REPORT TO CONGRESS
ON FOOD AID MONETIZATION

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FOREIGN AGRICULTURAL SERVICE
UNITED STATES DEPARTMENT OF AGRICULTURE

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I. EXECUTIVE SUMMARY

The Conference Report on the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2000,[1] directed the Foreign Agricultural Service, with the assistance of the Economic Research Service and other appropriate U.S. Department of Agriculture (USDA) agencies, to prepare a report demonstrating the impacts of food aid monetization. This paper is provided in response to that request.[2]

The paper is divided into six sections. Section I provides a summary of the paper. Section II gives an overview of U.S. food aid programs and contains a table showing monetization trends since 1996. Section III discusses challenges faced by Private Voluntary Organizations (PVOs) monetizing U.S. commodities, including pre-established freight-rates, shipment delays, local prices below cost recovery guidelines, undeveloped local markets, coordination with other PVOs, constraints on cross-border monetization, and foreign exchange risk. The paper notes that the PVOs have often been successful in overcoming the obstacles they encounter.

Section IV discusses the impact of monetization on U.S. farmers and recipient countries. The paper notes that food aid helps expand U.S. exports in the short term and can build the foundation for future sales. Regarding the impact on recipient countries, the paper notes the dual impacts of improving food security and fostering economic development. It presents examples from development activities in several parts of the world as evidence of the beneficial impact of monetization. Section V discusses reporting and compliance requirements applicable to the PVOs and foreign governments, who are Cooperating Sponsors in U.S. food aid programs, and the constraints faced by USDA in evaluating food aid monetization. Section VI concludes that the monetization of food aid commodities has beneficial food security and development impacts, while contributing to U.S. agricultural exports.

II. OVERVIEW OF FOOD AID PROGRAMS

The United States provides food aid through programs under three authorities: Public Law 83-480 (P.L. 480), also known as the Food for Peace Program, Section 416(b) of the Agricultural Act of 1949 ("Section 416 (b)"), and the Food for Progress Act of 1985. In fiscal year 2000, a pilot Global Food for Education Initiative was also announced for implementation in fiscal year 2001. This program will be implemented using the section 416(b) authority. These programs, while administered by the

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[1] The Conference Report noted that the "conferees recognize the potential for beneficial impact for both farmers and recipients from the monetization of commodity sales in international assistance efforts."

[2] Interviews were conducted with Private Voluntary Organizations (PVOs), USDA's Office of the General Counsel, USDA's Office of Inspector General, the U.S. General Accounting Office, the Office of Management and Budget, commodity associations, exporters, and consultants involved in food aid programs. Officials from the U.S. Agency for International Development (USAID) Food for Peace and USDA/FAS's Export Credits program area also provided key input. Project impacts were assessed through interviews and written reports, as neither travel nor independent assessments were conducted.

U.S. Department of Agriculture (USDA) and the U.S. Agency for International Development (USAID), are coordinated through the Food Assistance Policy Council (FAPC). The FAPC is an interagency group including, in addition to USDA and USAID, the U.S. Department of State and the Office of Management and Budget.

P.L. 480 is comprised of three different food aid titles. Each title has different objectives and provides agricultural assistance to countries at different levels of economic development.
Title I of the P.L. 480 program is administered by USDA, and Titles II and III are administered by USAID.

Title I provides for the sale of agricultural commodities to developing countries and private entities for dollars or for local currencies under long-term credit arrangements. Repayments for agricultural commodities sold under this title can be made either in U.S. dollars or in local currencies on credit terms of up to 30 years, with a grace period of up to five years.

Title II provides for the donation of U.S. agricultural commodities by USAID to promote food security and economic development. Emergency assistance may be provided via government-to-government agreements, cooperatives, private voluntary organizations (PVOs), as well as intergovernmental organizations, such as the World Food Programme (WFP). Non-emergency assistance may be provided through private voluntary organizations, cooperatives, and intergovernmental organizations. At present, WFP undertakes very limited monetization programs.

Title III provides for the donation of agricultural commodities to foreign governments. Proceeds from the sale of these commodities within the host country support long-term economic development in the least developed countries. This program is currently not funded.

