes.

The process of monetization itself can enhance market development.

Of importance in some projects (such as the Rwandan case in Section IV) is the benefit realized by using the monetization process itself to develop the capacity of smaller traders to participate in certain markets.

A fair amount of research has been conducted with respect to monetization's positive effects on processors and the rest of the marketing chain. Njihoff et al., for example, showed how, in the drought conditions of 1992-93 in Mozambique, towards the end of the war, monetized yellow maize helped to maintain functionality of processors and the rest of the distribution chain to particular markets (Njihoff et al., 2003). This resulted in stabilizing prices and thereby afforded access to the poor. Research in Sub-Saharan Africa by Abdulai, Barrett and Hazell also concluded that monetization can indeed help develop downstream food processing and marketing, thereby assisting in the development of markets (Abdulai et al., 2004).

Research conducted by Mendez and England in 1994 found that monetization conducted in three countries studied – Uganda, Guinea Bissau, and Mozambique – provided positive market impacts. These impacts were typically a result of reducing the lot sizes for sale to buyers, which provided better access by small traders and, in general, more competition (reported in Tschirley and Howard, 2003).

The Uganda outcome was confirmed in an EMG interview with monetization unit staff. In the 1990s, PVOs successfully used monetization to reduce the influence of a local oil oligopoly and simultaneously strengthen the capacity of small traders, thereby increasing competition in the market. This was done through monetization auctions that focused on increasing the number of new traders and setting minimum lot sizes.

The challenge may be to avoid encouraging these new buyers to rely too heavily on the imported food aid commodity by making it relatively easy for them to procure stocks through this mechanism. So far, the evidence seems to indicate that this may be a greater risk with negotiated sales than with auctions. Further, according to former monetization unit staff in Uganda, the market has demonstrated different dynamics in recent years and has made it hard to maintain the emphasis on developing new traders. Indeed, it has become difficult for the monetization unit to avoid the domination of a single buyer at monetization auctions.

Timely sales of food aid can stabilize local market prices.

If the food aid monetization efforts are carried out with enough knowledge of the markets and adequate supplies, it is possible, as in the Mozambican example just cited, that well-timed food aid sales efforts could stabilize prices in recipient country markets. Datasets that are detailed enough to analyze the stabilizing effect are not widely available, however, so quantitative evidence of this benefit is thin.

The high quality of U.S. food aid provides additional nutritional benefits to consumers.

The benefit of recipient countries receiving high-quality products from the United States and, particularly, commodities that have been processed to add market and/or nutritional value has also been stressed by many participants in the U.S. food aid program. Data show that value-added food aid products, in particular corn soy blend (CSB) and wheat soy blend (WSB), have been instrumental in providing nutrition to impoverished segments of society through humanitarian feeding programs in recipient countries. These cereals and other fortified and blended commodities in the food aid basket provide numerous vitamins and minerals and have

high protein and energy contents. Further, processed foods require less cooking time, thereby reducing the need for cooking fuel.

Because a primary goal of monetization is to maximize funding, however, commodities for monetization generally are selected based on variables other than nutritional quality: demand in the recipient country; ease of handling; and other market factors. The nutritional benefits of value-addition may thus be more limited.

The value addition that seems to be most common for Title II monetization programs is the processing of soybeans or other oilseeds into vegetable oil. This is followed by processing of wheat into wheat flour. Where this involved the addition of fortificants to the flour, as reported by World Vision, there may have been some nutritional benefit to consumers, but data on wheat flour quality is not available. In the countries which were regular recipients of food aid for monetization, 18 percent of monetized products by weight and 32 percent by value seem to qualify for the value-added conditionality in the 1999-2005 period.

Monetization of food aid creates opportunities for U.S. businesses.

The legislation for food aid requires that all U.S. food aid be provided in the form of commodities, i.e., in-kind. Seventy-five percent of non-emergency food aid must be value-added, and 75 percent must be shipped on U.S. flag carriers. The *intent* of creating economic opportunity for U.S. businesses through food aid is clear.

The $2 billion expended on U.S. food aid each year (all programs, average FY 02-07) clearly provides economic opportunities for U.S. businesses– from agribusinesses to processors to freight forwarders to shipping companies. These U.S. businesses benefit from monetization as well – through the jobs, fees, and profits involved in purchasing the commodities and shipping them to developing country destinations.

According to the USAID data for FY 99 – FY 05, ocean transport revenues associated with the shipment of food to be monetized were more than $400 million. Given the dominance of bulk wheat among monetized commodities, U.S.-registered bulk carriers might be expected to have a strong interest in the program.

The Title II wheat supply chain for monetization involved a greater tonnage of product than the vegetable oil chain (3.2 million MT of wheat/wheat flour cf. 656,000 MT of vegetable oil) over the 1999-2005 period. Wheat/wheat flour, therefore, generated relatively greater revenues for carriers ($298 million cf. $65 million). Thirty-five percent of the total value of the Title II wheat shipped for monetization was accounted for by the ocean transport cost. Only 15 percent of the vegetable oil value was spent on ocean freight.

Assessing the Costs and Risks Associated with Monetization

But, as already implied, these benefits are not realized without costs or risks. Some of the costs and risks are very difficult to measure as they require constructing a counterfactual (what would have happened in the absence of the monetization). Again, the lack of very specific data about the target markets in recipient countries – with information not only on the monetized

commodity but all other substitute commodities, for example – makes it difficult to document the costs incurred and to estimate the probability that markets were harmed or risks for farmers, processors, or traders increased.

Commercial exporters lost some markets or didn't export as much as they might have to food aid-recipient countries.

As already noted, the probability that monetized food aid displaces commercial imports is very high in spite of agreements by all sides to maintain "normal" levels of commercial trade. The cost associated with commercial displacement, therefore, is that borne by exporters who might otherwise have sold into the market in which Title II commodities were monetized, that is, those that produce wheat, vegetable oil, or their substitutes, for export. In some cases, the impact of lost trade opportunities might have been felt by U.S. exporters. In others, it is more likely that regional or other net-food-exporting countries saw their potential exports diminished.

In no case did monetized food aid replace *all* imports. All countries in which Title II wheat was monetized between 1999 and 2005 also imported wheat commercially. But in some food aid recipient countries, monetization of food aid accounted for a significant share of imports and consumption. USAID Guidelines prescribe additional analysis when the monetized commodity surpasses 10 percent of market share in a given year or when it is 2 percent or more over a five-year period.[22] Both of these conditions indicate that the food aid is a "substantial" enough quantity to pose a market risk.

In ten of the 33 recipient countries, data show that these levels were exceeded with regard to wheat imports. In seven countries, more than a quarter of reported vegetable oil imports were attributable to food aid in one or more years of the period. In Ghana, Haiti, Uganda and Mozambique, for example, monetized wheat constituted an important share of imports each year between 1999 and 2005.

