Relief and Rehabilitation Network

Network Paper 17

Monetisation:

Linkages to Food Security?

Jindra Cekan, Amy MacNeil
and Steve Loegering

November 1996

Please send comments on this paper to:

Relief and Rehabilitation Network
Overseas Development Institute
Portland House
Stag Place
London SW1E 5DP
United Kingdom

A copy will be sent to the authors.

Comments received may be used in future Newsletters.

ISBN: 0-85003-248-2

Monetisation:
Linkages to Food Security?

Jindra Cekan, Amy MacNeil and Steve Loegering

Contents

		Page
Preface		
1.	Introduction	1
2.	Theory Behind What Monetisation Entails	3
3.	Practice	14
4.	Analysis: Four Issues Emerge	21
5.	Similarities and Differences Between US and European Monetisations to Achieve Food Security Goals	33
6.	Conclusion	37
References		39
Acronyms		41

Preface

Up to now, the vast majority of NGO experiences with monetisation involve NGOs from the United States. The monetisation of Title II resources, ie. food aid allocated by the US government to NGOs for their programming, has been part of US NGO practice for a number of years and, as a result, a substantial body of experience has been built up. The justification for the monetisation of Title II emerged from covering overhead costs for feeding programmes. While the justification for the food aid sale is to cover costs of the aid and transport, the proceeds are invested in development projects with a household food security impact. In a world of shrinking cash resources where food resources remain relatively stable, US NGOs have used monetisation as a way of covering a variety of programme costs. While some NGOs have tried to affect local household food security, the bulk have sought to influence food security by means of market availability through food aid sales. Thus, the main aim of monetisation in the US context has been to generate funds.

Monetisation aimed solely at raising funds is an activity that is not well known in the European NGO world and much of its language and practice is related more to the business community than it is to the jargon of development practitioners. In spite of the unfamiliarity of some of the concepts, it is nonetheless an increasingly important area, not least due to the fact that most US NGOs foresee more and more potential for increased monetisations, particularly 100% monetisations not linked to food aid programmes, and European NGOs are also beginning to see opportunities ahead.

European NGOs have become more interested in the prospect of undertaking monetisations in a different context to their North American counterparts. Unlike NGOs from the USA, the European NGO interest in monetisation is not solely to do with raising money, but also reflects a concern with directly affecting food security through the actual process of monetising. For example, in emergency situations such as Somalia (1992), food aid was sold to traders to bring down/stabilise the market prices of food so that they were more affordable for the local population. In other situations, food aid has been sold directly to consumers at subsidised prices via fair price shops; food for work etc. and gradually, a body of knowledge is being built up around these experiences. Indeed, the most recent EU food aid regulations reflect this trend and encourage it by emphasising a shift away from the free distribution of food aid towards a strategic approach aimed at strengthening local household food security. Thus, a new climate is developing where European NGOs are looking to using food aid in a more innovative way.

However, as already stated, the main experiences come from the USA Title II monetisations and this pool of experience contains some important lessons for us all. This paper sets out some of the basic tenets of Title II monetisations including the conditions of monetisation, ie. ensuring that food aid does not have a disincentive effect and the need for the commodity at the national level to attract a food price that is sufficient to cover costs. Indeed, the process itself can be complex and sometimes technical, and the Americans have gone about dealing with it in their customary thorough and business-like way.

As the potential for monetisations grows for European NGOs, this Network Paper provides an excellent introduction to the experiences of one particular type of monetisation and also sets the scene for further Network Papers that seek to illustrate different types of monetisations, especially those that have a direct affect on food security at local level.

John Mitchell
International Division Emergencies Advisor
British Red Cross

Monetisation:
Linkages to Food Security? [1]

1. Introduction

Monetisation is the process by which agricultural commodities donated in the first world are sold to generate revenues (in local currency) within third world countries that can be used to stimulate local development. There are a variety of monetisation programmes in existence which support a multitude of goals. This paper will explore the experiences of one non-governmental organisation (NGO), Catholic Relief Services, with one type of monetisation programme supported by the US Government as it relates to enhancing the food security of the poor in the Third World. This is the Title II programme of US Public Law 480.

While legislatively-mandated food monetisations have needed to have a food security impact, in the past, this has been interpreted broadly. Goals have encompassed stabilising prices and improving the national food supply of selected commodities in food-insecure countries, supporting markets and fostering the emergence of small traders. As understanding of ‘food security’ has moved from the macro, national level to the micro, local and household levels, justifying food monetisations and use of proceeds have increasingly incorporated targeting *food insecure* populations with development projects. NGOs have been encouraged to use monetisation proceeds in ‘innovative ways’ and they are particularly well-suited for having local food security impact, given “[NGO] involvement with local partners; non-discriminatory distribution; targeted approach to the most needy; and close cooperation with the beneficiary community” (Mitchell 1996).

In theory, all Title II monetisations fulfill one or more food security goals. However the link between the act of monetisation and the use of the proceeds resulting from the process is not always clear. Does monetisation affect food security? Is it a more effective tool for enhancing the food security of destitute populations than more traditional forms

[1] This publication was made possible through support provided by the Office of Food for Peace, Bureau for Humanitarian Response, United States Agency for International Development, under the terms of Grant No FAO-0801-G-00-3034-00. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the US Agency for International Development.

of food aid such as food for work, school feeding or even more direct feeding interventions?

If so, at what level (national, local, household), and how directly does the food sale and the proceeds from that sale translate into food security for the poor? These are the issues we intend to explore in this paper.

Situating Title II within the world of monetisation

What monetisation means and how proceeds are used appear to differ between programmes supported by the European Union and those supported by the US Government. European 'counterpart funds' seem to be available for a wide array of uses, from macroeconomic support to local sales to food insecure communities. US government allocations are more narrowly earmarked into three 'titles' administered by different entities of the US government and are used for different goals. Public Law 480 (PL 480) food aid is subject to different legislation, depending on the 'Title': I, II, III.

Title I is the government-to-government **sale** of agricultural commodities for dollars or local currencies on credit and is administered by US Department of Agriculture (USDA). Title II food is a resource which is channelled through PVOs for emergency and development assistance programmes to "alleviate hunger and its causes as well as to promote economic and community development and environmental practices" (Farm Bill 1995).[2] The PVO may choose to distribute the food or monetise it. Nearly 3/4 is reserved for non-emergency programmes and is overseen by US Agency for International Development, USAID.[3] Title III consists of commodities **donated** by USAID to the least developed countries' governments for direct feeding or sale. The goal of Title III is to encourage policy reforms, support government activities, and promote food security and economic growth. Often, shipments of the different 'titles' are sent concurrently, which

---

2 Due to a lack of data series and the potential demise of Section 416, these commodities (targeted to meet emergency needs, short-term needs and other monetisation needs) have been left out of this study.

3 Most emergency proposals already include a budget for internal transport, shipping and handling (ITSH) paid by USAID.

creates economies of scale in terms of cost. Concurrent sale also has much greater impact in terms of the large scale of multiple 'titles' of any one commodity being sold in the marketplace. Title I and III are generally much larger amounts than Title II.[4]

The local currency proceeds from the food sales also can have different effects. There are four ways in which local currency generated from US food aid (Titles I-III) can be used. All four ways must support economic development objectives in the recipient countries. These are: (1) investment in developmentally sound projects; (2) meeting the budgetary requirements of particular sectors or ministries in recipient governments[5]; (3) reducing government deficits or domestic debt; or (4) establishing local currency trust funds which can meet the administrative costs of field missions (McClelland 1992).

In the case of Title II, there are also some legislative restrictions. First, 75% of the commodities must be shipped via US-owned ships. In addition, proceeds cannot "finance the production for export of agricultural commodities that would compete in the world market with similar items produced in the US if such competition would cause substantial injury to US producers" (McClelland 1992).

2. Theory Behind What Monetisation Entails

Why monetise?

Title II monetisations, as mentioned above, are administered by USAID. To this end, in 1988 USAID created a "Monetisation Field Manual" which provides guidance to Cooperating Sponsors (CSs) regarding preparation of monetisation proposals and standardised the process of monetisation.

The main objective of any monetisation has been to generate local currency for

---

4 For instance, the Kenyan government imports tens of thousands of metric tons of wheat each year compared to an average CRS Title II monetisation of 7,000 MT (1988-1995). CRS is the major Title II monetiser in Kenya.

5 Counterpart funds, which "assist the recipient country in meeting agreed strategic objectives through carrying out specific policies, programmes and projects" (eg. food security, structural adjustment) can account for up to 40% of government budgets (Maxwell 1992).

administrative expenses related to Title II food distribution and for related development activities. A subordinate goal is to affect results via the monetisation process itself, as opposed to through the proceeds of the monetisation mentioned above. Through monetisations, desirable indirect effects may include increasing the supply of a given commodity thereby contributing to the food security of that country's people, regulating commodity supply and prices which may be particularly helpful in countries undergoing Structural Adjustment, supplying commodities which may be unavailable or limited, and encouraging liberalisation and/or development of markets.

The USAID manual says that CSs should include a section in monetisation proposals justifying the use of monetisation over other sources of funding. It states that, "reference might be made to using the commodities to help meet a food deficit, or to help stabilise local food prices which have become excessively high due to shortages, while generating local currency to help pay the costs of development activities that do not require dollar financing."

While some criticism has been levelled at the perception that a humanitarian organisation should not be involved in a commercial transaction which seeks to achieve the maximum price for the goods offered for sale, the reality is that with diminishing cash resources for development activities, monetisation can provide much-needed local currency to enhance the impact of food distribution and other development projects undertaken by CSs.

How should monetisations be conducted?

In some situations, commodity markets are rigidly controlled, as is the case in many countries where monetisations have historically been implemented. Prices may be fixed by the government and/or the number of buyers may be restricted or limited to government or quasi-government bodies. In these cases, many of the variables associated with a free market are constant and therefore a CS needs only to determine if the price and buyers prevailing in that country will meet USAID's requirements for cost recovery and will generate sufficient local currency for the CS to conduct its planned activities. A more detailed analysis of cost recovery is found below in the Commodity Price section.