Section 416(b) of the Agricultural Act of 1949. This program provides for overseas donations of surplus commodities owned by the Commodity Credit Corporation (CCC) to carry out assistance programs in developing countries and friendly countries.

The Food for Progress (FFP) Program. CCC carries out this program under the authority of the Food for Progress Act of 1985 with funding provided through P.L. 480, Title I, or the CCC. The CCC furnishes agricultural commodities on a grant basis, or through sales on concessional credit terms, to support developing countries and countries that are emerging democracies that have made commitments to introduce or expand free markets in their agricultural sectors. On an annual basis, the CCC may furnish up to 500,000 MT of commodities, pay up to $30 million for non-commodity costs related to commodities furnished through CCC funds, and pay up to $10 million for the costs of administering and monitoring food assistance programs.

The Global Food for Education Initiative (GFE). The GFE was announced by President Clinton on July 23, 2000 as a pilot initiative to expand access to basic education and improve childhood development in poor countries. USDA will implement the GFE initiative under the authority of Section 416(b) using surplus agricultural commodities. USDA will commit Section 416 (b) resources totaling $300 million to cover commodity costs, packaging, processing, transportation, and other allowable program costs during the first year of implementation. PVOs and WFP will distribute the donated commodities to improve student enrollment, attendance, and performance in poor countries. Some of the donated commodities may be sold in the recipient countries to provide local currency resources for in-country expenses, including, but not limited to, administrative, storage, transportation, and handling expenses as well as direct project costs.

Section 416(b), Food for Progress, and the Global Food for Education Initiative are administered by the USDA. The United States provides significant food aid under these programs to needy people overseas to alleviate hunger and meet food security needs. In 2000, famine was averted in the drought-plagued Horn of Africa due to the "prompt and disproportionate outpouring of food aid from the United States."[3] Food aid from the United States also helped end mass starvation in North Korea[4]. According to the WFP, the United States provided 54 percent of the world's humanitarian food donations in 1999.[5]

All of these food aid authorities allow some portion of the commodity provided to be monetized (sold). As part of the Food Security Act of 1985, Congress mandated that 5 percent of all Section 416(b) and non-emergency Title II commodities be monetized. The use of monetized proceeds was initially limited to paying for administrative costs related to direct food distribution for humanitarian purposes. In 1988, the minimum level was increased to 10 percent and the permissible use of monetized proceeds expanded to include broad development purposes, including agricultural development. In 1996, the minimum monetization level was increased to 15 percent for Title II.

Table 1 shows that in FY 1999-2000, around 30 percent of food aid under Title II was monetized, representing approximately 600,000 metric tons (MT) each year. Over this same period, approximately 40 percent of food aid under Section 416(b) and Food for Progress was monetized, representing over 2 million MT each year. As Table 1 indicates, the large tonnages exported under the Section 416(b) program in fiscal years 1999 and 2000 have substantially increased the monetization levels. U.S. food aid programmed under section 416(b) was 6.1 million metric tons in FY1999 and dropped to about 4.0 million metric tons in FY2000. As Table 1 shows, commodities monetized under Section 416(b) and Food for Progress totaled 2.75 million MT in FY1999 and 2.17 million MT in FY 2000. By comparison, USAID monetized 593,000 MT of food aid in FY1999 and 614,000 MT in FY2000. All Title I, PL480 commodities are monetized. This report, however, focuses on the grant programs.

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[3] "Horn of Africa Famine Appears to Be Averted." Washington Post A22. September 20, 2000.

[4] "N. Korea Back from the Brink: Aid Helps End Mass Starvation." Washington Post A1. September 5, 2000.

[5] 1999 Food Aid Flows. The Food Aid Monitor. World Food Programme, May 2000.