- In **Haiti**, the share of imports held by monetized wheat averaged 21 percent (range 15 to 25 percent).
- In **Ghana**, monetized food aid wheat accounted for 18 percent of imports on average.
- In **Uganda**, monetized wheat accounted for almost 40 percent of imports one year, although, on average, Title II imports over the period were only 16 percent of imports.
- And, in **Mozambique,** the share of imports held by monetized wheat averaged 26 percent.

In five other countries – **Bangladesh, Bolivia, Chad, Kenya, and Nicaragua** – monetized wheat represented at least 10 percent of imports at least one year during the period. In Nicaragua, where wheat was monetized in four of the seven years studied, the share of imports held by the monetized commodity was 35 percent in 2003, and 14 to 18 percent in the three remaining years. This great variability from year to year indicates the potential for food aid monetization to destabilize both imports and prices.

---

[22] It is unclear how these thresholds were derived.

Of the seven countries in which vegetable oil was both commercially imported and monetized, the Title II monetized vegetable oil represented at least 25 percent of the commercial imports for at least one year. In four of these countries, it represented at least 33 percent of imports for a year or more.

In **Rwanda**, the share of imports held by the monetized packaged vegetable oil was consistently high, fluctuating between 14 and 29 percent, with an average market share of 21 percent in the time period analyzed. Since no significant volumes of vegetable oil are produced for commercialization within Rwanda, it should represent an interesting market for both regional and global exporters. Given Rwanda's landlocked location, the potential for the monetized vegetable oil to compete with imports from other developing countries in the region and to contribute to disincentives to regional producers and processors would seem to be high.

There is, thus, some risk of harm to other market suppliers of the same commodity in a few countries. The level of potential harm to producers and traders of crops for which the food aid substituted (maize, cassava, or oil palm, for example) is likely to be lower, although no measurements have been attempted. Further, as the Ethiopia case study showed, it is important to take self-monetization of distributed food aid into account in some cases as this could have an important local impact.

The Doha Development Round language being considered in 2006/7 would have prohibited monetization in part on grounds of commercial displacement. While the Doha Round has now collapsed, commercial wheat and vegetable oil exporters may continue to object to Title II monetization through other WTO mechanisms. However, the established food aid oversight mechanisms to manage the issue have not, so far, provided adequate venues for exporters to monitor the impact of monetized food aid. The situation noted by Barrett and Maxwell has not changed: "The FAC [Food Aid Convention], CSSD, and URAA [Uruguay Round] disciplines on food aid are widely perceived as ineffective in ensuring … food aid's efficacy …in minimizing commercial displacement" (Barrett and Maxwell, 2005).

American taxpayers "lose money" on monetization.

Food aid monetization rules do not mandate full cost recovery. To some, this implies that the United States provides an "export subsidy" to producers of the food aid commodities. This was a point of debate in the Doha Round negotiations.

Food aid monetization rules do anticipate a financial loss on every ton of food aid sold and assume that this will be covered by American taxpayers as part of the Title II budget. This "loss" has been defined as "inefficiency" by the Government Accountability Office (GAO) and others (GAO, 2007; Canadian Foodgrains Bank et al., 2008). To these critics, it would be more sensible simply to provide direct (cash) funding to Cooperating Sponsors to cover the costs that are now met through monetization revenues.

To some Cooperating Sponsors, however, the losses are an unavoidable cost of doing business. It is conventional wisdom in the food aid community that, were food aid for monetization not available, there would be little or no support for providing equivalent dollar resources from the development assistance account (the "150 account") to enable them to carry out projects with

the purpose of increasing food security and enhancing market development. While the 2008 Farm Bill allows a greater share of Title II resources to be used for administration and project costs under Section 202(e), that share is still capped at 13 percent.

It is often guesstimated that around 20 percent of the CIF cost of buying and shipping food aid for monetization is not recovered through sales. This guesstimate is perhaps the counterpart of a prior USAID requirement that efforts be made to recuperate 80 percent of the CIF costs in sales revenues. As the Rwandan case showed, the share of revenues realized as a percentage of actual costs can be much lower. In that case, only 61 cents in development project funding was realized for every dollar expended on monetizing food aid.

More accurate quantification of the actual costs of monetization is needed to move the efficiency debate forward. While numbers will not dictate a policy response, better estimates of the costs must underpin reconsideration of the conventional wisdom that, even if monetization is inefficient, it provides a "second best" solution in providing funding for food security efforts in the absence of a "first best" option.

Most observers agree that the "first best" solution – providing dollar funding directly to PVOs for implementation of the kinds of food security activities now undertaken with proceeds from monetization – would significantly reduce the transactions costs associated with: the necessary preliminary analyses; commodity procurement, shipping, management, storage, and financing; monitoring of markets; and management of sales.

Such a reduction of costs (gain in efficiency), however, would significantly reduce the short-term benefit of business opportunities for American producers, processors, and carriers. It would also imply a change of Congressional jurisdiction, as the Agriculture Committees now govern the food aid programs while the Foreign Relations/Foreign Affairs Committees address development assistance programs. As recent Farm Bill discussions have demonstrated, neither Administration nor Congressional leaders appear willing or able to address the redistribution of costs and benefits.

Food aid monetization can disrupt local markets and provide disincentives for production or further market development.

As the Ethiopia case study shows, recipient countries in Africa are concerned that monetization has a disruptive or negative impact on local markets. These impacts are expected when local producers offer products that are close competitors of the monetized food aid commodity or when, due to scheduling difficulties, the food aid arrives during a harvest period for the same or competitive commodities and the food aid monetization depresses already-low producer prices. Some observers have suggested that, even when the food aid arrives in the optimal "window of opportunity," that is, in the month or two prior to harvest when supplies are low and prices are at seasonal highs, food aid can provide negative incentives to local traders and importers who would otherwise arrange for storage and seasonal sales.

Several administrative and logistics factors contribute to the risks of poorly-managed monetization. Erratic Title II funding availabilities for non-emergency programming, due in part to late approval of fiscal year budgets and in part to diversions due to emergency needs,

both appear to play a role in untimely arrivals of the food aid for monetization. Many implementing PVOs, therefore, have quite sensibly chosen wheat as the commodity of choice for monetization. The fact that many recipient countries are net wheat importers and import all year around from commercial markets makes it somewhat less likely that Title II monetization of wheat will have unwanted local market price effects. And negative effects on commodities which are substitutes for the monetized commodity are often too difficult to see. However, negative effects of food aid monetization could be exacerbated in situations where the host country is itself struggling to develop production, processing, and marketing capacity for the food aid importer or even seeking to develop itself as a fledgling exporter of marketable surpluses of the monetized commodity. The Ethiopian vegetable oil case illustrates this possibility. Trying to determine what the counterfactuals are – what investment in processing would have been, what greater price incentives for production might have resulted in – is obviously very difficult.