In open markets, the process of planning and implementing a monetisation is much more complex. Prior to undertaking the monetisation, the CS must conduct a market analysis, focusing on the commodity or commodities that it intends to sell. To conduct the study, USAID recommends that CS staff consult with the local business community (eg. traders, local Chamber of Commerce officials, private food importers, processors), the local government (ministries of agriculture, tax and duties officials, the Agricultural Marketing Board) as well as other CSs, NGOs and international organisations such as relevant United Nations agencies and the World Food Programme. Local USAID missions and economic and agricultural personnel at the US Embassy may also be helpful in gaining information regarding prices, buyers, costs associated with importation of commodities, etc. Indeed, one evaluation of monetisation recommends that market analysis be a requirement for funding of monetisation projects (Mendez-England).[6]

The monetisation process can be broken down into six steps: commodity selection, legal requirements of monetisation, commodity price determination, timing of shipments, selection of buyers and use of the proceeds.

Step 1. Commodity selection

In order to select a commodity for monetisation, the CS should choose one which is consumed locally, is available under Title II, can be legally imported and is regularly imported. Save the Children notes that a good measurement of a potentially successful monetisation commodity is that the local price exceeds the world price (Ibid.).

The USAID manual states that the commodity selected should have strong local demand and add to the net availability of commodities in deficit. It should take into account local commodity preferences which can vary by area and variety of commodity. The market analysis mentioned above should provide guidance.

Step 2. Usual Marketing Requirements and Bellmon Determination Analysis

[6] Save the Children's Monetisation Implementation Manual recommends periodic and continuous analysis throughout the life of the project to keep up-to-date on price changes which is useful for planning future monetisations as well as to comply with USAID regulations regarding disincentives to local production. (See Bellmon Determination Analysis below.)

Two important considerations that a CS must look at prior to submitting a monetisation proposal are both mandated by US law. In both cases, extensive collaboration with the USAID Mission is required. The first is Usual Marketing Requirements (UMR) which requires that monetisations do not unduly disrupt world commodity prices or normal patterns of commercial trade between the importing country and other friendly countries. The UMR is a calculation made by USDA which is an average of the recipient country's commercial imports of a commodity over the last five years. This amount is the minimum that the importing country must purchase commercially to maintain the US exports to the importing country. The purpose is to ensure that the monetisation does not significantly reduce the commercial importation of commodities from the US and others by the recipient country. The CS must certify in its proposal that either the monetisation represents such a small percentage of imports that no analysis is required or that if it is warranted, that an analysis has been completed. However, the analysis itself is the responsibility of USDA.

The other legal requirement is called the Bellmon Determination Analysis. The CS must ensure that adequate storage facilities are available for the commodities at the time when they will arrive in the recipient country and that the distribution/sale of the commodities will not result in a disincentive for local production or interference with marketing in that country. The disincentive aspect is determined largely by the size of the shipment of the US commodity relative to the local consumption of that commodity. The extent of the markets are also taken into account, whether it is a rural (and often therefore, limited) or rather extensive urban market. The manual does not address the issue of concurrent Title I, II, and/or III monetisation and effects on the market of such a flood of one commodity.

Step 3. Commodity price determination

For the purpose of this discussion, a commodity's price is measured in two ways. The first is Cost, Insurance, and Freight, commonly known as CIF, which is the market value of the food in the US plus insurance and ocean-freight costs. The other valuation is Free-Alongside-Ship or FAS, which only includes costs incurred prior to loading the commodity on the ship for export from the US

As with any commercial transaction, the goal of monetisation is always to obtain the highest possible price. This will maximise the proceeds for use in development activities. However, USAID guidelines require that CSs should ideally achieve a price which will cover CIF. If the CS is unable to achieve CIF, they are required, at a minimum, to recover FAS. Only in exceptional circumstances will USAID grant a waiver for accepting a price below FAS.[7]

In setting the sales price, fair market value should be the guiding principle. There are two primary factors to be evaluated. First, the price of the commodity should not depress the local price of the commodity and therefore interfere with market operation. The assurance that no disincentive effect exists is the primary goal of the Bellmon Determination Analysis. In addition, the market analysis mentioned above will help the CS to determine fair market value which includes surveying the price of the commodity on the world and local markets.

Some constraints to achieving the highest price may include the fact that other importers of like commodities may receive subsidies from their governments making their products relatively cheaper than PL 480 commodities. Local government controls on prices or limitations on the number of buyers may also serve to make it difficult for even FAS costs to be recovered. Time lags between when the sales agreement is signed and the delivery of the commodities can be problematic when exchange rates have varied drastically in the interim period, raising the price of the goods in terms of local currency (as the commodities are valued in US dollars). This negative effect can occur even with normal, anticipated delays. With unanticipated delays, such as shipping strikes, bad weather at sea or the like, commodities may be delivered at a different part of the harvest cycle than anticipated resulting in significantly different prevailing prices than planned. Another disadvantage PL 480 commodities may face in local markets is that the quality may be significantly higher than alternative commodities, which may not translate into a higher price on the local market if the quality difference is not important to local consumers. Alternatively, the commodity quality itself may change from the time of the contract to what is actually shipped. This, too has effects on cost recovery and market confidence in this process. Finally, the USAID guidance is not very clear on the requirement that PL

---

[7] Such a waiver was obtained by CRS' Ghana programme in 1994**;** the conditions which led to the waiver led to clearer monetisation guidance being issued by USAID.

480 commodities must be shipped in US owned vessels if any service the country where the monetisation occurs. Contrary to what many CS field staff believe, the higher costs associated with doing so do not have to be included into the calculations of CIF for cost recovery purposes. CSs may use the cost of another more competitive shipper in calculating CIF, even though a more expensive US shipping service is actually used. This confusion has led many CSs to incorrectly calculate CIF, thereby making it even more difficult for the CS to recover the CIF costs in the monetisation.

Step 4. Timing of shipments

Cooperating Sponsors should plan the timing of monetisation shipments preferably when the commodity is in short supply in order to achieve maximum cost recovery. Ideally, shipments should not be scheduled to arrive immediately after the harvest of that commodity when prices are lowest nor when other traders and/or CSs are expecting shipments. This avoids having one CS compete with another CS or local traders. In this regard, CSs should coordinate with one another and with USAID to avoid such complications.

Step 5. Selecting buyers

Monetisations may be conducted with private firms, quasi-government entities or government agencies. They may be sold through open competition or direct negotiation. However, Mendez-England’s study (1996) indicated that cost recovery possibilities are greatest when non-government entities are the purchasers. As an added benefit, the use of private firms as compared to government traders or monopolies improves price competition, and strengthens the liberalisation of markets.

Step 6. Use of proceeds

According to the 1988 USAID manual guidance, the proceeds of monetisations “can be used to transport, store, distribute or otherwise enhance the effectiveness of the use of commodities; and to implement income generating, community development, health, nutrition, cooperative development, agricultural programmes, and other development activities.”

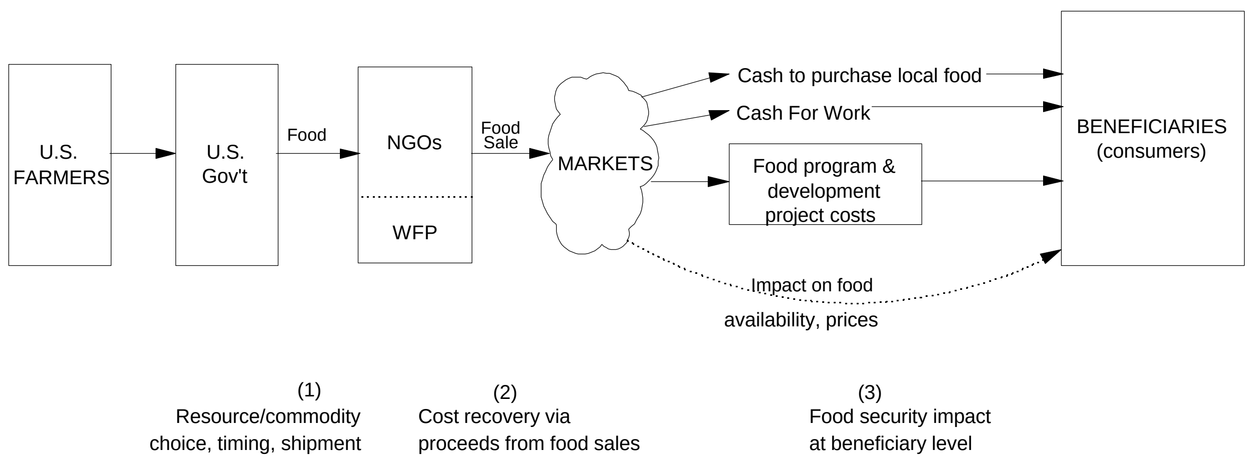
However, in recent years, USAID policy on use of local currency generated through monetisation has been changing. In 1995, with the dissemination of USAID's *Food Aid and Food Security,* the emphasis of all food aid, including monetisation proceeds, became impact-driven in terms of the effect on household food security. As it was defined by USAID, agency's priority sectors favoured health and sustainable agriculture activities, rather than income generation activities. This policy shift has been confusing to the CSs, many of whom have included income generation activities in their monetisation portfolios given the importance of diversified sources of income for food security (eg. for food purchases).

Principal actors in monetisation

Having described the process of monetisation, the actors involved in that process can be identified. The following graphic outlines the main players, beneficiaries, and resources used in the monetisation process of US food aid:

Box 1

U.S. Title II Monetisation



The 'food chain' moves from US farmers and the US Government, in the case of Title II, through NGOs and WFP, to recipient country markets. The (1) resource/commodity choice, timing and shipment are determined by donor-produced availability, market surveyed prices and national need. Cost recovery (2) of the commodity and shipping/transport costs to the port occurs in the marketplace. The food sold has an effect on national stocks and prices at the level of the market, but the proceeds have the impact on beneficiaries (3) in three ways. Two are cash, either to purchase local food or do CFW (Cash for Work), which are less common than the third, covering food programme and development project costs. The final effect of the monetisation on the beneficiaries may be hidden as the benefits trickle down to them via the market; beneficiaries **may** be consumers of the food sold, benefiting from increased availability and decreased prices.