Table 1. U.S. Food Aid Programmed and Monetized Under Various Programs, Fiscal Years 1996-2000
(Thousand Metric Tons and Percent)

Fiscal Year	Title II 000 MT	USAID Monetized 000 MT	USAID Monetized Percent	Section 416(b)	Food for Progress	USDA Monetized 000 MT	USDA Monetized Percent
1996	1,694	190	11	0	373	293	79
1997	1,665	358	22	0	285	219	77
1998	1,929	478	25	0	449	173	39
1999	1,902	593	31	6,148	416	2,757	42
2000	2,081	614	30	3,975	413	2,168	43

Note: The USAID monetization percentage is based on all Title II commodities (emergency and non-emergency); the USDA monetization percentage is based on the Section 416(b) and Food for Progress commodities.

Source: USAID/USDA Monetization Reports; Planned U.S. Food Aid, FY1996-2000.

III. CHALLENGES FACED

Monetization of food aid differs from a commercial export sale in a number of ways, including the lengthy delay between the sale and export, the unusual role of PVOs and foreign governments as commodity brokers, and U.S. government laws and policies affecting the availability, pricing and transport of food commodities. In addition, monetization is often done in countries with developing or uncompetitive markets, where commercial activity is limited.

The increasing involvement of PVOs in implementing food aid programs has required these organizations to seek experience in all facets of commodity sales and cope with price, exchange rate, and other uncertainties, which has affected the way in which they operate. This is a new and different role for PVOs.

PVOs have differing missions and backgrounds and vary in size and scope of operations. They may have religious, technical, business, humanitarian and cross-cultural focuses. Some view the monetization process as inconvenient but necessary to generate program development funds, and others embrace the process because they believe it fosters economic development. PVOs have strong individual identities and compete for development resources among themselves.

PVOs often work in difficult environments where infrastructure is limited, markets are not competitive, and U.S. commercial exporters may have no interest in operating because of limited demand. PVOs must conduct a market analysis, sometimes arrange overland shipping, determine the sales price, usually through an open and competitive process, ensure payment is made, and provide for accountability in their financial and administrative operations. These are especially difficult challenges in the parts of the world where these organizations operate.

USAID and USDA often encourage PVOs to work together through an "umbrella monetization," i.e., choosing a lead PVO to handle the monetization and distribute a share of the proceeds to the other PVOs. These joint efforts can keep marketing costs and expenses related to analyzing markets contained, avoid duplication of effort and inter-PVO competition, and strengthen the ability of PVOs to negotiate more competitively in the market.

PVOs through experience and training have found ways to overcome many of the obstacles in developing countries and remote places. For example, Africare reports that it has been able to reduce loss through theft and pilferage of goods in West African ports from normal port loss of 20 percent to less than 1 percent by establishing a presence at the port while the commodity is off-loaded and working with stevedores. Industry representatives, buyers, PVOs, and governments, however, have complained that they do not always know when a food aid shipment is scheduled to arrive.

While there is widespread concern about the market impact of food aid, some commodity associations and industries see a benefit for their industries, whereas others do not. For example, rice and soybean interests have pointed out how targeted food aid has supported U.S. commodity exports, while some grain interests have objected to monetization because of its alleged adverse impact on commercial grain markets.

In determining the appropriate level of food aid and the potential impact on local markets, USDA takes into account a country's total import requirement. Based on a 5-year history of commercial imports, a Usual Marketing Requirement (UMR) is calculated. The maximum programmable food aid is the difference between the total import requirement and the UMR. If the UMR meets a country's total importing requirement, food aid is not recommended. While UMR estimates may be accurate at the time they are completed, the total import requirement for the year may be shipped at one time because of cost savings, thereby disrupting the local market. Shipments may be compressed because of the administrative process in approving food aid. In addition, the other components reviewed in establishing a programmable food aid level may change quickly, especially due to weather or financial difficulties.