To consider the risks of local market disruption more broadly, we looked at the data for countries that also produced the monetized food commodity. Five food aid recipient countries (**Bangladesh, Kenya, Bolivia, Madagascar and Uganda**) produced significant tonnages of wheat for their national consumption needs between 1999 and 2005. In all of these countries, food aid wheat monetization during this period accounted for more than a trivial share of production – in several instances representing 20 percent or more in particular years. In **Bolivia, Kenya and Uganda**, monetization represented a minimum of 10 percent of production for three or more consecutive years between 1999 and 2005, indicating that wheat monetization had at least some potential to affect local prices. The kind of detailed data that would permit a closer analysis of the price impacts of the monetization is not, however, readily available.

Further clues regarding potential for producer disincentives may be gained through analysis of trends in market shares held by locally-produced wheat. Situations where the local product's volume or market shares declined over time might be worth further investigation as these could indicate the possibility of an adverse effect of monetization on producers' incentives. The countries in which this was the case in the period analyzed are **Uganda** and **Bangladesh**. Again, however, data available are not adequate to support an analysis verifying a causal relationship.

Of those food aid recipient countries in which vegetable oil was monetized, four produced oilseeds: **Ethiopia, India, Madagascar, and Uganda**. In neither of the two oilseed producing countries in which processed Title II vegetable oil was monetized – Ethiopia and Uganda – did oilseed production decline consistently over the period in question.[23] The only country in which this was the case is India, where between 1999 and 2005 oilseed production declined from 390,000 MT per year to 281,600 MT. But it is unlikely that monetization is the culprit here: the crude degummed or bulk vegetable oil that was monetized for five years accounted for less than 1 percent of vegetable oil produced.

[23] Indeed, ACDI/VOCA reports in its 199 Bellmon analysis that, using monetization proceeds in Uganda, it has used the sales of vegetable oil to support local oilseed production. (Beijuka, 2000)

Uncoordinated shipments and monetization of food aid from various U.S. programs (Title II, Food for Progress, and McGovern Dole International Food for Education) can exacerbate both commercial displacement and local market effects.

In FY 08, the potential for overlap between Title II and Food for Progress is greatest in nine countries: Bangladesh, Ethiopia, Guatemala, Haiti, Madagascar, Mozambique, Niger, Sierra Leone and Zambia, as these are the countries of focus for both programs.

In the past, coordination between the programs has left a lot to be desired. In Uganda, for example, Food for Progress wheat was monetized at the same time as Title II wheat. According to a former monetization unit staff member, whereas 15,000 to 20,000 MT of Title II wheat have been monetized annually since 2000, USDA, through its Food for Progress program, awarded grants in FY 04 that allowed an *additional* 25,000 MT of wheat to be monetized, more than doubling the volume on the market that year.[24] This was apparently done without proper market analysis to consider the ramifications on the market and effect on prices. Further, the Food for Progress wheat was monetized by two PVOs that had not previously monetized in Uganda, and thus may have been unfamiliar with the market. This increased the possibility that sale of the Food for Progress wheat was not well coordinated with Title II sales translating to more wheat on the market than it could absorb, which in turn would depress prices.[25]

The risks seem to be relatively high. Although there is a formal opportunity for USAID to comment on planned USDA tonnages on a country-by-country basis, it is not clear that this is done in all cases. There is no formal mechanism of coordination at the implementation level. Coordination on the ground is dependent upon the initiatives of various personalities from USAID, USDA and PVOs.

Repeated and routine monetization of food aid commodities over time can lead to market dependency on this source. This raises the risk of market disruption (shortages, price spikes) should food aid supplies not be available.

USAID's Monetization Field Manual clearly states that market analysis must address the potentially damaging effects of monetization on the "private sector marketing agents who transport, process, distribute and sell" food. An indicator of risk to the non-farm value chain (and the market in general) may be when the monetized commodity represents a substantial market share across multiple years. Market traders and processors given regular access to monetized commodities through auctions or negotiated sales can grow to depend on these commodities if sales are sustained for multiple years and be unable to continue their businesses if the food aid supplies should be reduced or disrupted.

In more than half of the countries, the USAID benchmark suggesting this potential market risk was often exceeded. Of the countries in which wheat or vegetable oil was monetized between

---

[24] Note that this additional volume does not appear on the table of programmed food aid on the USDA FAS website.

[25] A similar Food for Progress monetization in 2005 (32,900 MT of wheat) was handled by ACDI/VOCA's monetization management unit and reportedly went well (Pierce and Gardner, 2006).

FY 1999 and FY 2005, the commodity represented more than 2 percent of market share for at least five years in 15 of the 33 recipient countries. In 16 of the 33 countries, wheat and/or vegetable oil represented at least 10 percent of market share for at least one year.

If a correlation exists between risk to the marketing chain and the length and percentage of market share represented by monetized product, then in terms of wheat, the potential for risk would be highest in Haiti, Ghana, and Mozambique, none of which produce wheat.

- In **Haiti**, monetized wheat represented between 13 and 21 percent of market share each year between 2000 and 2005.
- In **Ghana**, monetized wheat held between 12 and 19 percent of the market annually between FY 99 and FY 05.
- In **Mozambique** U.S. wheat was monetized or sold through multiple programs including Title I, Title II, and Food for Progress. Considering Title II alone (the only program for which data are available), the market share held by monetized wheat declined from 26 to 11 percent, but was still high enough to be "significant."

As noted in the Rwandan case study, monetization programs can provide better administration and payment terms to traders and processors than they would face with commercial imports or local commodities. As explained in the Rwandan case, millers who purchased wheat were allowed to pay incrementally, whereas commercially imported wheat must be paid for upfront. Traders were allowed to draw down their stock incrementally, during a fixed period of time, and to pay upon each incremental collection. This can serve to incubate infant industries but can also cause dependence on food aid as a commodity source for traders and processors – a risky proposition if Title II availabilities or allocations change.

There is a risk that U.S. policies – humanitarian, trade, and development – will be increasingly incoherent.