The evolution of Title II monetisation and the use of proceeds

Monetisations of Title II food began in 1986 when Congress passed legislation to add food aid sales as an additional funding source for NGOs to cover local currency costs of food distribution projects. Congress mandated that USAID monetise 5% of the total value of non-emergency commodities in 1987 and raised that minimum requirement to 10% in 1988 and again to 15% in 1996 (Mendez-England, Farm Bill).[8]

Box 2

Percentage of Title II Non-emergency Commodities Monetised

Year	**FY89**	**FY90**	**FY91**	**FY92**	**FY93**	**FY94**	**FY95**
Target	10%	10%	10%	10%	10%	10%	10%
Actual	6.6%	8.2%	10.2%	14.2%	13.2%	16.8%	20.9%

Source: USAID Bureau of Humanitarian Response Office of Food for Peace, Program Operations Division (BHR/FFP/POD)

In the first year of monetisations (1987), the 5% target was never reached due to the high up-front costs of monetising food (eg. market surveys, Bellmon Disincentive Analysis, etc.) and the general reluctance of the NGOs traditionally involved in distribution programmes to use tonnage allocated for consumption by the poor overseas for covering

[8] The USAID administrator, Brian Atwood, can always waive the minimum tonnages if emergencies require additional resources to be shifted around, but this would be controversial.

their operating expenses.[9] In recent years, however, monetisation has grown steadily as people began to understand that monetisation didn't take away from food distributed to the poor but rather aided in financing distributions. Since 1991, resources have exceeded the minimum target as the table above shows. Compared to the 10% required by law, the actual levels ranged from 10.2% in FY91 to 20.9% in FY95.

In the eight years of monetising Title II food, NGOs' use of monetisation proceeds has expanded from covering the logistical costs of food aid deliveries to investments into broader development initiatives, including health, nutrition and agricultural programmes, income generation, cooperative and community development and even paying for training of primary health workers and counterpart staff in project design and implementation. Such an evolution is in line with the 1990 amendments to the PL 480 legislation that highlighted the need to improve "access by all people at all times to sufficient food and nutrition for a healthy and productive life" (USAID, Policy Determination 19).

In terms of food security programming, this has meant that NGO Cooperating Sponsors (CSs) such as CRS have been able to not only cover administrative costs but also to invest proceeds in food-security specific projects such as food-for-work (Ethiopia), cereal banks and primary health care (Ghana), potable water/sanitation/hygiene training (Morocco). This has been the way US NGOs have had an effect on local food insecurity. Such transactions are done by NGOs, either individually or under an 'umbrella' monetisation where there is one lead CS which takes on the responsibility for the monetisation for the remaining CSs operating in the country. The food sold to pay for the overhead or other local currency costs related to the use/distribution of the imported food is over and above and completely separate (and often a different type of commodity) from the food distributed.

Title II Monetisation funds' use has recently expanded further, and can now be spent in third countries, opening the possibility for triangular trade local purchases which are still legislatively prohibited (1996 Farm Bill). Monetisation sales for development projects must be carried out in the same country in which the sales proceeds are programmed

---

9 USAID data for 1988 is missing. In 1987 only 3.2% of the value of non-emergency commodities was monetised, well below the target of 5% that was in effect at the time.

(Mendez England, 1996). The same study recommends that the USAID Office of Food for Peace (FFP) should consider triangular monetisation when there is demonstrable potential for recovery of costs at or above CIF with no risk of creating disincentives in either country.[10] Food aid sales have expanded to include several '100% monetisations' in countries where the CS has no regular programmed food activities and uses food aid only to create funds for programming purposes (while meeting a need for the commodity in the marketplace).[11]

Most monetisations are open market sales in urban centres of developing countries. One reason why food sales have been limited to large urban markets is that smaller sales in rural areas can be more costly in terms of time and transportation and these areas may not have the ability to absorb the quantities offered. Thus local food security impact may therefore be more limited than suggested by some CSs. Moreover, when food aid is monetised in capital cities or large ports, "its benefits accrue primarily to middle-class and urban consumers at the expense of small-scale farmers," much less the most food insecure (Hansch 1991).

Finally, monetisations are usually conducted in countries which are not in the throes of an emergency.[12] This is due to the fact that CSs have found that functioning, stable markets are more conducive to cost-recovery of the commodity than those found in most emergency contexts. This is particularly true where cost recovery and maximising of funds for development projects is an important objective rather than the stabilising of markets and food security which has tended to be the focus of EU food aid monetisations. Also, in emergencies, there are usually more than adequate resources to carry out programmes so there is lesser need to look to monetisation for funds. In fact, normally emergency food

---

10 One such monetisation is being proposed by Africare, monetising wheat in Chad and Ivory Coast with the proceeds to fund food security projects there and in Mali, Niger and Burkina Faso as well. Others are being pursued by CARE.

11 In 1994, only seven 100% monetisations were done, representing only 16% of the total dollar value and 26% of the tonnage allocated for monetisation (Mendez England 1996).

12 This is different from Mitchell's (1996) reference to selling EU food aid through local traders and merchants to stabilise markets in emergency situations due to war, famine or natural disasters, at least long enough to 'bridge' these markets to full functioning. It is anticipated that publication of this contribution will follow shortly in the RRN series.

aid allocations include funds to cover operating costs.

While monetisations have occasionally been used in emergency and rehabilitative contexts, most recently in Ethiopia, they have been mainly to cover food distribution costs associated with both supplementary and therapeutic ('wet') feeding in refugee camps (Pines 1990). Generally speaking, such populations are displaced and destitute; most suffer from lack of access to food, rather than to cash which makes direct distributions more attractive.[13] Nonetheless, there are opportunities to use monetisation during the rehabilitative phase of an emergency, particularly as cash for work for returnees. Rarely, have these been realised, mostly because monetisations not linked to feeding programmes have been under-explored to date by US NGOs. Additionally, as several EU-funded, and increasingly US-funded NGOs' projects have shown, the potential for local food purchases via monetisation sales can be used to benefit particularly vulnerable populations via enhanced ration composition, particularly using triangular trade.[14] Again, such options are just now emerging.

CRS policy on monetisation

The CRS Board of Directors first approved monetisation on a provisional basis in December 1988. At that time, the Board had serious concerns that the sale of PL 480 commodities would deprive the particularly poor and vulnerable populations of food, to which they had access via its food distribution programmes. They also expressed concern that the public perception of monetisation was not likely to be favourable if CRS was seen to be engaging in a commercial transaction at the expense of the poor. In 1991 when the Board reviewed the issue again, CRS staff prepared a briefing paper outlining CRS' experience with monetisation and noted that 'as a funding source monetisation is no longer exceptional or controversial.' After some experience had been gained, monetisation was by this time seen to be an effective way to fund food distributions without diminishing

13 Yet cash aid to refugees and the poorest "spares queuing time, hauling expenses... [and] complications about learning how to prepare unfamiliar donated foods" (Hansch 1991).

14 The approach can be particularly relevant to refugees in terms of nutritional balance – using funds to purchase vegetables, fruit, meat, milk that can supplement bare subsistence rations of grain, protein, and oil.

the quantities of food available for distribution to the poorest of the poor. This led to an increasing percentage of Title II being ‘allowed’ for monetisation by the US government, moving to 15% over the last several years.

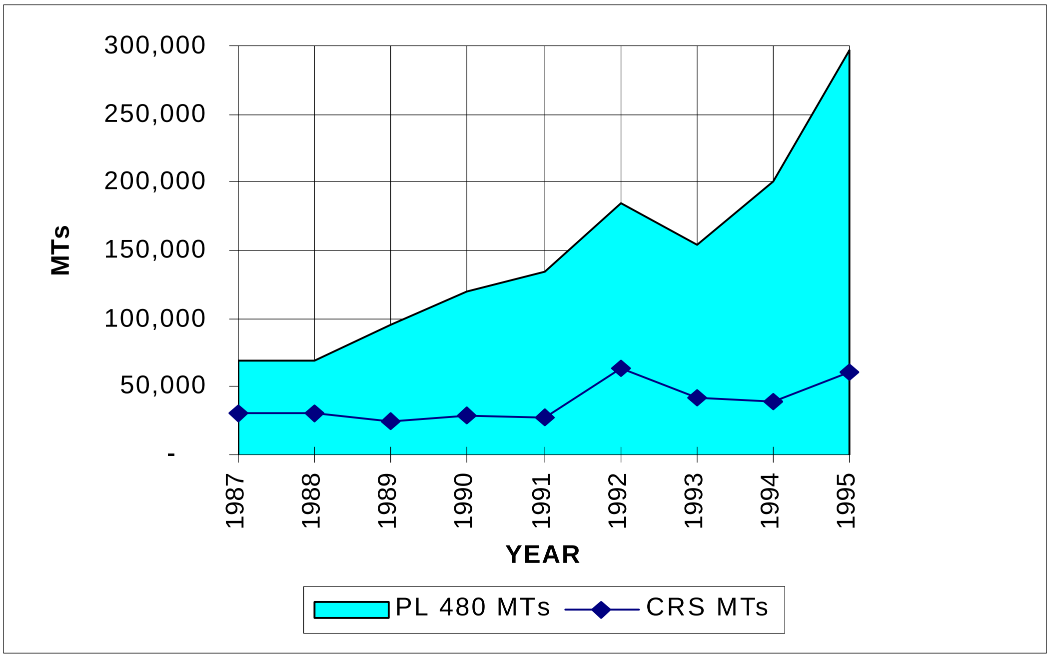
Today in CRS, monetisation is seen as a useful tool for maximising the impact of Title II food distributions, particularly in light of shrinking resources available for development activities. Moreover, CRS has had a great deal of experience with monetisations worldwide, particularly in Africa, which have enhanced CRS staff skill, success, and enthusiasm for monetisation as a source of food security. Cash from monetisations is also obviously more fungible and Title II is increasing in relative importance as Title III food aid diminishes.