USDA requires only that commodity sale prices meet local market conditions, whereas USAID evaluates market conditions and the ability of the PVO to recover at least 80 percent of the C.I.F. (Cost, Insurance, Freight), or 100 percent of the F.A.S. (Free Alongside Ship) commodity value, through the sale. PVOs and commodity associations have raised concerns with USAID's Title II cost recovery policy which limits eligible countries and the types of commodities available for monetization. For example, if the price of corn in country A is 50% of the U.S. C.I.F. corn value and USAID does not grant a waiver to the PVO to sell at the lower price, monetizing U.S. corn in country A is impossible. PVOs have pointed out several factors that hinder reaching USAID's benchmark, including the availability of subsidized commodities from other countries. The USAID cost-recovery guidelines do not recognize that the market price needs to reflect the risk taken by the purchaser (quality and delivery time cannot be guaranteed) and the fact that a food aid shipment is a "captive" cargo because it cannot be sold outside the designated country. It has been noted, however, how difficult it often is to know the market price, as required by USDA, because it can vary on a daily basis, or sales may be too limited to demonstrate a "market ." A few major commercial trading organizations have cited USDA's requirement as disruptive to commercial markets. Because PVOs have difficulty in determining a fair market price, sales may take place at below world market prices. U.S. trading partners have raised this issue in WTO discussions.

PVOs are motivated to get the highest price possible to support their programs. Markets, however, are very dynamic and local prices fluctuate considerably. Thus, timing a commodity sale to obtain the highest price is difficult. For example, Africare has been able to obtain accurate forecasts of commodity prices as much as 1 year or more prior to the commodity actually being sold. These results are attributed to Africare's active efforts to understand the market through price surveys carried out by local staff, who visit key markets on a weekly basis over a number of years. This enables Africare to anticipate the seasonal impact of harvests on prices. Other PVOs, however, have pointed out that cost recovery is significantly affected by the type of commodity being sold. For example, the sale of a processed good, such as bulk crude vegetable oil, is more difficult when there are only a few buyers, or a single large buyer, as is often the case in developing countries.

Some PVOs have explored with exporters the possibility of their providing "turnkey" services to handle the commodity sale. This would allow the PVOs to focus their attention on their primary interests, i.e., humanitarian assistance and economic development. Exporters can offer a number of advantages, including tools to manage price and currency risk, ability to provide credit terms, an established logistical, marketing and transportation network, and commercial interest in back hauling products from the recipient country for export on the international market. Large commercial exporters, however, may not be interested in the small transactions usually carried out by PVOs.

Both USAID and USDA seek to provide resources to improve PVO capacity. PVOs monetizing Title II commodities have benefitted from the USAID-funded Food Aid Management (FAM) organization, that has a library, has recently completed a monetization manual, provides training, and fosters communication among its members. FAM has a monetization working group that has developed recommendations for best practices by its PVO members. In addition, USAID provides $5.0 million in institutional support grants to PVOs that, they believe, are critical for continued training and maintenance of experienced staff.

USDA organizes an annual Food Aid Forum that provides an opportunity for an exchange of views among PVOs and between USDA and the PVOs. New initiatives related to food aid are also discussed in this conference and guidance is given to the PVOs on how to take advantage of them.

IV. MONETIZATION IMPACTS ON U.S. AGRICULTURE AND PROGRAM RECIPIENTS

Impacts on U.S. Farmers

Monetization is expected to have a positive impact on U.S. agriculture by increasing exports. The U.S. farm sector, however, would not derive large benefits from the increased exports because the impact on U.S. commodity prices and farm income would likely be modest. USDA's Economic Research Service (ERS) concluded that there would be an increase of 1-2 percent in the domestic price of soybean oil, wheat, and rice with an increase in food aid of 1 million MT. The price impact is the same for food aid and commercial exports.

In some cases, food aid has contributed to the development or maintenance of commercial markets, but it currently represents only a small fraction of total U.S. agricultural exports. For example, wheat and flour have comprised about half of all U.S. food aid over the past 5 years. In FY 1995-97, wheat and flour food aid comprised 4-7 percent of total U.S. wheat and flour exports. However, in FY 1999-2000, when overall food aid increased dramatically, wheat and flour food aid exports increased proportionally and comprised 12-20 percent of total U.S. wheat exports.