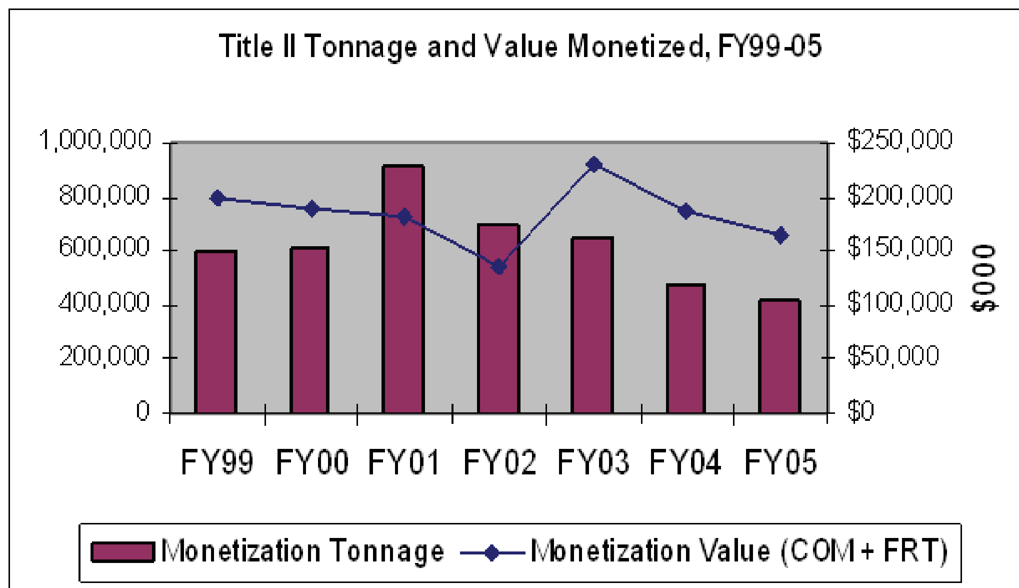
The 2008 Farm Bill revised the title of the longstanding "Agricultural Trade and Development Act" to make it clear that the main focus of the Bill is on "Food for Peace" rather than on "Food for U.S. market development." However, the transformation is perceived by some as incomplete: only a small pilot program for local and regional procurement of food aid that could open the door to more cost-effective procurement and transport of food aid was authorized, so the purchase of food in the United States and its shipment on U.S.-registered vessels – important to supporting the U.S. business community – is still the rule.

By establishing minimum levels of funding for non-emergency food aid programs each year, the 2008 Farm Bill also, if implicitly, accepts that levels of monetization will grow rather than diminish. With the collapse of the Doha Development Round, international pressures on the United States to end monetization have been reduced. But the risks of negative reactions from recipient and partner countries are still there.

- Recipient countries that are WTO members or aspiring to membership may reconsider the potential costs and risks of monetization for their markets and global trading positions and decide not to allow it.

- African efforts to increase regional trade and to increase investments in agriculture within the framework of the New Partnership for Africa's Development (NEPAD) and the Comprehensive Africa Agricultural Development Program (CAADP) are likely to lead to greater scrutiny of monetization and its potential disincentive effects in regional markets.
- Rising global food prices within a context of stable Title II budgets have already resulted in reduced food aid volumes. Emergency needs must be met in volume terms. The greater funding needs for emergency uses will, therefore, continue to exert pressure on the non-emergency share of Title II funding available for monetization. An FY 08/09 supplemental appropriation providing funding both for food aid and for agricultural development has reduced the level of conflict between these competing needs through the end of FY 09, but it is not clear that both humanitarian and development policy goals will be adequately met in FY 10 unless the overall Title II funding level is significantly increased.

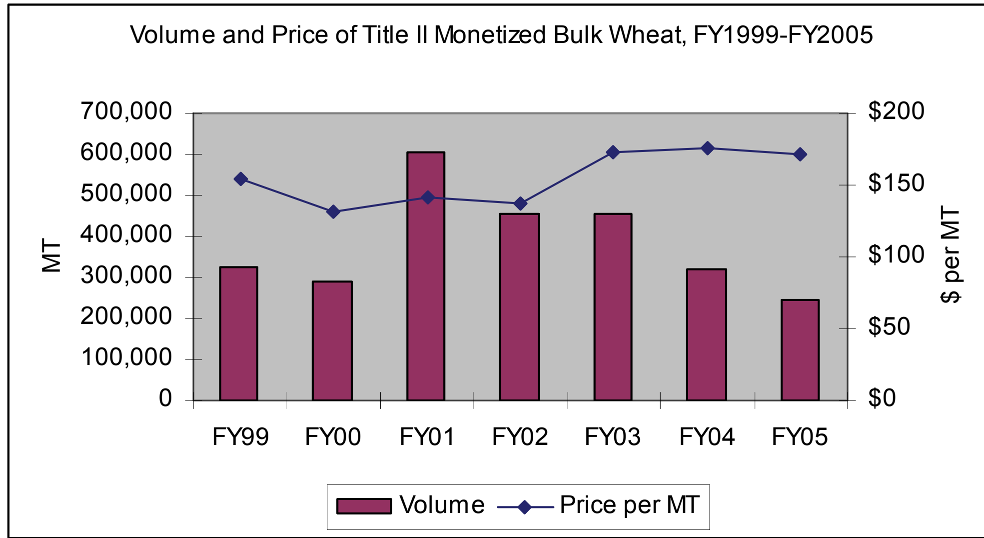
Figure 6. Title II Tonnage and Value Monetized, FY 99-05



Source: USAID dataset, 1999-2005.

Figures 6 and 7 highlight the changing cost structures and highlight the declines already realized in tonnages being made available for monetization programs over the FY 01 – FY 05 period. In FY 01, when the tonnage peaked, the value monetized was only slightly higher than in FY 05, when the tonnage was at its lowest. This would seem to suggest that the choice of commodities, prices of commodities, freight costs, or a combination of the three are contributing to volume declines.

Figure 7. Volume and Price of Title II Monetized Bulk Wheat, FY 99-05



Source: USAID dataset, 1999-2005.

Figure 7 explores this further, showing how the price of a metric ton of monetized bulk wheat (commodity cost only, excludes freight cost) substantially increased ($36) between FY 02 and FY 03 and subsequently stabilized. Yet the tonnage of monetized bulk wheat continued to decrease between FY 03 and FY 05. According to material presented at the 2007 Food Aid Conference, increasing transport costs contributed to a 52 percent decrease in the volume of food aid (USAID and USDA programs) between 2001 and 2006 (USDA/FAS, 2007).

VI. Conclusions and Recommendations

The different perspectives on food aid monetization derive from divergent political and organizational interests in the United States as well as the development assistance and food needs of the developing world. The nongovernmental organizations that implement food aid programs on behalf of the U.S. Government largely remain in support of food aid monetization, in spite of its acknowledged risks and costs, because they see little prospect of achieving their broader goals (or benefits) without it.

One longtime implementer of monetization programs, CARE, has taken a step back, based on its own analysis that the costs and risks of food aid monetization may outweigh the development benefits that, as an organization, it is seeking. A few other Cooperating Sponsors also are prepared to change their policies and practices on food aid monetization, although there is considerable uncertainty about whether adequate alternative sources of funding will materialize for the development programs to which they are committed.

This section again builds on the elements of the questions posed at the outset.

- Given the potential costs and risks of monetization, will it continue to be a useful tool in the U.S. Government's food aid toolkit? Under what conditions? What policy measures would enhance the utility and accountability of food aid monetization programs?
- Can its effectiveness in delivering benefits be improved? Specifically, can monetization be implemented in a manner to do less harm to global and regional trade interests as well as local markets while delivering a significant development benefit?
- Do alternative approaches offer a more effective and efficient use of U.S. resources?