3. Practice

Between 1987 and 1995, CRS monetised 345,549 metric tons of USG food commodities valued at $83,215,000. CRS monetisations have taken place in 17 countries worldwide. Beginning with 30,346 metric tons of food in 10 countries in 1987, CRS monetisation activities have grown to 60,475 mts. per annum in 11 countries in 1995. The value of commodities monetised by CRS has increased from $4,215,000 in 1987 to $15,858,000 per annum in 1995.

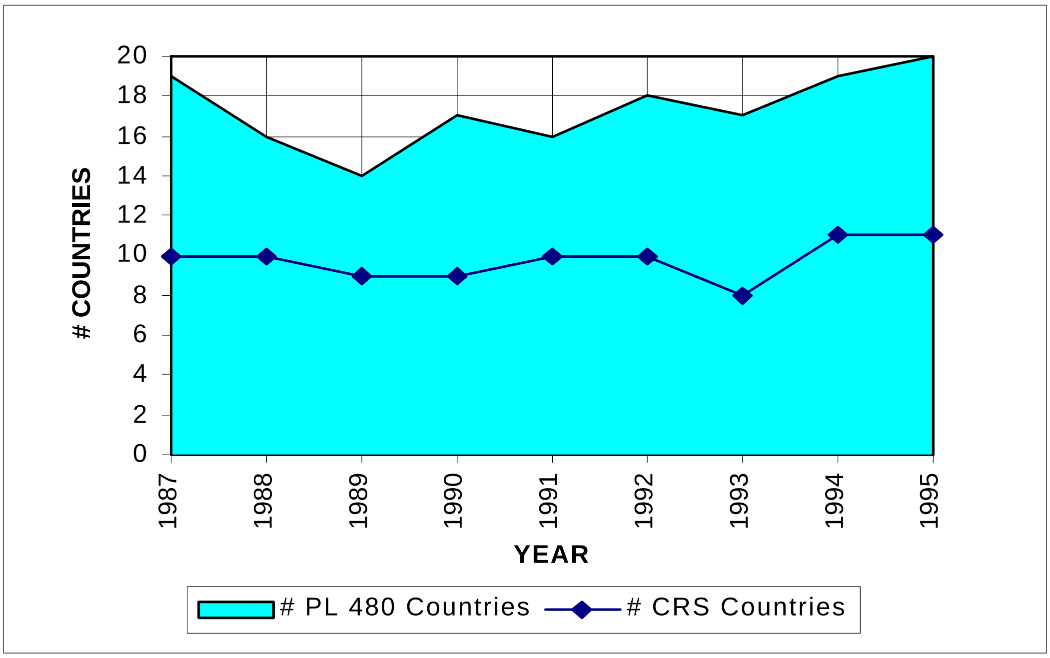
Box 3

Monetisation Tonnages
1987-1995



Box 4

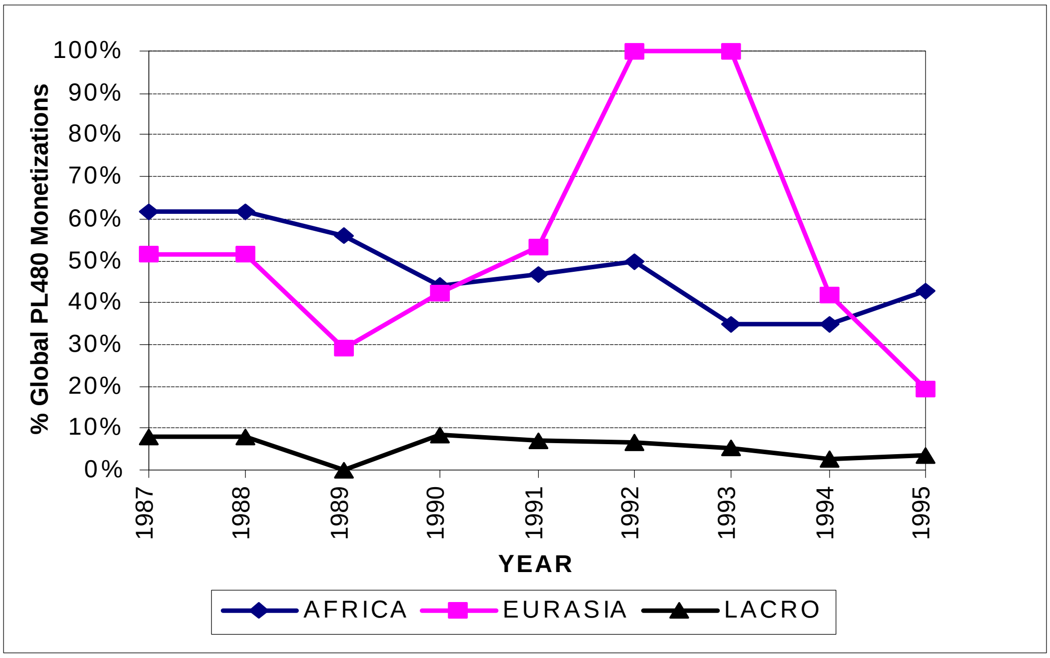
Number of Countries with Monetisation 1987-1995



Between 1987 and 1995, the continent of Africa has seen the greater portion of CRS monetisation activities worldwide representing 56% of total commodities monetised by CRS and 58% of the value. CRS monetisations for this same period represent 26% of all PL 480 commodities monetised and 21.3% of the value of all commodities monetised.

Box 5

CRS Monetisation History by Region 1987-1995



While most of the CRS monetisation projects over the years have been directed to the support of pre-existing regular Title II programmes, there have been several examples of more innovative uses of monetisation proceeds.

Indonesia: integration of programme goals

In 1984, CRS/Indonesia redesigned its Title II programme which had been operating in Indonesia since the late 1960's. The theme of the redesign was to integrate the various programme goals and merge the financial and food resources to achieve the goals. The food distribution programme was merged with the other financially supported activities for common objectives. The redesigned programme incorporated development activities for the participants in the food distribution programmes – savings/credit schemes were introduced to the Maternal/Child Health (MCH) programme, materials were provided for the Food For Work (FFW) projects to ensure long-term benefits, and the training of counterpart staff, village coordinators, and beneficiaries was institutionalised.

To implement this ambitious programme, an additional $500,000 per year was required.

The first three years was funded through an AID grant for $1.5 million. In 1989, AID grant funding was no longer available and CRS/Indonesia turned to monetisation. The costs increased due to additional programme adjustments – re-targeting of the programme to needier but more distant areas and a reduction of beneficiary contributions.

In 1995, due to the Government of Indonesia's and the USG's determination of a low food aid priority for the country given increased national food self-sufficiency, CRS terminated its Title II distribution programme there. CRS has requested that $2 million in remaining monetisation balances be used to support a seven year endowment programme which will support its previous food security work. The USG has responded favourably and a decision is expected in the near future.

The final Title II evaluation conducted in April of 1996 revealed a strongly positive impact of the CRS Indonesia Title II programme with counterparts and communities. Community participants reported significant benefits ranging from reduced infant and maternal mortality rates to substantial increases in farm income and agricultural production. CRS counterparts also reported numerous institutional benefits, such as standardised systems and improved staff skills.

The two main lessons learned from CRS' experience with monetisation in Indonesia were that monetisation funds can be used effectively to defray the cost of ITSH and the operational costs of the programme. Also, as the Title II programme closes, the USG has been receptive to using monetisation balances for programmes that generally support food security.

Burkina Faso: emergency preparedness

Burkina Faso and the surrounding Sahel countries have been continually affected by food shortages since the early 1970s. CRS has responded with emergency assistance usually by providing Title II commodities to the affected populations. Due to the time required to programme and transport commodities to the affected areas, CRS assistance to meet immediate needs was limited. CRS uses a portion of its monetisation proceeds to preposition funds for use in meeting immediate emergency needs. More specifically the funds are used:

- To fund the purchase of food and materials as well as the related costs of transport and administration to meet immediate emergency needs.
- To fund activities that will strengthen the capacities of identified counterparts in emergency situations.
- To fund activities required to establish, maintain, and improve working relationships between CRS and emergency counterpart organisations.

Kenya: commodity exchange

In addition to monetising Title II commodities to support activities related to food distribution, CRS/Kenya between 1988 and 1993 exchanged Title II commodities with the Kenyan government for local commodities collected from government stocks located near the distribution points. This innovative exchange programme had several benefits:

- Reduction in logistics costs and thereby recipient contributions by 50%
- Reduction in commodity losses attributed to inland transportation
- Provision of a known and culturally acceptable commodity to the beneficiary.

CRS Kenya would bring wheat to Kenya and sell part of the shipment to a government parastatal (NCPB) for cash while the balance was exchanged for locally produced cereals. During this period, CRS was only bringing in vegetable oil for distribution. This operation continued successfully until 1993 when the NCPB could no longer honour their part of the agreement due to short supply of cereals and the contract with them was prematurely terminated. Subsequently the arrangement could not be revived because the Kenyan grain market was liberalised and the NCPB lost its monopoly.

Philippines: joint monetisations

CRS has done three monetisations in the Philippines. The first in 1992 was done by CRS alone and the last two in 1994 and 1995 were joint monetisations done with CARE. CARE’s greater experience in monetisation in the Philippines and the relatively smaller amounts of commodities CRS wished to monetise made joint monetisations a more sensible and efficient approach.

The sales proceeds were used to support the two phases of the CRS/Philippines Food Transition Strategy Project. In the first phase the project supports the purchase of local food supplementation in lieu of direct PL 480 food distribution. The proceeds also support the small enterprise development activities of 19 diocesan counterparts.

Morocco: structural adjustment support

CRS used monetisation proceeds in Morocco to fund the ITSH costs of a Compensatory Feeding Programme to complement a Moroccan government structural adjustment programme, and to fund two development projects. The first of those projects, the Development Support Fund, was a CRS proposal to leave stronger institutional structures in place after the completion of the Compensatory Feeding Programme.

The second project, Water and Health, was originally developed with the intention to apply for AID grant funding. Since monetisation resources were available at that time, and since monetisation funds are easier to manage than grants, it was later decided to apply for monetisation.