While not the reason for undertaking a food aid program, U.S. food aid may help to expand U.S. exports in the short term and can build the foundation for future U.S. sales. For example, the Philippines received dehulled soy meal under the P.L. 480 program in the early 1990s when its economy was in poor condition and it was difficult to finance the purchase of needed commodities. This short experience demonstrated the usage of quality animal feed. In 1999, the Philippines became the leading purchaser worldwide of U.S. high-protein soybean meal valued at $212.2 million dollars, with a U.S. import market share exceeding 90 percent. PVOs monetizing food aid can facilitate exports by developing relationships with traders, providing exposure to U.S. products in the market, and making commodities available when a country is not able to import due to adverse economic conditions.

Monetization has allowed the United States to support international food security goals by improving the availability of food in less developed, net food importing countries. Monetization provides short-term food security when proceeds are used to pay for the administrative costs involved in direct feeding operations. Long-term food security and economic development benefits accrue when proceeds are used to promote open markets, fund micro-enterprise lending to encourage private enterprise, provide business training, strengthen the organizational abilities of local PVOs, finance infrastructure improvements, and promote sustainable agricultural practices.

Impacts on Program Recipients

The monetization of donated commodities has become an increasingly important element of U.S. food aid programs, especially those carried out by PVOs. It complements the use of food aid in direct feeding for humanitarian purposes by enabling organizations to develop programs with long-term food security impacts.

Most USDA and USAID monetization projects are geared towards long-term developmental goals, including infrastructure improvements, expanded agricultural production, improved health facilities, business training, establishment of micro-credit lending programs, community development, and capacity building of local non-government organizations (NGOs). The process of monetization can have significant impacts on many areas of the recipient countries' economies. For example, PVOs frequently sell to small traders, which can strengthen private enterprise and competitive marketing practices in the recipient countries. The use of monetized proceeds to provide seed capital for micro-enterprise lending is one of the most effective tools for empowering individuals, increasing family income, and promoting private sector enterprise.

In addition to promoting food security, PVOs can have significant impacts on the social and political systems of the countries in which they operate. By working with local PVOs they seek to strengthen the participation of civil society and promote democratic institutions. A 1995 GAO report noted "PVOs serve as a complement to traditional government-to-government assistance and can be a mechanism to strengthen indigenous community-level organizations."[6]

For example, recently, PVOs helped to convince the government of Chad to agree to place proceeds from a $3.7 billion oil pipeline deal in an offshore escrow account out of which 80 percent of the proceeds would fund health, education, infrastructure and rural development. A nine-member board, including four PVO representatives, will determine the use of the funds. This arrangement, which involves financing and oversight by the World Bank, has been described as unprecedented, although there are examples of similar impacts by PVOs on a smaller scale.[7]

The following examples illustrate the food security and economic development impact of monetization projects in various recipient countries.

Promoting Competitive Markets in Armenia

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[6] U.S. General Accounting Office. 1995. Foreign Assistance: Private Voluntary Organizations' Contributions and Limitations. GAO/NSIAD-96-34.

[7] "Watchdog Groups Rein in Government in Chad Oil Deal." The Washington Post A14. January 4, 2001.

The United Methodist Committee on Relief (UMCOR) is promoting economic development by fostering the creation of agricultural businesses in Armenia using the proceeds from monetization of vegetable oil and non-fat dry milk donated in FY1999. The initial proceeds are being used to provide credit to agribusinesses. Credit is granted on the basis of a transparent Request for Applications (RFA). The RFA is advertised through the media. Screening is conducted by a local consulting firm and the implementing bank.

The long-term objective, which depends on sound macroeconomic policies, is to use the monetization proceeds to establish a national association of Rural Savings and Credit Associations (RSCAs). UMCOR's five year-strategy includes the establishment of at least 80 RSCAs with a minimum of 10,000 members. The pool of loan capital is an estimated $2 million at current exchange rates.

Promoting Agricultural Development in Cape Verde

More than $15 million has been generated by the Agricultural Cooperative Development International and Volunteers Overseas Cooperative Assistance (ACDI/VOCA) monetization activities in Cape Verde where mountainous terrain and erratic rainfall make topsoil erosion and water runoff a threat to agricultural production. These funds allowed ACDI/VOCA to register and train members of 40 watershed associations that now contract with the government as independent construction entities to build soil and water conservation infrastructure. ACDI/VOCA has also capitalized a small-business lending program that has provided more than 2,000 loans, for which 45 percent of the borrowers are women. ACDI/VOCA has also installed 54 drip irrigation systems benefitting over 300 smallholder farmers.