Conclusions regarding the possibilities for improving the utility and accountability of monetization programs, changing practices to achieve greater effectiveness with lower costs and risk, and considering alternative approaches as well as specific recommendations for change are detailed in the sections that follow.

Policies to Enhance Utility and Accountability

For many Cooperating Sponsors, policies which make the availability of Title II resources for non-emergency programming more predictable and regular would enable them to propose more effective developmental programs and to manage monetization operations in support of those programs more efficiently.

Congressional support for this position is reflected in Section 412 of Title IV of the 2008 Farm Bill's "Food for Peace Act." This section establishes that a minimum level of Title II funding (increasing each year starting in FY 09) be set aside for non-emergency programs and protected from diversion to emergency food aid needs, thus increasing both predictability and reliability. Implementation of this authority is also likely to have the effect of expanding dollar resources to purchase U.S. food commodities for monetization and, perhaps, increasing tonnages sold.

These measures are likely to reinforce international concerns with U.S. monetization policy and practice. Given experience to date, commercial imports of wheat and vegetable oil by both U.S. and other-country exporters are likely to be affected. It is also possible that there will be some degree of local or regional market impact, especially for products that are close substitutes for the food aid imports.

These effects of the expanded non-emergency/developmental program authority are not certain, however, as Cooperating Sponsors could decide to use targeted distribution approaches rather than monetization in designing non-emergency programs. Further, the impact on monetization tonnages is ambiguous, especially if currently-high U.S. commodity and carrier prices are maintained or rise still higher.

Finally, Congress has not indicated in any detail how it intends to evaluate the effectiveness of this earmark for non-emergency programming in years to come. The analysis in this paper suggests that this is an important gap. In establishing the earmark, Congress clearly signaled its belief that food aid can be of use in supporting development objectives. As the programs go forward, this belief needs to be clearly confirmed by more than anecdotal evidence. Further, for purposes of accountability, the costs and risks associated with the benefits need to be assessed.

Based on the analysis here, we recommend that, where monetization approaches are used, they need to be closely monitored to:

- Assess the level of additionality by estimating commercial displacement of imports, including from regional exporters, both of similar and substitute commodities;
- Track the impact of monetizations on local prices and consumption, both of similar and substitute commodities;
- Ensure that simultaneous local/regional purchases by other donors do not interact negatively with monetization to disrupt markets and confuse market signals;
- Ensure that concurrent monetization of U.S. food aid through various programs is well coordinated;
- Measure the efficiency of monetization, that is, the net revenue available to Cooperating Sponsors from every dollar spent on the monetization program; and
- Consider the medium- to long-term impacts of multiyear monetization on recipient countries' policies and investments, market development, and market function.

USAID and USDA should be tasked with the responsibility of carrying out bi-annual assessments of programs involving monetization, using independent analysis as well as data provided by implementing Cooperating Sponsors. Efforts should be made to engage trade analysts and agribusiness development specialists in review of these assessments.

Changing Practice: Greater Effectiveness, Lower Costs and Risks

Monetization operations are designed to be effective in generating local currency revenues at relatively low cost and with relatively low risk of local market disruption or providing disincentives to local producers of the same commodity. These are the core elements of the

Bellmon Determination. With changing U.S. and global food prices, recipient countries' sensitivity to the competitive positions of their own farmers as well as their commitments to expanding regional trade, and a better appreciation of the impact of monetized commodity sales on the markets for substitute commodities, it may make sense to reconsider:

- which commodities are monetized;
- the way that commodity procurement and sales are managed;
- the way that analyses are done; and
- alternative approaches to providing support for food security programming.

Choice of Commodities

Wheat - Monetized food aid wheat is the predominant commodity of choice for U.S. implementing organizations. This wheat probably displaces some imports in all recipient countries and thus runs the risk of distorting global trade. While the volume of U.S. wheat that is monetized through Title II is a tiny share of overall global trade in wheat, data indicate that monetized wheat accounts for a relatively large share of imports in a few countries (Haiti, Ghana, and Mozambique) and support the possibility that food aid wheat is crowding out other imports and/or competing unfairly with them. However, the foreign-exchange saving effect, the benefits of buyer-friendly payment terms, and the importance of wheat to urban consumers already affected by rising global food prices may continue to make wheat attractive to recipient countries and agribusinesses in those countries. These should be addressed on a case-by-case basis in the Bellmon Determination process (described further below).

Vegetable oil - The advantages of vegetable oil as the second most important commodity for monetization are quite clear from the supplier side. It is high-value per unit-weight, compact, and, in packaged form, easier to manage for more flexible monetization over time. For the same reasons, as the Ethiopia case study showed, self-monetization of part or all of vegetable oil provided directly for consumption or as payment for work is a risk. Analyses that consider the totality of local supply and demand rather than just the amount being monetized may, in some cases, be important. Further, as African countries expand their production of soybeans, the potential for having a disincentive effect on the development of this new industry should be considered.

O**ther commodities** - Of the other commodities provided for monetization, some respond to demand for animal feed (soymeal, bulk corn). Greater animal protein supplies could enrich the quality of the national diet, especially in urban areas and for higher-income consumers, but probably will likely not affect the diets of the poor. The volume of these commodities is currently relatively small, but demand could grow with rising economic growth and urbanization. This might, however, foster the notion that monetized foods are not helping the poor.

Commodity Management

The uncertainties associated with the U.S. food aid funding process and the length of the U.S.-based commodity supply chain pose the greatest risks for food aid monetization to do harm (GAO, 2007). USAID's interests in retaining funding flexibility for emergency response through the end of the fiscal year run counter to Cooperating Sponsors' incentives for acquiring commodities as soon as possible in the fiscal year.

Multiyear programming - Non-emergency food aid allocations are based upon competitive review of proposals by USAID (for Title II) and USDA (for McGovern Dole and Food for Progress). Cooperating Sponsors are invited to submit proposals for multiyear projects; these Multi-Year Assistance Program (MYAP) proposals require significant upfront analysis and design work. Once approved, MYAPs are subject to annual availability of funds, that is, appropriations for Title II sufficient to cover the planned programming as well as cover emergency food aid needs. When the federal budget is not approved before the beginning of the fiscal year on October 1, USAID is given authority only to expend funding on a limited basis. This can delay provision of funding for planned procurement and sale of food aid when monetization is part of the multiyear program plan. Emergency food aid needs, too, can cause USAID to underfund or delay funding for non-emergency multiyear programs, although the new Farm Bill language will make it more difficult for USAID to do this. Cooperating Sponsors must manage this uncertainty and still try to ensure that commodities are available for sale at appropriate times in the recipient countries.

Evidence of the difficulty of assuring a regular and timely flow of commodities is the phenomenon of "bunching" reported by the GAO (GAO, 2007). Forty percent more food is purchased in the final quarter of the fiscal year than is procured in the second and third quarters.