Initially the monetisation proceeds were used for the ITSH for the Compensatory Feeding Programme (CFP). Later, the Development Support Fund was developed as a final component of the CFP. It involved financial and technical support to two government ministries involved in vocational training, to reinforce central management of training centres, and to provide capital equipment to pilot training centres.

The Water and Health project is a potable water, sanitation and hygiene education programme targeting 85 villages in rural southern Morocco.

Risks/constraints

Over the years, CRS has shared with other CSs the difficulties and risks of monetising food aid. Particularly in the early years, time was needed for the agency to develop the collective expertise to deal effectively with and minimise the risks to CRS with issues such as timing of sale, attainment of best sales price, and protection of proceeds generated. Probably the greatest difficulties and risks have come from the economic and political volatility in the countries were CRS has monetised and the ability of CRS to adequately understand these sectors and anticipate the changes that can occur during the lifetime of a monetisation project. One recent example is illustrative.

As mentioned above CRS had a commodity swap arrangement with the Kenyan parastatal NCPB. In 1993 the monetisation agreement was terminated by the NCPB while the commodities to be monetised were on the high seas. CRS had to pay for all clearance charges , ie. bagging, bags, transportation, warehousing, fumigation etc. The wheat was eventually sold to a private miller. As a result, the above expenses significantly reduced the net proceeds.

In 1995, another monetisation sales agreement was signed assuming the customs duty would be waived by the government. This was not the case. The tonnage was seized by the government customs officials citing non payment of duty. CRS paid the duty and other penalties, thereby again reducing the sales price this time below the FAS minimum.

The first example shows that care should be taken when relying on government owned bodies for sale or swap of commodities. In this case, the NCPB did not state its inability to meet the agreement until it was too late. When the shipment was already on the high seas, CRS was forced to cancel the contract and find a private miller to purchase the wheat.

This second example illustrates how a host government can without prior notice change the rules regarding the importation of certain commodities, including a change in duty exemption policies.

Aware of the complexity of the issues involved in planning, implementing and using the proceeds from a monetisation, CRS has over the last five years institutionalised technical support to field offices from its headquarters to maximise the quality of its monetisation projects and minimise the risks to CRS and its donors inherent in the process.

This support is managed as part of the CRS technical unit. Technical visits are made to country programmes to assist with feasibility studies and the design and implementation of monetisations as well as assistance in the design phase to guarantee that the proceeds are programmed for maximum impact to improve the food security of beneficiaries. Regional workshops are also held yearly to keep abreast of the changing landscape of PL 480 monetisation issues and maintain and improve the expertise of CRS monetisation practitioners in the field.

4. Analysis: Four Issues Emerge

As we have seen, food aid sales increase the supply of a commodity in the recipient country and generate revenues for programming. Donors expect costs of at least the commodity itself, as well as its shipping and handling to be recovered. NGOs which channel the food hope to monetise it to generate sufficient local currency to cover overhead and programming costs of projects which include other Title II food aid for distribution. Such costs include local staff salaries, warehousing, internal transport, etc. which are directly linked to the feeding programmes. Both of these goals require decisions to be made about what commodity is chosen, and at what price, to whom and where it is sold. But 'successful', **cost-effective**, monetisation is affected by two types of costs: *costs external* to the NGO in terms of market uncertainty (including 'futures prices' of the commodity between contract and sale) and *costs internal* to the NGO in terms of managing the process of monetisation. External costs affect the donor's expectation of recovering CIF or FAS. Internal costs affect CS's expectation of maximising local currency for overhead and development project programming costs. These external and internal costs form the first two issues which emerge from monetising Title II. They will be discussed in more detail below.

The third issue is impact or lack of impact on household food security. Most often, the effects of monetisation are felt at the macro level in terms of national food supply, markets, traders and urban prices. While the proceeds may have an impact on the food insecure households via the **projects** into which the local currency has been invested, this has not been systematically analysed. The effect of the food sold is usually kept at the level of 'more of the commodity now exists in the country' [and thus all people are better off]. When considered at all, effects have been imputed from the success of the food-assisted development programmes into which local currency proceeds were invested. As these projects target the food insecure, these proceeds benefit them, albeit indirectly.[15] While **direct** impact on household food security from Title II monetisation is some 'distance' from the original sale of food, this does not mean that there is no impact. The development projects funded by monetised proceeds can have long-term sustained benefits not possible through food or cash distribution alone.

The fourth issue is what role monetising food can have relative to other means of helping the food insecure. Maximising food security impact obviously depends on starting with an analysis of what the food insecurity is caused by, and how best to affect it. The clearest distinction is whether the problem is one of food availability or food access; this distinction should guide us in planning the objectives of the monetisation.

Practice: costs of monetisation; external and internal

There are two kinds of costs involved in monetisation. The first is external, the second internal. The external cost derives from uncertainty in 'commodity futures' prices (the difference between the contracted and arrival time at prevailing market conditions). Potential fluctuations in the future price makes planning for the use of proceeds difficult.

The US government's requirements are recovery of commodity, handling and transport costs. To accomplish this CSs are asked to become commodity futures traders. As monetisation involves the sale of food to be delivered at a later point, planned-for funds and even current negotiations are contingent on what actually gets delivered, when, in what form, and what the then-prevailing conditions will be. Other complications arise from a variety of conditions in the recipient country including overvalued official exchange rates,[16] losses in shipping, spoilage, and theft from warehouses, as well as in price if the shipment has been delayed the type or quality of the commodity differs from

---

15 It is indirect, invested in development projects, as compared to EU monetisations which often ask food monetisations to be done in local markets and the cash generated given directly to the beneficiaries as CFW.

16 Up to 50% of the value of the food can be lost by having to use official exchange rates that diverge from open market exchange rates (Hansch 1991).

what was expected. In case of delay, warehousing rental costs can also add up.[17] Finally, coordinating in-country sales with other food aid imports can be problematic, particularly in the case of large Title III and WFP or EU monetisations.[18]

While cost recovery results have not been reported or monitored consistently, preliminary 1994 figures show that monetisation sales recovered CIF in 24% of the countries, recovered only FAS in 52% and did not recover even FAS in the remaining 24% (Mendez England 1996). Most markedly, the same study found that in all monetisations in 1994, "the amount of local currency generated through Title II monetisation did not exceed the full cost incurred by the US government and selling costs incurred by the CS" (Ibid.).[19] To address some of these effects of 'futures trading' uncertainties on recovering FAS or CIF, Mendez England suggests USAID consider informing CSs of estimated shipping rates based on specific export date, bolstering CSs ability to better estimate costs. Nonetheless, the bulk of the uncertainty remains in the type and quality of commodity which actually arrives versus which was contracted to arrive. Also, differences between these estimates and actual arrival dates (at current rates) should be considered **USAID-**paid transaction costs.

The internal costs are in terms of NGOs' capacity to cost-effectively manage the process. Mastering all of the issues which determine best commodity, price and financial management of the proceeds can be difficult for NGOs, whose primary job is to address emergency and development needs of vulnerable populations. NGO staff can also be reticent to take on the 'commodity trader' role, perceived by some as outside of their ethical mandate to serve the poor. Their goal in doing a monetisation is to generate the greatest amount of local currency possible to invest in food assisted development projects. There are great budgetary pressures on both donors and monetising NGOs, who "want

17 Africare has resorted to preemptively renting warehouse space for large monetisations; being ready to store the commodities if the shipment is delayed avoids being forced to take a price cut from a 'distress sale' (personal conversation, Bryson 1996).

18 Also, if an umbrella sale of food aid by various CS is being done, and if there are difficulties in coordination as we encountered in Ghana, then this can complicate getting even FAS values.

19 This is not to say that full costs should be covered, nor that all CSs reported their costs accurately, nor does this take into account food security benefits **not** reflected in market prices.

to 'buy' as much actual development or relief activity as possible" (Hansch 1991).

Variable internal capacity of CSs to maximise proceeds from the monetisation are affected by not only the external factors mentioned above, but also by the lack of information on which to make informed choices, particularly in terms of prices to negotiate for. The constraints within NGOs such as CRS are in terms of limited experience, time and funds to do marketing surveys, and in-country lack of negotiation expertise as compared to savvy traders/parastatals. Many cooperating sponsors' country programmes and USAID missions are lacking market price information for not only the commodities themselves but for their substitutes.[20] This weakens the NGOs flexibility to negotiate acceptable prices. Most lack a clear idea of what CIF is composed of and what costs are negotiable (eg. using US- or foreign-bottomed carrier ships). Further, protection of proceeds from devaluation or inflation is another cost. Our programmes rely on these revenues to cover local currency expenses throughout the life of the project; trying to hedge against a loss in value imposes an added burden on CS administration. Nonetheless, most if not all, of our country programmes accept these costs as a part of the benefit of covering food-related programming costs.

Overall training and guidance are needed to guide all participants. Mendez England suggested new operational guidelines be created, particularly in terms of sales benchmarks being set for cost recovery, outlining methods for tracking results, training CSs' field staff (including how to conduct market surveys, do local market monitoring, understand commodity grades, specifications and pricing, particularly in terms of negotiating with traders), and tracking the impact of local currency uses.[21]

Most studies focus on improving NGO monetisation capacity via market analyses. Doing these better will require CSs to fine-tune their commodity selection, identify best sales mechanisms, schedule sales to both avoid disincentives and maximise supply impact of

---

20 Taking account of other alternative crop prices is particularly important but less commonly done. For while the commodity to be imported is not grown in the country, disincentives due to a large sale may affect locally produced, substitute commodities.

21 The CSs should also take the responsibility of reporting the amount of revenues generated (actual sales price compared to benchmark), as well as the CIF price quoted by FFP compared to the prevailing market price within 30 days (Mendez England 1996).

the sale, and to monitor the continued effect of the monetisation on the local market (Mendez England 1996). Accurate monitoring of the effects of the sale on the market also requires NGOs to cultivate relationships with wholesale and retail buyers, parastatals, consumer cooperatives and local traders (Mitchell 1996). Nonetheless, most CSs would prefer the USAID mission to take on the role of monetising the commodity and to free them to channelling the proceeds in the most cost-effective ways.[22]

Policy: cost-recovery versus household food security 'impact'

As we have seen throughout the document, the main goals of Title II monetisations are to cover costs and channel resources to (usually) food-related NGO programming. This must be accomplished **without** having a *negative* effect on the recipient country's food self-sufficiency. The Bellmon Analysis determines whether the commodity will create disincentives (eg. the sale would not have too large a market effect thus discouraging domestic production, or the commodity would not be a substitute for domestically produced food). This is legally required. Other researchers suggest that market surveys, now routinely used, be **required** of CSs, thereby ensuring costs are recovered through the best commodity selection and price setting.