Strengthening the Private Sector in Uganda

By conducting several small-lot auctions of vegetable oil, ACDI/VOCA fostered the development of small business and decreased the power of a local oligopoly. Prior to these auctions, small-scale Ugandan traders were unable to participate in the market because they did not have import licenses or the financial means to purchase bulk commodities. Between September 1996 and March 1998, ACDI/VOCA held 75 auctions; the average number of bid deposits per auction was 126. One of the added impacts is that these small-scale private traders service rural Uganda, where the large traders were unwilling to operate.

An independent assessment of ACDI's earlier projects in Uganda concluded that they "improved food security in Uganda by increasing aggregate availability of an important item in the food budgets of poor people. In addition, by selling vegetable oil in small lots, on favorable terms and according to a fixed schedule, the program helped small traders compete and reduced price fluctuations in the sale of edible oils.'[8]

Funding Agricultural Lending in Moldova and Zimbabwe

Since 1998, The Citizens' Network for Foreign Affairs (CNFA) has monetized two separate commodity shipments in Moldova (8,000 metric tons of soybean meal and 5,000 metric tons of wheat). The generated proceeds were used to create a Private Farmer Credit Fund (PFCF). The fund was created in a partnership with Moldovan commercial banks and other financial institutions. The PFCF is used to support loans provided to farmers for purchasing of agricultural land, livestock, machinery and small processing equipment. As of December 1, CNFA and Agroindbank have provided 39 loans totaling $344,268.

In Zimbabwe, CNFA has used monetization proceeds to improve the business management skills of village level agro-input dealers. Since 1999, CNFA has trained over 300 agro-input dealers. These dealers have obtained credit from Monsanto and Pioneer Seed, and have extended credit for seeds, fertilizer and other agricultural inputs to smallholder black farmers with an average loan size of less than $1,000.

Promoting Women's Access to Credit in Armenia and Karabakh

Using the monetization proceeds from USDA commodities, the United Methodist Committee on Relief (UMCOR) established a microcredit program in Armenia called AREGAK, which provides loans of $300 to women in the villages of Armenia and Karabakh. There are currently around 8,000 such loans out in these regions. These programs have a significant impact at the family level as illustrated in the following story.

After 13 years working 16-hour shifts in a bakery to support her family, Ira Haykoran, the mother of two girls, needed a miracle. School fees were a constant burden. After months without being paid her salary, Ira quit the work that was damaging her health to find another means of support. Friends offered her a large oven. Others promised a loan to help her start her own bakery. Ira got the oven, but her friends couldn't provide the start-up capital. So, for a time, Ira lost hope.

One day Ira saw an AREGAK advertisement and attended an introductory meeting. She convinced four friends to join her in forming a Guarantee Group called "Hope." After meeting AREGAK requirements, three group members got loans and started the bakery.
Today, the three produce over 15 loaves daily and average a $6 to $8 profit. Ira now earns more

[8]Pines, J.M. and Lowenthal, J.W. 1994. Evaluation of the Uganda PL480 Monetization Project (Phase II).

working a 6-hour day than she did when she worked a 16-hour day! With her second loan, she will expand her business, producing more bread and adding pastries. Ira now feels confident that her daughters can get the education they need. For them, it's the bread of life.[9]

Facilitating the Transition to a Civil Society in Bosnia-Herzegovina

Using the monetization proceeds from USDA commodities, PVOs in Bosnia-Herzegovina have obtained results that would be impossible to obtain via a government-to-government program. For example, since its inception in 1995, The United Methodist Committee on Relief's (UMCORs) Agricultural Development Program has directly benefitted over 10,000 residents by providing livestock to vulnerable families, assisting veterinarian stations, offering technical assistance to small farmers, and establishing a comprehensive Agriculture Credit Program. By 1998, ninety-five medium-sized loans had been provided to promote agricultural production enterprises in mushroom, honey, dairy, egg and meat production. Targeted beneficiaries are persons whose farm businesses were interrupted by war activities and returning refugees. The program, through the provision of food security and income generating opportunities to families, has provided people an economically viable reason to return to their villages. The Swiss Ecumenical Church provided over $400,000 in matching funds for the programs in 1998.