Conflicts of interest - In-country management of food aid stocks is an additional challenge. The establishment of independent monetization management units by Cooperating Sponsors (either individually or as a group) helps to ensure that stocks (whenever they arrive) are managed well and sold when and how market conditions warrant. However, the expectation that sales will provide the anticipated stream of revenues needed for the projects may put significant pressures on the monetization units to compromise on principles of "do no harm" to local markets in the interests of enabling their organizations to maintain project operations (ACDI/VOCA, 2003).

Long supply chain - Uncertainty as to future stocks' arrival can further complicate implementing organizations' management effectiveness in monetization. Many of the ports to which food aid is shipped are not regular ports of call for U.S.-flag carriers. Yet law requires that 75 percent of food aid must be shipped on U.S.-flag vessels. Procurement and delivery of commodities to U.S. ports have, at least until a recent change in the system, taken as much as two to three months. Shipping across the ocean and to inland recipients added another month or two, with time elapsed from the decision to order a commodity for monetization to its arrival in the recipient country taking anywhere from three to six months.

Analysis

The Bellmon Determination - The analysis required for the Bellmon Determination is one of the core documents to be submitted with the MYAP proposals. Required by law, the analysis must demonstrate to the Secretary of Agriculture that two conditions will be met: (1) "at the time of arrival of commodities, local facilities will be adequate to store the commodities and (2) no substantial disincentive to domestic production and marketing will result."[26] Once the MYAP is approved, the Bellmon analysis should be updated on an annual basis, either by the Cooperating Sponsors or by the USAID mission itself.

Several specific shortcomings of Bellmon analyses have been cited by practitioners and researchers. Recommendations for improving the Bellmon analysis stem directly from these identified shortcomings: insufficient attention to commercial displacement; inadequate involvement of independent analysts; potential conflict of interest if analyses are only done by the Cooperating Sponsors; non-completion of annual updates; and differential pricing approaches under different U.S. programs.

Two recommendations might be highlighted as of particular importance for Title II monetization.

- First, Bellmon analyses need to consider regional markets more explicitly. They may be sources of supply which compete with the monetized food aid commodity; monetization should not “do harm” in neighboring-country markets as well as in recipient country markets.
- Second, more attention needs to be paid to the possibility of the imported food aid commodity substituting for or competing with other locally- or regionally-produced commodities, especially over time.

Other analyses - USAID, USDA, and Cooperating Sponsors have made efforts to develop best practice guidelines on how to manage the timing, quantity and geographic release of food commodities into local markets. These should be regularly updated in light of the rapid evolution of global markets as well as regional and local trade. Further, USAID missions, USDA programmers and cooperating missions should all be made better aware of the risks and benefits of monetization, perhaps through newsletters, conferences, and online forums.

With better awareness, all U.S. organizations involved in food aid monetization should be encouraged to undertake more collaborative planning to avoid circumstances which exacerbate the risk of harm to local producers and markets. As the World Food Program’s practice of local and regional procurement of food aid expands, assessments of surplus and deficit will become more complex. Care will need to be taken to ensure that monetized food aid supplies do facilitate sale of local production to agencies such as the World Food Program or to other food aid donors.

---

[26] USDA Report to the U.S. Congress on The Use of Perishables and Live Animals in Food Aid Programs. Foreign Agricultural Service. Sept. 12, 2002. www.fas.usda.gov/info/speeches/cr091002.html

Monitoring and evaluation - Given that every monetization program has an impact both on markets and on the projects carried out with the revenues from monetization, guidance on monitoring and evaluation could usefully be amended to delineate more clearly that *both* need to be monitored and their impacts assessed. Where the monetization process is also intended to have specific impacts in terms of local market development, Cooperating Sponsors should be required to develop and submit indicators that measure how monetization will help develop the recipient market beyond the producer level (e.g., number of commercial mills increased) and the risks of dependency on food aid that the program might encourage.

USAID and USDA should commit to periodic cross-cutting analysis of project evaluations commissioned by Cooperating Sponsors to improve understanding of costs and risks in comparison to benefits. This would help to sharpen criteria for evaluating proposals as well as suggest management systems that need to be in place to manage risks and costs appropriately.

Further, all monetization programs should be required to generate similar types of data on the commodity monetization process. Aside from data on degree of cost recovery (which Food for Peace will begin collecting on all MYAPs approved in FY08), key data elements should, at a minimum, include the following:

- sales price and tonnages sold per monetization sale;
- market prices of locally produced, commercially-imported and/or substitute commodities prior to and shortly after monetization sales; and
- the percentage of buyers' inventories or trading volumes attributable to monetized commodities.

Alternative Approaches to Funding Food Security Projects

From a federal budgetary standpoint, a dollar-based approach to funding food security-oriented projects would be more efficient and would enable implementing organizations to achieve the same project benefits that they now seek. As illustrated in the Rwandan case, a dollar used to procure and ship food aid can result in only 61 cents' worth of funding for project assistance. Simply allocating a dollar of development assistance funding for such projects would increase efficiency by almost 50 percent. Further, concerns with market distortion, commercial displacement, and farmer disincentives would be eliminated at a stroke.

The barriers to adopting such an alternative lie in the Gordian knot of economic, political, and organizational interests that currently characterizes the U.S. food aid program.

The domestic economic impact of processing, procuring, and shipping commodities for monetization is not huge in the larger scheme of U.S. exports – but it is not insignificant at up to $60 million a year. United States-flag carriers, especially those that ship bulk wheat and corn, have a strong business interest in continuing food aid monetization. Over the 1999-2005 period, ocean freight costs translated into more than $400 million worth of business for these carriers. Given global demand for food, producers and processor of food aid commodities

would be little affected by a shift from commodity to dollar assistance. However, alternative ways would have to be found to channel support to the U.S. maritime industry for reasons of national security.

Many Cooperating Sponsors have identified food aid, and, in particular, food aid for monetization, as a specialized resource that enables them to provide the kind of assistance they believe is essential to building a safe and healthy world (for example, World Vision, 2005). Many Cooperating Sponsors believe that, were the special access to food aid resources that they now have to be ended, they would have a more difficult time in competitively accessing development assistance resources that would allow them to carry out similar projects, even when they recognize the significant costs and risks associated with monetization. Some strongly reject the characterization of food aid monetization as a "second best" approach to the provision of development assistance.

So long as food aid remains in the jurisdiction of the Congressional Agriculture Committees, alternatives to food aid monetization – such as the direct or competitive allocation of development assistance resources to Cooperating Sponsors – are not likely to be considered. It would require unprecedented collaboration between the Administration and Congress to transfer the resources now devoted to food aid in the Agriculture budgets (the "450 account") into the Development Assistance budget (the "150 account").

While it had seemed that international trade negotiations could force a change in U.S. policy and practice on monetization, that is now unlikely to happen in the short term. Any major change in U.S. policy and practice on monetization, therefore, will require a combination of Administration and Congressional leadership to:

- assure implementing organizations that dollar resources will be forthcoming to support their community-based projects aimed at improving food security – perhaps through some designated set-aside program;
- provide U.S.-flag carriers payments based on their contributions to national security adequate to preserve the revenue stream currently guaranteed by food aid; and
- educate the public to understand that reduced volumes of monetized food aid will not cause consumption shortfalls in recipient countries.