There are some commodities which can meet national needs, cover CIF and garner maximum revenues for NGO programming. One such commodity is vegetable oil, which in Ethiopia has a high price efficiency due to its high value, lower transport cost and low domestic supply. It can be an excellent way to meet local needs for a commodity while meeting FAS and even CIF costs (Hansch 1991).

But neither the Bellmon analysis nor market surveys start with the premise that food security needs of the poor should lead the commodity identification, price setting, or shipment timing process. Taking household food security as the primary objective would have an effect on commodities, prices, where and when they are sold. Commodity selection would include: self-targeting ('inferior') foods, those appropriate for indigenous

22 The incentives to negotiate a particularly high price above CIF are also missing; as USAID does not allow the CS to keep the proceeds above and beyond capturing CIF (personal conversation, FAM, 1996).

tastes and preparation, and those that complement local production (see Hansch 1991, see Box 6 below). Targeting the more food insecure can be done by increasing their access to inferior foods, eg. yellow corn as compared to higher-value white corn. The vulnerable can also be reached through accessible prices. This would involve selling lower-value, inferior foods at below even FAS in order to increase access to them.

Box 6

Criteria for Selection of Food

- Self-Targeting ('inferior')
- Cassava, Millet, Sorghum, Soy Blends
- High Income Transfer Value
- Oil, Beans, Dairy Products
- Indigenous Tastes
- Rice, Corn, Roots
- Complementing Local Production
- Wheat, Oil, Processed Foods
- Accesses Comparative Advantage of Donor
- Foster Donor's Comparative Advantages

Source: Hansch, 1991

According to several studies of monetisation, the greatest impact that the sale of a commodity itself can have, assuming it is one which is consumable by the poor directly, is that more is available at a lower price. "The key to discerning efficient monetisation is when local prices are out of line with world prices" (Hansch 1991). This indicates that a greater supply would increase consumption by the poor, assuming accessible prices. Hansch suggests that the proper role for food monetisations would be finding select markets and seasons when price vulnerability would be heightened while terms of trade for local labour were unusually adverse given high food prices. Mendez England's 1996 study further suggests that demonstrating potential food security impacts of a monetisation typically require the identification of a 'market failure'. This involves identifying periods where 'price spreads'[23] exceed the costs, and identifying how monetising Title II resources will have a positive impact immediately by narrowing the price disparity as well

[23] Notable price spreads which could be opportunistically used would be where prices of a locally produced commodity offered in the market are markedly greater than lower-priced foreign food to be monetised. Monetising food in such a situation would increase supply and bring prices down.

as reducing possibilities of such a market failure to meet demand in the future.

The Mendez England report also notes that while approval of food aid sales below prevailing local market prices would be highly unlikely, it might be justifiable through "specific benefits of the increased supply of food on food security [for the vulnerable] and the impact of activities on improving household nutrition and/or improving agricultural productivity". Yet CSs often focus **not** on emerging market-based 'windows of opportunity' through which to affect food security. They focus on simply selling the commodity as soon as it arrives, at the price contracted. This is most often done through negotiated contracts to urban parastatals, government agencies, monopolies, or oligopolies, through sealed or open bid auctions rather than through auctions or tenders targeted to food insecure areas (Mendez England 1996). This is at least in part because the goal of the sale is not primarily to target the food insecure via the food sold, but to recover CIF, or at least FAS costs. Generating the maximum amount of **currency** for reinvestment in programming is also the CSs priority goal.

Conceptual issues: resource choice and availability

The final, and in some ways largest, issue is the role of monetisation in fostering food security. Monetisation does have a role to play, not only at the macro, but also at the micro level, but it depends on the circumstances.

As explained earlier, the multiple 'titles' of PL 480 have an array of goals. Titles I and III monetisations aim for a macroeconomic effect. Titles I and III aim to have national food supply, policy and budgetary support effects while Title II focuses on more localised food supply in terms of encouraging markets, traders, and affecting prices of the commodity sold in the marketplace.

One requirement USAID and Congress have made of Title II monetisation proposals is targeting structurally food-deficit countries. These countries often have many 'food-poor' – those who spend a disproportionate amount of their income on food (often between 60 and 80% of their income). Monetising Title II food in these countries has national macro effects, as does investing proceeds in projects in areas of local food insecurity. When the type of commodity, its price, timing and the location of its sale are well-targeted, monetisation can be a powerful tool for assisting poor countries in which some of the most 'food poor' live.[24]

The link between Title II monetisations and food-insecure beneficiaries happens through NGOs. Many CSs' projects use food distributions (supported by monetised proceeds) and food-assisted development projects, where food is used as an incentive to foster development.[25] While food aid does carry the twin dangers of dependency and disincentives, and needs to eventually be phased-out of countries reliant on it, it is also needed in situations where the problem is an aggregate lack of sufficiently **available** food. Monetisation proceeds which help fund such projects have an impact on food security, albeit less directly than distributing the resources as food or cash.[26] For while Title II food is distributed, proceeds are much more rarely distributed as cash via CFW.

But for Europeans, the choice is different. According to several publications, direct distribution of food or cash can be the most direct ways to affect household food security.[27] This may be true in some cases, but not in others. Choosing between food or

---

[24] Whether that particular commodity is the most appropriate in fostering food security among the most vulnerable was discussed earlier in the paper as was the issue of impact of relatively small Title II sales.

[25] Well-targeted projects (eg. food for work, Maternal-child health/child survival projects, school feeding, and some institutional feeding programmes), help beneficiaries maintain their consumption in the immediate term **while** improving their prospects for long-term self-sufficiency. Projects using food aid improve roads, restore degraded lands, assist mothers to properly feed and care for their malnourished children, encourage school attendance, etc.

[26] Unlike acceptable uses of some EU monetisations (European Community 1994), Title II food aid is not sold directly to consumers. Mitchell suggests that this would provide a direct income transfer effect which would increase food availability to vulnerable groups, assuming sufficient purchasing power (1996).

[27] In situations when food distributions are inappropriate, the way in which CSs can distribute cash to the food insecure is through CFW. According to a recent study, CSs and the US Mission in Ethiopia have found that using wheat in monetisation-supported FFW activities where competing domestic wheat production is sufficient can be a disincentive; they would prefer to use CFW to bolster food security in these areas at times of wheat surplus. Nonetheless, 3/4 of SOS Sahel participants in a CFW programme in Ethiopia preferred food, in most part due to a fear of debts being called in with renewed liquidity; women preferred food as this had an immediate impact on household food security (Mitchell 1996).

cash is based on determining 'is the main problem facing the vulnerable of this country the availability of food or the availability of cash with which food can be bought.' The graphic below outlines the differences that lead to and stem from such an analysis. Based on the analysis, food would then either be monetised or distributed.

Box 7

Project Food Aid: Monetisation Versus Distribution in Kind

*Conditions under which **monetisation** is the preferred option*	*Conditions under which **distribution in kind** is the preferred option*
1. The objective of the project is a general I Income transfer, not specific food supplementation; where food supplementation is the objective, cash funds can be reliably expected to be transferred to food expenditures.	The project objective is an increase in food intake which will not result from cash transfers.
2. Targeting within households (eg. to women or children) is possible using cash transfers.	Targeting within households can be successful with food.
3. Social traditions require remuneration in cash.	Social traditions allow remuneration in kind.

Box 7 (continued)

*Conditions under which **monetisation** is the preferred option*	*Conditions under which **distribution in kind** is the preferred option*
4. Food is available to buy; local food markets or distribution mechanisms (eg. fair price shops) function, or can be expected to adjust or be established in response to increased purchasing power; there are no serious distortions in local food markets.	Food is unavailable (drought, civil disturbance, inadequate logistics, seasonal shortage) or overpriced (traders making supranormal profits or not serving remote areas); and government interventions using food aid cannot improve the functioning of the market.
5. Government bureaucratic managerial capacity is adequate for deposit/transfer/ expenditure auditing of cash funds; no particular risk of diversion of funds.	Government bureaucratic managerial capacity is more suited to handling food in kind than cash funds; risk of diversion of food less than of funds.
6. Additionality of cash payment and their targeting of the poor assured or possible to arrange without violating Government budgetary/fiscal policies or procedures.	Additionality and targeting on the poor more easily assured for food than for cash, given Government budgetary/fiscal policies or procedures.
7. Cash-supplementation of specific target groups (eg. civil-service staff) acceptable; no particular dependency/phase-out problems that argue against cash; risk of undesirable taste changes through direct distribution of food.	Government prefers food as a temporary addition (topping-up) to eg. civil service salaries, rather than cash; food is preferred because it is easier to phase-out, particularly during structural adjustment programmes; no risk of taste changes through distribution of food.
8. Monetisation, ie. arrangements for sale and deposit/programming/auditing of cash funds, more cost-effective than distribution in kind.	The cost-effectiveness of direct distribution (overall administrative/logistical costs against net local value of food transferred) is more favourable than monetisation.

Source: Schulthes, 1992

But the need for food, cash, development projects or even macropolicy support depends on the circumstances. Monetising food can have more food security impact than a cash grant. For instance, when CIF is consistently obtained during the sale of otherwise **scarce** commodities such as vegetable oil in Ethiopia, "simply converting [development assistance] dollars to local currency *would not make a contribution to food security equivalent to that of monetising food*" (Mendez England 1996, emphasis added). And this is the crux of the Title II monetisation issue in terms of food security. The impact depends on the context. When appropriate, monetising food can affect food security in two ways – increasing the supply of the commodity and decreasing the costs to the NGO of using Title II food in development programming. When this commodity is scarce, this impact is heightened.