UMCOR also established a Conflict Resolution Program in March 1996 to implement various programs that foster mutual understanding and tolerance among individuals, groups and communities. Funding for the Conflict Resolution Program is provided by the Conference des Eglises (CEC) and USDA monetization proceeds. The Outreach Program, established in the fall of 1994 in three collective housing centers, aims to help children adapt to a new living environment and to assist their families in community development. The Women's Development Program was established in January 1998, in the Moscanica collective center in Zenica. This program is committed to encouraging women, ages 18-50, to take a more active role in their communities and to prepare them for possible income-generation employment opportunities.

Improving Health Care in Russia

Under an FY 2000 Food For Progress agreement, the Vishnevskaya-Rostropovich Foundation (VRF) collected approximately $5.6 million from the sale of 33,000 metric tons of soybean meal to private Russian poultry enterprises. The demand for U.S. soybean meal in the growing Russian poultry feed market is strong owing to the high protein content of the U.S. commodity. The sale bypassed the large former state-run enterprises and set the stage for future commercial sales.

[9] United Methodist Committee for Relief web page.

The proceeds of the sale of the soybean meal are funding a childhood vaccination program benefitting over 600,000 children in central Russia. This is the largest public health initiative for children in Russia since the collapse of the Soviet Union. Drawing on resources from the public and private sectors, the children's vaccination program enjoys broad support in Russia and demonstrates support from the people of the United States to the people of Russia.

Opening Markets and Funding Health, Education and Other Infrastructure Improvements in Yemen

Under a FY 1999 government-to-government Section 416(b) agreement, 100,000 metric tons of wheat flour were made available. Funds generated from the sales of these commodities were deposited in a segregated account and then allocated to the Public Works Project (PWP) and the Social Fund for Development (SFD), which then allocated them for specific projects. These organizations are independent entities and have transparent program development, monitoring and administrative procedures, and professional staff. Local government administrators consult with PVOs and community leaders to determine which projects and services are most vital for their region and to develop requests for specific projects. Approximately 110 projects are currently being implemented consisting of :

- building, expanding and equipping schools, particularly where it would increase availability to girls;
- building and equipping health care facilities, including mother-child health care centers and family planning units;
- building and equipping medium-sized, vocational training centers for women, centers for orphans and training centers for the disabled; and
- building feeder roads, sewage, drainage, flood protection, sanitation, irrigation and water systems.

Improving Nutrition and Micro-enterprise Development in Indonesia

In Indonesia, International Relief and Development (IRD) is implementing a program under a Food for Progress agreement to improve food security on the island of Java by helping small-scale noodle-producers to develop an inexpensive variety of dried noodles that is consumed by low-income Indonesians. About 25,000 MT of wheat in FY 1999 and 35,000 MT of wheat in FY 2000 have been milled into flour. Prior to the program, the noodle factories operated at less than full capacity, producing only 3,875 MT of noodles per month. Since the program's initiation, total monthly production has increased by 70 percent; 360 more employees have been hired; and additional employment has been generated by the need to deliver and to market an additional 46 million packages of noodles per month. To date, 370 million packets of noodles have been produced through the program and surveys indicate that 70 percent of the consumers come from households with monthly incomes below the official poverty line of $20 per month.

V. REPORTING, COMPLIANCE AND EVALUATION

Monetized proceeds must be placed in a special account and used only for approved purposes. Section 416(b) specifies that foreign governments cannot use these funds for budget support. The funds in the special account may not be commingled with other funds. Both PVO and government cooperating sponsors must report on the disposition of the commodity, the proceeds generated through the sale of the commodity, and the impacts of the use of the proceeds. Both USDA[10] and USAID[11] have developed Cooperating Sponsor guidelines and reporting requirements, available on the internet web sites of the respective agencies.