While monetization may always have a useful role to play as a tool for food aid programming, the costs and risks of monetization are high in most cases. It would make sense for the U.S. Government to seek alternative ways to achieve the benefits associated with food aid monetization without incurring those costs and risks.

REFERENCES

Abdulai, Awudu, Barrett, Christopher B., and Peter Hazell (2004) "Food Aid for Market Development in Sub-Saharan Africa." DSDG Discussion Paper No. 5, International Food Policy Research Institute (IFPRI), April 2004.

Abdulai, Awudu, Barrett, Christopher B., and John Hoddinott (2005) "Does Food Aid Really Have Disincentive Effects? New Evidence from Sub-Saharan Africa." World Development, Vol. 33, No. 10, pp. 1689 – 1704, 2005. Elsevier, Ltd.

ACDI/VOCA (2003) "Monetization: Best Practices Manual." First Edition, Dec. 15, 2003.

Alliance for Food Aid (2007a) Written Testimony of Ellen S. Levinson, Executive Director, before the Committee on Agriculture, Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture Programs, U.S. House of Representatives, May 10, 2007

Alliance for Food Aid (2007b) "Monetization and Barter Contribute to Food Security." Aug. 21, 2007. www.allianceforfoodaid.com.

Awokuse, Titus O. (2006) "Assessing the Impact of Food Aid on the Recipient Countries: A Survey." ESA Working Paper No. 06-11, Sept. 2006.

Barrett, Christopher B. (2002) "Food Aid and Commercial International Food Trade," Background paper prepared for the Trade and Markets Division, Organization for Economic Cooperation and Development, March, 2002.

Barrett, Christopher B. (2006) "Food Aid's Intended and Unintended Consequences." FAO Agriculture and Development Economics Division, ESA Working Paper No. 06-05, May 2006.

Barrett, Christopher B. and Daniel G. Maxwell (2005) "Towards a Global Food Aid Compact." Dec. 2005 draft submitted to Food Policy.

Beijuka, John K. (2000) 1999 Bellmon Analysis, Uganda. June, 2000.

Brasher, Philip (2007) "Critics: U.S. food-aid programs inefficient." Des Moines Register.com, Oct. 14, 2007

Cairns Group (n.d.) "Export Competition (further commitments)" Negotiating Proposal for Export Competition. http://www.cairnsgroup.org/proposals/export_competition_fc.html.

Canadian Foodgrains Bank, Institute for Agriculture and Trade Policy, Oxfam (2008) "The Role of Monetization in Proposed Food Aid Modalities, Chair's July 2008 Text, Annex L" Letter to Chairman Falconer.http://www.tradeobservatory.org/library.cfm?RefID=103232

CARE (2006) White Paper on Food Aid Policy. CARE USA. June 6, 2006.

Cekan, Jindra, MacNeil, Amy, and Steve Loegering (1996) "Monetisation: Linkages to Food Security?" Network Paper 17, Relief and Rehabilitation Network, November, 1996.

Clapp, Jennifer (2004) "WTO agricultural trade battles and food aid," Third World Quarterly, Vol. 25, No. 8, pp. 1439 – 1452, 2004.

Clay, Edward, Riley, Barry, and Ian Urey (2005) The Development Effectiveness of Food Aid: Does Tying Matter? Development Assistance Committee/OECD, 2005.

Diao, Xinshen, Fan, Shenggan, Kanyarukiga, Sam and Binxin Yu (2007) "Agricultural Growth and Investment Options for Poverty Reduction in Rwanda." IFPRI Discussion Paper No. 689, January, 2007.

Diskin, Patrick (2004) "Market Assistance Programs: Using Food Aid to Address Food Insecurity Caused by Market Failures: Guiding Principles and the Case of Zimbabwe." February 2004.

Deloitte and Touche (2002) USAID Ethiopia FY 2003 Bellmon Monetization Study: Final Report, October 2002. Vol. I: Executive Summary and Report on Wheat and Other Commodities. Vol. II: Oil. Statistical Annex. Deloitte and Touche Management Consultants Limited, Nairobi

Dupras, David (2008) "Monetization Sections from the Mid-Term Evaluation USAID PL 480 Title II Monetization Program, ACDI/VOCA, Rwanda, FY 2005 – 2010. April 10, 2008. Supplied by ACDI/VOCA.

Dugger, Celia W. (2007) "Charity finds that U.S. food aid for Africa hurts instead of helps", International Herald Tribune, Aug. 14, 2007.

Electronic Code of Federal Regulations (e_CFR) (n.d.). "Part 1499 – Foreign Donation Programs." 1499.6 deals with UMRs. http://ecfr.gpoaccess.gov/cgi/text.

FAM (Food Aid Management) (1999) "Workshop Summary: West and Central Africa Monetization Workshop", July 12-15, 1999, Hotel Wangara, Accra, Ghana.

FAO (2001) Committee on Commodity Problems. 63rd Session, Rome, 6-9 March, 2001. Consultative Sub-Committee on Surplus Disposal 38th Report to the CCP.

FAO (2004) "Food Import Bills: Changing Consumption Patters and International Trade" in The State of Agricultural Commodity Markets (SOCO), 2004. www.fao.org/docrep/007/y5419e/y5419e03.htm.

FAO (2001) Reporting Procedures and Consultative Obligations Under the FAO Principles of Surplus Disposal. A Guide for Members of the FAO Consultative Subcommittee on Surplus Disposal. FAO, Rome, 2000 and 2001.

Government Accountability Office (GAO) (2007) Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of Food Aid. Report to the Committee on Agriculture, Nutrition and Forestry, U.S. Senate. GAO-07-560. April 2007.

Gebreselassie, Samuel (2006) Food Aid and Smallholder Agriculture in Ethiopia: Options and Scenarios. Future Agricultures, March, 2006.

German Marshall Fund (GMF), (2006) "Keith Good's News Roundup" Oct. 23: Doha and Food Aid. Oct. 23, 2006. GMF Economic Policy, Making Globalization Work.

Huff, H. Bruce and Michelle Jimenez (2003) "The Food Aid Convention: Past Performance and Future Role within the new Global Trade and Development Environment." Paper presented at the International Conference on Agricultural Policy Reform and the WTO: Where are We Heading? Capri, Italy. June 23-26, 2003.

Johnson, Renee, et al. (2007) Comparison of the House and Senate 2007 Farm Bills. CRS Report for Congress Prepared for Members and Committees of Congress. Order Code RL34228. Congressional Research Service. Oct. 31, 2007.

Lowder, Sarah K. (2004) A Post-Schultzian View of Food Aid, Trade, and Developing Country Cereal Production: A Panel Data Analysis. PhD Dissertation, Ohio State University, 2004.