In terms of tracing impact, is true that monetisation proceeds support the local currency costs of such food-security-related development projects. One can potentially link some of impact of these projects to the monetisation proceeds. Yet quantifying the impact of part of an investment is difficult. While systems have been emerging to evaluate changes due to programming, (eg. agricultural production and natural resource management, maternal-child-health/child survival, income generation, education), monetisation has lagged behind. Work has not been done to quantify **how much** commodity sales and proceeds affect household food security.

The main way monetisation's impact has been assessed has been through the price. What is interesting is that according to all the studies accessed for this paper, market prices were the only means by which the 'value' of monetisations was assessed. To date, no CSs or USAID missions in these studies have tried to trace the effect of the commodity sales nationally over time, particularly in multi-year monetisations. An implicit assumption is that national production and supplies will reveal need, as shown by competitive prices. To the best of our country programmes' knowledge, no effort has been made to trace the impact of the sale on food insecure households (eg. increased or decreased access to that commodity, given the sales price). The only indicator which can be tracked is change in price of that monetised commodity compared to locally produced substitutes at the time of the sale.[28]

Thus, most 'impact' of the resources sold remains at the level of macroeconomic food

28 There is potential for hiring consultants to compare these monetised and substitute commodities' prices to the local purchasing power of poorer consumers, but this has not been done.

supply, and the assumption that such sales will encourage market competition through fostering the emergence of traders. While Mendez England's study notes that NGOs can increase the participation of small and medium-sized traders through using small lots and more lenient terms of sale, there is limited quantitative proof. When one tries to find the effects of such increased urban food supply in rural areas, impact is even more strained. There is little proof that the food sold has any 'trickle down' effect on the food insecure located in areas far from the capital or port. This is particularly true given the small size of Title II monetisations compared to Title I and III. And this is not to say that there is no effect, only that studies have not explored whether they exist. The most likely target of such a study would be the effect on the urban food insecure, who could quickly benefit from increased availability of the commodity, assuming they have access to it.[29]

The relatively limited **direct** impact on vulnerable households is due to the dual goals of Title II monetisations, explained above, which do not prioritise **household** food insecurity. In fact, they prioritise cost recovery and the cost effectiveness of monetising proceeds meeting development project costs. This is not to say that macro food supply or micro development projects have not been affected; they have been, but this is not the priority.

Yet Title II resources, distributed or monetised, are valuable to Cooperating Sponsors in fostering food security via their projects. The most compelling future issue for US CSs is the potential decrease in the availability of Title II for distribution and sale. Indications are mixed. While monetisation numbers (amount, commodities) are increasing, with a larger percentage of Title II food aid being earmarked for monetisation (15% as of 1996), commodity stocks are decreasing. Tonnage levels of Title II allocated by Congress have been cut by 50%.[30] Also, CSs should "consider the impact that a shrinking Title III programme will have on Title II monetisation [in terms of shrinking capacity]" (Mendez England 1996). In fact Title I and III will be decreased, if not phased out completely over the next several years, putting additional pressure on remaining Title II resources. But

[29] Again, the effect depends on the self-targeting nature of what commodity is sold, at what price and during what season/ time of year.

[30] Partly this is due to food being sold to meet commercial import demands by huge markets such as China. At the same time, many farmer subsidies which generated surpluses are being eliminated.

these pressures are less likely to by met by US cash grants. Cash funding of food aid programmes has been reduced by 30% in the last three years.

Yet "with greater CS and Mission dependence on monetisation as a financial resource and food security programming tool, it is reasonable to expect Missions to integrate other dollar resources to support food aid activities and to [incorporate] Title II activities into Mission strategies" (Mendez England, 1996). Whether such an integration will emerge, with greater amount of funding to bolster shrinking food aid, is a difficult question to answer.

5. Similarities and Differences Between US and European Monetisations to Achieve Food Security Goals

As mentioned above, three 'titles' of food aid are used in the US to help recipient governments address food needs. Titles I and II are aimed at macroeconomic impact and to influence national policy. Title II, on the other hand, is used for both direct food distributions in-kind and for monetisation. Monetisations of Title II do have food security impact by making more food available in the urban markets where it is sold and making cash available for NGO development programming. The US position on using Title II as food aid and to support NGO programming has been described above. This position which informs NGOs' programming emerges from USAID's 1995 Food and Food Security Policy paper. In it, food is used to address immediate consumption needs through distribution for emergency and institutional feeding as well as to build up local self-sustained capacity through food aid incentives and monetised investments in agricultural production/natural resource conservation (via FFW), human health (MCH and Child Survival), and education (school feeding). Income generation projects are also increasingly likely to be supported via Title II, but are not to date.

Based on European documentation, **uses** of counterpart funds tend to be discussed in more undifferentiated terms compared to US government Titles I, II, and III. EU uses of food aid encompass Titles I, II, and III and include distribution, monetisation and development programme investment.

The EU programming guidelines which direct the use of these proceeds rest on certain conditions as shown in the box below (Source: EC 1994).

Box 8

Uses of Food Aid: European Community's Objectives to Promote Long-term Food Security

- ! to increase the nutritional cover of the beneficiary population groups;
- ! to support efforts to increase local agricultural production;
- ! to contribute towards the balanced economic and social development of the beneficiary countries;
- ! to reduce the balance of payments imbalances of countries with a structural food deficit.

In addition, there are five EU guidelines for using food aid (Mitchell, 1996):

Box 9

Conditions for EC NGO Food Security Monetisation Programmes

(i) The money generated by the sale of food aid is directly linked to food security programmes.

(ii) A clear proposal is made on the intended use of the funds generated be the programme.

(iii) Transparent monitoring and accounting procedures are followed to ensure proper implementation.

(iv) The sale price does not negatively affect the market.

(v) The Delegation of the EU concerned is associated with actual monetisation and use of generated funds (EU)

The US government and the EU would agree on the first and fourth of the above points but the interpretation of the first point – 'directly linked to food security programmes' differs.

While the development projects into which monetised proceeds are invested directly affect Title II beneficiaries' food security, the effects are more indirect than the approach highlighted by the EU, which sees monetisation commodities and proceeds as being channelled **directly** toward the poor. Based on **European Community Food Aid**, commodities are chosen, shipped, or bought locally already targeted at the more vulnerable. Choices are made in terms of marketing the commodities based on the need for FFW versus CFW, and on food supply availability and prices in rural areas.

According to EU documents, the emphasis is to improve sustained **access** to food via distribution, sale and reinvestment. Food aid sales, with some financial supplements for operational costs, have been used:

- to alleviate the effects of rising staple grain prices in rural and urban areas (eg. Madagascar sale of wheat to urban bakers, which reduced the high demand and price of rice);
- to pay for small scale farming projects (eg. sale of maize to Malawi to introduce agro-forestry techniques);
- to bolster aggregate local food available via triangular transactions (eg. imported cereals, pulses and oil sales supplemented by local salt and dried fish for Angolan displaced)[31]; and
- to support FFW and CFW (eg. Rwanda and Burundi).

Much food aid has been channelled via EuronAid NGOs, as well as through bilateral and multilateral mechanisms.

Specifically, based on the above descriptions of EU guidance, CRS' experiences are most relevant to two types of EU monetisations, namely those which generate funds to finance food security projects and those which broadly improve people's access to food, particularly food distributions themselves, FFW[32], and grain banks (Mitchell 1996).[33]

[31] In collaboration with European NGOs such as Caritas, AAA, etc.

[32] FFW at CRS takes the form of rural road construction, terracing, bunding, even construction of granaries and temporary shelter. An IFPRI study found that monetisation that allows for the funding of management and planning/control systems to ensure that FFW roads are properly located and constructed not only yields positive developmental benefits, but also increases the sustainability of the Title II activity (Mendez England 1996).

[33] What we consider to be Europeans' conceptions of monetisation come from Simon Maxwell's work over the last decade, from John Mitchell's 1996 report for EuronAid and from the

Given that most of the CRS monetisations accompany programmes where food is distributed, the portion of that food used to cover costs of managing it – as well as cover costs of development programmes that **use** food developmentally can almost be seen as a **subsidy** from the government to its channelling agency (Maxwell 1992).

In sum, the main difference between European and American monetisations relates to the definition of 'success'. Most US NGOs' monetisations are in response to a lack of operating funds to support existing food programmes. Further, over the years, the demand in the US for funds for development projects has increased, but without commensurately rising financial allocations. Thus, food aid monetisation programming has been asked to be innovative. CSs' monetisations have had to meet even more needs – namely investments in food security via development projects. This is true of both those using food distributions and those whose resources come from 100% food monetisations.

Yet unlike the European model, the determination that food – or monetised food – is the best resource relies less on an analysis of in-country needs based on food vulnerabilities of the poor than on resources available from donors. Thus, while in some cases, cash may be a better resource to meet the demands of food insecure beneficiaries (eg. who lack access to food rather than insufficient availability of food), the EU can provide cash. The US CSs would be usually forced (by the lack of alternative resources) to use food as the main resource – transforming it to cash where possible.[34] As effective food security programming demands a wide array of flexible resources be used to combat the various manifestations of insecurity, an expansion of sources is always being explored.

6. Conclusion

European Community's 1994 Activities Report. While USAID feels the food sales can be assumed to have an impact on the marketplace, this is beyond the purview of NGOs such as CRS.

[34] One writer proposes that an integral part of project design should be the decision between direct food distribution and monetisation for cash for distribution, with the rule being "define the targeting criteria for alleviation of food-security – but then monetise as much as possible – distribute as little as necessary" (Schulthes 1992). This is because such a use of monetisation is a means of targeting food aid to food-insecure households, particularly through cash (Ibid.).