Evaluation of the impacts of USAID's Title II programs has been institutionalized for some time. Program reviews and evaluations of Title II have generally been conducted by USAID contractors. These reviews have found that most of the Title II monetization projects have demonstrated positive food security impacts (see Annex: Review of Selected Literatrure). USAID is currently undertaking a comprehensive assessment of its Title II non-emergency program to determine whether it is achieving the food security goals set out in the 1995 policy paper, including the impact of monetization.[12] This evaluation will be completed in 2001.

The evaluation of USDA food aid monetization has been constrained due to limited personnel resources, high staff turnover, and recent, large food aid programs, including the Russia Food Aid Program in 1998/99 and the Global Food for Education Initiative. USDA has focused on developing and implementing projects as quickly as possible. The limited presence of overseas agricultural attaches has also impaired USDA's ability to actively oversee some monetization projects. USDA, however, continues to incorporate evaluation into its review process. OIG recently raised a concern in testimony before the Senate about USDA's monitoring of monetized proceeds. USDA has responded to OIG's concern by requesting that FAS compliance staff help to monitor and verify the use of monetized proceeds. In addition, FAS is planning to increase staff devoted to the evaluation of its food aid programs.

VI. CONCLUSIONS

[10] USDA, Foreign Agricultural Service, 2000 Food for Progress and Section 416(b) Reporting for Direct Feeding and Monetization Programs.

[11] USAID, Food for Peace, 1998 Monetization Field Manual.

[12] USAID/BHR. "The Use of Title II Resources in Support of Food Security Achievements, Challenges, Prospects," October 31, 2000.

The monetization of food aid commodities has significant food security and development impacts. In addition, monetization provides a modest benefit to U.S. farmers by contributing to U.S. agricultural exports. While there are challenges and constraints to an effective use of monetized proceeds, experience demonstrates that food aid monetization can be an effective resource for grassroots development in foreign countries.

ANNEX: REVIEW OF SELECTED LITERATURE

Pines (1990) reviewed Title II monetization projects in the late 1980's when the use of monetize proceeds was growing in importance to facilitate food distribution and provide development funding. He noted that monetization has encouraged "the substitution of self-help activities for some dependence-creating food distribution programs."

Hyden and Reutlinger (1992) advocated creating Autonomous Food Funds as a means of improving food security and fostering independent action among food aid recipients.

Maxwell and Templer (1993) noted a number of conditions necessary for monetization to be more cost-effective, including a successful transaction at agreed upon terms, the absence of price distortions and inflation, and savings on transportation and distribution costs relative to alternative marketing channels.

Maxwell (1994) explored the relative benefits of distributing versus monetizing food aid and concluded that the efficiency of income transfer is the best measure for comparing among the two options.

Silverstein and Herne (1994) concluded that TechnoServe Ghana's monetization "program of rural, community-based, agricultural enterprise development has contributed significantly to enhancing the food security of local beneficiaries - men and women alike - at the household level." The project increased household income through improving the production, processing, storage and transport of palm oil.

Tanner (1994) reviewed Africare's program in Guinea-Bissau and concluded that monetization of wheat flour and vegetable oil provided an important stabilizing influence on local prices, and that proceeds effectively supported small rural producer associations.

Cekan et al (1996) examined monetization's impact on food security and cite examples from Burkina Faso, Indonesia, Kenya, Morocco, and the Philippines. They concluded that although monetization still has a role to play at the macroeconomic level, its impact should be increasingly at the household level.

Mendez, England and Associates (1996) conducted a comprehensive evaluation of Title II monetization programs, including field reviews in Bangladesh, Ethiopia, Ghana, Mozambique and Peru. The Bangladesh review noted that overall food aid wheat imports could have a negative impact on the local market but that monetization proceeds resulted in food security impacts, including improvements in rural roads, on-farm utilization of water, and household nutrition. The Ethiopia review noted that food security is integral to USAID's country strategy which was well coordinated with other donor programs. The Mozambique review noted how monetization has strengthened the private market, including the development of a small scale milling industry. The study also identified a number of critical issues for a monetization program, including cost recovery, assessing ancillary impacts and achieving food security objectives.

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