MacKay, Craig and Ron Shaw (2006) "Analysis of PL-480 Title II Monetization Data (2001-2005): Impacts on Domestic Production, Local Marketing and Global Trade." www.worldvision.org. February 9, 2006.

McSween, S., Walker, T., Salegua, V. and R. Pitoro (2006) "Economic Impact on Food Security of Varietal Tolerance to Cassava Broad Streak Disease in Coastal Mozambique." Institute of Agricultural Research of Mozambique, Research Report No. 1E, August, 2006.

Michigan State University (MSU), (2004/5) "Strengthening Mozambican Capacity for Agricultural Productivity Growth, Policy Analysis, and Poverty Reduction: Annual Project Narrative Report FY 05 (2004/05)." USAID Mozambique Associate Award/Food Security II LWA CA (656-A-00-00058-00.

Nijhoff, J.J., Tschirley, David, Jayne, T.S., Tembo, Gelson, Arlindo, Pedro, Mwiinga, Billy, Schaffer, James, Weber, Michael, Donovan, Cynthia, and Duncan Boughton (2003) "Policy Synthesis for Cooperating USAID Offices and Country Missions, Coordination for Long-Term Food Security by Government, Private Sector, and Donors: Issues and Challenges," May, 2003.

Pierce, Robert, and Alison Gardner (2006) "Relevant Sections on Monetization from the FY 2002-2006 Uganda Title II DAP Final Evaluation Report." April, 2006. Supplied by ACDI/VOCA.

Republic of Rwanda and the New Partnership for Africa's Development (2007) Rwanda: Strategic Analyses and Knowledge Support Systems to Inform and Guide the CAADP Implementation Process. CAADP, 2007.

Riley, Barry, Church, Phillip, Downer, Goulda, Faux, Daniel and Paul Ulrich (2002) "The Impact of Title II Food Aid on Food Security in Ethiopia." Report prepared for USAID, Food and Humanitarian Affairs Office, USAID/Ethiopia, Task Order No. AEP-I-807-00-00022-00, Checchi and Company, June, 2002.

Rinck, David (2006) "7. Relief to Market Development in Crisis-Affected Situations." In "Implementing Sustainable Private Sector Development: Striving for Tangible Results for the Poor." The 2006 Reader, pp., 66 – 76.

Ryan, Missy (2007) "U.S. aid groups roiled by divide over food aid funds." Reuters Africa. Dec. 3, 2007. http://africa.reuters.com/top/news/usnBAN737762.html.

Sharp, K., Devereux, S. and Amare, Y. (2003) "Destitution in Ethiopia's Northeastern Highlands (Amhara National Regional State)." Final project report for Save the Children UK. April, 2003.

Shaw, Ron W. and Craig MacKay (2005) "Analysis of PL-480 Title II Monetization Impact," Save the Children and World Vision, 28 October 2005.

Simmons, Emmy (2007) Reconsidering Food Aid. The Partnership to Cut Hunger and Poverty in Africa: April 2007. www.africanhunger.org.

Swanson, Richard (2004) "Final Evaluation of ACDI/VOCA Rwanda PL 480 Title II Monetization Development Program (2002-2005)." October, 2004.

Tady, Megan (2007) "Who does U.S. food aid benefit?" Global Policy Forum. www.globalpolicyforum.org/socecon/hunger/relief/2007/0912usaid.htm

Tschirley, David and Julie Howard Title II (2003). "Food Aid and Agricultural Development in Sub-Saharan Africa: Towards a Principled Argument for When, and When Not, to Monetize." MSU International Development Working Paper No. 81, 2003.

USAID (2004) Foreign Food Aid Donation Program, A-133 Compliance Supplement, March 2004.

USAID/Food for Peace (1985) Bellmon Analysis. www.usaid.gov/our_work/humanitarian assistance/ffp/rffp/bellmon_analysis/bellmon_analysis.html.

USAID/Food for Peace (1985) Background Paper and Guide to Addressing Bellmon Amendement Concerns on Potential Food Aid Disincentives and Storage. July 31, 1985.

USAID/Food for Peace (1998) Monetization Field Manual, PL 480 Title II Programs, Office of Food for Peace, October 1998. www.usaid.gov/our_work/humanitarian_assistance/ffp/monetiz.htm.

USAID/Food for Peace (2006) Dataset on monetization: Volumes, commodities, approval dates, funding year, value of commodities, ocean freight, inland freight, ITSH.

USAID/Office of the Inspector General (2007) Audit of USAID's Management of PL 480 Nonemergency Monetization Programs. Audit Report No. 9-000-07-010-P, Sept. 27, 2007

USAID/Office of the Inspector General (2008) Implementation of Food Assistance Programs: Lessons Learned from an Office of the Inspector General Perspective. July, 2008.

USAID/Mozambique (2006) Data Sheet for Rural Incomes Program. FY 06.

USDA/FAS (2001) Report to Congress on Food Aid Monetization, August 10, 2001.

USDA/FAS (2001) Report to Congress on Food Aid Monetization, 2001. Foreign Agricultural Service, U.S. Department of Agriculture. www.fas.usda.gov/excredits/pl480/monetization.PDF.

USDA/FAS (2007) FAS Programming for FY2008, Food Assistance Division, Office of Capacity Building and Development, Foreign Agricultural Service, U.S. Department of Agriculture, Presentation at USDA and USAID International Food Aid Conference, April 16,18, 2007, Kansas City, MO.

World Food Programme (WFP) (2006) "Facts and Figures on Global Food Aid Flows." Data extracted from the June 2006 issue of the Food Aid Monitor, a publication of the International Food Aid Information System (Interfais) managed by WFP.

World Trade Organization (WTO) (2005) Doha Work Programme, Ministerial Declaration, Adopted 18 Dec 2005. Ministerial Conference, Sixth Session, Hong Kong, 13-18 December 2005. WT/MIN(05)/DEC

World Vision (2005) Food Programming Country Reviews: An Overview. Nov. 2005.

World Vision (n.d.) Food Aid Programming Summaries: World Vision Food Aid Program in Bangladesh and other countries. www.worldvision.org/worldvision/wvususfo.nsf/stable/globalissues_foodaid_program.

Yamano, Takashi, Jayne, Thomas, and John Strauss (2000) "Does Food Aid Affect Crop Marketing? Evidence from Rural Ethiopia." Dept. of Agricultural Economics, Michigan State University. July, 2000.

The Partnership to Cut Hunger and Poverty in Africa

The Partnership is a research and advocacy organization founded in 2000 with a mission to cut hunger and poverty in Africa by promoting sustainable, Africa-led, agriculture-based economic activity in rural Africa.

499 S. Capitol Street, SW Suite 500 B
Washington, DC 20003
Tel: 202-479-4501
Fax: 202-488-0590

www.africanhunger.org