Regardless of the original motivations of either the European or American donors or the Cooperating Sponsors, today all players seem to be nearing consensus on the most appropriate uses of monetisations and the generated proceeds. That consensus is that while monetisation still has a role at the macroeconomic level, impact increasingly should be at the level of household food security. This consensus is demonstrated by the fact that the US government is moving away from Title I and III food aid as a result of shrinking commodity availability, and is requiring all remaining Title II food aid, including that which is monetised, be focused on impact at the local, household level. This assumes that it is possible to have household food security impact through development projects funded by monetisation rather than through the direct sale of the food commodity itself. This is also illustrated by the EU's emphasis on local purchase of food via cash grants, which are more easily directed to local areas and vulnerable populations. This consensus on concentrating the impact of monetised food aid at the household level creates opportunities, for more accepted uses of Title II, for monitoring food security impact, and for greater availability of resources.

Accepted uses of Title II:

! Guidance needs to be issued which incorporates the more 'innovative' and effective uses of Title II monetisations as the norm;

! Given the shrinking availability of food commodities, more efficient, cost-effective uses of existing resources should be underscored. Some possibilities include using monetisation proceeds in cash-for-work, or doing local purchases, triangular trade and/or 100% monetisations.

Monitoring food security impact:

! Methods have been developed for measuring impact and the importance of doing so is now well recognised. However, neither donors nor CSs are making it a priority. Impact monitoring has been an important issue for development project sectors over the last few years but has not been applied to monetisations.

! Assessing the impact of monetisation on food insecure households in particular is far from complete. Tracing the impact requires much more conceptual and actual (monitoring system) development for the urban and rural food insecure.

- To accomplish this with economies of scale, the process of refining the methodology should be done cooperatively among US and European donors, national governments and NGOs. This will enable all the players to take advantage of the opportunity of this nearing consensus. This has been done in the past via international organisations with a variety of issues.

More resources:

- Bilateral or private funds are accessible to CSs without consideration of their nationality. Given the pressing nature of food insecurity and the complementarity in approaches between the EU and US in promoting food security, NGOs on both sides of the ‘pond’ should be able to apply for resources.

References

Belshaw, D (1992) "The macroeconomics of counterpart funds: the case of food for hunger prevention in Ethiopia", IDS Bulletin Vol. 23, No. 2, Brighton, UK.

Bryson, J, Director of Food for Development, Africare, (1996) Personal interview.

Donnelly, J A (1991) "Monetisation: A briefing paper", CRS internal document.

European Community (1994) "European Community food aid: activity report", Brussels.

Hansch, S (1991) "Review of monetisation – more bang than bucks?", mimeo.

McClelland, D G (1992) "Programming and managing counterpart funds to enhance economic development: a US perspective", IDS Bulletin Vol. 23, No. 2, Brighton, UK.

Maxwell, S (1992) "Counterpart funds and development." IDS Bulletin Vol. 23, No. 2. Brighton, UK.

Mendez England and Associates (1996) "Final report: Shaping the future of monetisation – an evaluation of the PL 480 Title II monetisation program", Office for Food for Peace, Bureau of Humanitarian Response, USAID (#PDC- 0704-C-1043-00), Washington, DC.

Mitchell, J (1996) "Report for EuronAid on the monetisation of food aid", Brussels.

Pezzullo, L (1988) Catholic Relief Services internal memorandum to CRS staff on CRS policy on monetisation programs.

Pines, J M (1990) "Monetisation comes of age: A review of AID, PVOs, and Cooperatives Experience", a report for US Agency for International Development (PIO/T # 0384200), Washington, DC.

Ryan, T J, Executive Director, Food Aid Management (FAM) (1996) Personal interview.

Save the Children (1993) "Monetisation Implementation Manual: A How-to Manual on Implementing Monetisation Projects in the Field", Westport, CT.

Schulthes, J (1992) "Monetisation of project food aid." IDS Bulletin Vol. 23, No. 2, Brighton, UK.

USAID (1988) "Monetisation Field Manual: PL 480 Title II and Section 416(b) Programs, Washington, DC.

USAID (1992) "Policy Determination 19: Definition of Food Security", Washington, DC.

USAID Bureau of Humanitarian Response Office of Food for Peace, Program Operations Division (BHR/FFP/POD), PVO Monetisation reports for Fiscal Years 1991-1995.

US Congress (1995) "Committee on International Relations – the Farm Bill Legislation minutes of 1 November 1995 meeting", Washington, DC.

Acronyms

CFW	Cash for Work
CIF	Cost, Insurance and Freight
CRS	Catholic Relief Services
CS	Cooperating Sponsor
EU	European Union
FAS	Free-Alongside Ship
FFW	Food for Work
ITSH	Internal transport, shipping and handling
MCH	Maternal/Child Health
NGO	Non-governmental organisation
PL 480	Public Law 480
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USG	United States government
WFP	World Food Programme

Other RRN Publications

Network Paper 1 by Tine Dusauchoit (March 1994)
MSF-CIS (Celula Inter-Secçoes), Mozambique: A Data Collecting System Focused on Food Security and Population Movements

Network Paper 2 by Derrina Mukupo (March 1994)
Responding to the 1991/92 Drought in Zambia: The Programme to Prevent Malnutrition (PPM)

Network Paper 3 by Mark Duffield (March 1994)
An Account of Relief Operations in Bosnia

Network Paper 4 by Koenraad Van Brabant (September 1994)
Bad Borders Make Bad Neighbours - The Political Economy of Relief and Rehabilitation in the Somali Region 5, Eastern Ethiopia

Network Paper 5 by Kumar Rupesinghe (September 1994)
Advancing Preventive Diplomacy in a Post-Cold War Era: Suggested Roles for Governments and NGOs

Network Paper 6 by Susanne Jaspars (September 1994)
The Rwandan Refugee Crisis in Tanzania: Initial Successes and Failures in Food Assistance

Network Paper 7 (September 1994)
Code of Conduct for the International Red Cross and Red Crescent Movement and NGOs in Disaster Relief

Network Paper 8 by Patrick Ward and Martin Rimmer (April 1995)
Targeting the Poor in Northern Iraq: The Role of Formal and Informal Research Methods in Relief Operations

Network Paper 9 by ACORD (April 1995)
Development in Conflict: The Experience of ACORD in Uganda, Sudan, Mali and Angola

Network Paper 10 by Rebecca Macnair (September 1995)
Room for Improvement: the Management and Support of Relief Workers

Network Paper 11 by Penny Jenden (September 1995)
Cash-for-Work and Food Insecurity in Koisha, Southern Ethiopia

Network Paper 12 by Joanna Macrae (September 1995)
Dilemmas of 'Post'-Conflict Transition: Lessons from the Health Sector

Network Paper 13 by Luke Aris, Peter Gee and Mark Perkins (February 1996)
Getting On-Line in Emergencies: A Guide and Directory to the Internet for Agencies involved in Relief and Rehabilitation

Network Paper 14 by Derek Summerfield (April 1996)
The Impact of War and Atrocity on Civilian Populations: Basic Principles for NGO Interventions and a Critique of Psychosocial Trauma Projects

Network Paper 15 by Alistair Hallam (April 1996)
Cost-effectiveness Analysis: A Useful Tool for the Assessment and Evaluation of Relief Operations?

Network Paper 16 (June 1996)
The Joint Evaluation of Emergency Assistance to Rwanda: Study III Principal Findings and Recommendations

Network Paper 18 by Jon Bennett and Mary Kayitesi-Blewitt (November 1996)
Beyond "Working in Conflict": Understanding Conflict and Building Peace - Report of a three-day workshop organised by CODEP

Good Practice Review 1 by Andrew Chalinder (June 1994)
Water and Sanitation in Emergencies

Good Practice Review 2 by Jeremy Shoham (December 1994)
Emergency Supplementary Feeding Programmes

Good Practice Review 3 by Susanne Jaspars and Helen Young (December 1995)
General Food Distribution in Emergencies: from Nutritional Needs to Political Priorities

Good Practice Review 4 by the ODI Seeds and Biodiversity Programme (forthcoming)
Seed Provision During and After Emergencies

Good Practice Review 5 by John Telford (forthcoming)
Identification and Registration of Beneficiaries in Emergency Operations

The **Relief and Rehabilitation Network Newsletter** is published twice a year and contains information on recent developments in the international relief system, reports on meetings and conferences, brief reviews of recent publications and reports, summaries of alerts produced by early warning and crisis information systems, information on training courses, a calendar of forthcoming meetings and conferences and a Members' "Feedback" section.

All RRN publications are available to RRN Members free of charge. However, they can also be obtained separately at the following costs (excluding post and packing):

Network Papers	£5.00
Good Practice Reviews	£10.00
Newsletters	£5.00

To subscribe to the RRN, to order publications or for further information, please contact:

The Network Administrator
Relief and Rehabilitation Network
Overseas Development Institute
Portland House, Stag Place
London SW1E 5DP, UK
Tel: +44 (0) 171 393 1674/47. Fax: +44 (0) 171 393 1699
Email: rrn@odi.org.uk
Internet: http://www.oneworld.org/odi/rrn/index.html

Relief and Rehabilitation Network

The objective of the Relief and Rehabilitation Network (RRN) is to facilitate the exchange of professional information and experience between the personnel of NGOs and other agencies involved in the provision of relief and rehabilitation assistance. Members of the Network are either nominated by their agency or may apply on an individual basis. Each year, RRN members receive four mailings in either English or French comprising Newsletters, Network Papers and Good Practice Reviews. In addition, RRN members are able to obtain advice on technical and operational problems they are facing from the RRN staff in London. A modest charge is made for membership with rates varying in the case of agency-nominated members depending on the type of agency.

The RRN is operated by the Overseas Development Institute (ODI) in conjunction with the European Association of Non-Governmental Organisations for Food Aid and Emergency Relief (EuronAid). ODI is an independent centre for development research and a forum for policy discussion on issues affecting economic relations between the North and South and social and economic policies within developing countries. EuronAid provides logistics and financing services to NGOs using EC food aid in their relief and development programmes. It has 27 member agencies and two with observer status. Its offices are located in the Hague.

For further information, contact:

Relief and Rehabilitation Network - Overseas Development Institute
Overseas Development Institute
Portland House, Stag Place
London SW1E 5DP, UK
Tel: +44 (0) 171 393 1674/47
Fax: +44 (0) 171 393 1699
Email: rrn@odi.org.uk
Internet: http://www.oneworld.org/odi/rrn/index.html