

Draft Guidelines for Conducting Monetization Market Analyses in West Africa¹

Monetization programs in West Africa are becoming increasingly difficult endeavors. With relatively small agro-food markets, wide fluctuations in agricultural production, and pockets of political and economic instability, food aid can have a profound impact upon food prices, marketing and production incentives in the region. In order to assess the impact of food aid programming, the potential effects of monetization and distribution programs must be carefully evaluated. This is the purpose of the Bellmon Analysis, which is required for all P.L. 480 programs.

The purpose of these guidelines is to provide a standardized format for conducting a market analysis in the West Africa region. While the level of analysis and the amount of detail will depend upon the individual market, these guidelines attempt to highlight the central issues that should be addressed when assessing the feasibility and impact of monetization.

Section One: Introduction and Summary

This section should include a brief overview of the purpose of the market analysis, as well as the criteria of the Bellmon Amendment. The criteria, as set out in the Bellmon Amendment to Public Law 480, are the following:

- ◆ Adequate storage facilities are available in the recipient country...to prevent the spoilage or waste of the commodity; and
- ◆ The distribution of the commodities in the recipient country will not result in a substantial disincentive to, or interference with, domestic production or marketing in that country.

These criteria must be fulfilled for the resident mission to make a positive Bellmon Determination, a requirement for any P.L. 480 Title II program.

This section should also include a brief description of the purpose of the proposed monetization, as well as the conclusions of the analysis.

Section Two: Bellmon Analysis: Disincentive Analysis and Storage Capabilities

I. Introduction

The first part of this section should provide the socioeconomic background of the country. Information should be provided on GDP/capita, the UNDP's Human Development Index (HDI), the principal sectors of economic growth, the country's classification as a Low-Income Food Deficit Country (LIFDC) and/or a Least-Developed Country (LDC), and other social and health indicators.

II. Disincentive Analysis

This section should provide the disincentive analysis for the specific commodities under consideration in the Bellmon analysis. The disincentive analysis can be divided into four parts:

A. Agricultural Sector Overview

This section should provide a general overview of the agricultural sector of the country. In general, the purpose of this section is to provide background on agriculture's role in the economy, and whether the country is self-sufficient or dependent upon imports to meet the food needs of its population. This section should include the following

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information:

- ◆ Primary food and cash crops of the country;
- ◆ Main patterns of production, such as subsistence farms, commercial farms, or foreign-owned plantations;
- ◆ Characteristics of the agricultural sector, such as average farm size, access to farm inputs and technologies, and the use of rainfed versus irrigated agriculture;
- ◆ Susceptibility to drought and other natural disasters;
- ◆ The country's self-sufficiency in the production of staple food crops and other non-staple foods;
- ◆ Major strengths and/or weaknesses of agricultural production.

B. Government Policies Affecting the Food Sector

The purpose of this section is to provide information on the level of government involvement in the domestic food economy. Government policies have a profound impact upon production, consumption and pricing decisions, which can in turn influence the effectiveness of food aid. This section should address three main areas:

1. Pricing Policies

- ◆ How are food prices determined in the economy?
- ◆ Does the government provide consumer subsidies for certain foodstuffs or support prices for agricultural commodities?
- ◆ Are there taxes on the importation of certain foodstuffs or other inputs, which in turn might affect agro-food prices?

2. Marketing System

- ◆ What role does the government play in the marketing and distribution of food commodities? For example, are there any parastatals or government-owned satellites that control a particular food market?
- ◆ What role does the private sector play in the marketing and distribution of food commodities?
- ◆ What is the overall market structure – monopolistic, oligopolistic, or competitive?

3. Agricultural Policies

- ◆ What are the government's overall agricultural policies? Is the government involved in the promotion of certain crops, the marketing and distribution of cereals, or providing input subsidies? (Some of this information might overlap with information provided in points 1 and 2).
- ◆ What other international organizations (FAO, World Bank, EU, and PVOs) are working in the agricultural sector, and what are their goals and objective?

C. Commodity Markets

The purpose of this section is to outline the disincentive analysis for each of the commodities under consideration for the P.L. 480 Title II program. The introduction to this section should describe the typical food basket of the country, and whether domestic production has been sufficient (on average) to meet consumption needs. If the country is a net food importer, then there should be a brief discussion of the role of imports and food aid in the domestic economy.

Following the introduction, this section should provide a disincentive analysis for each commodity market under consideration. The key issue is not whether Title II food aid will have an effect on the market, but rather the magnitude of that effect. A sample outline for the disincentive analysis is provided below.

Commodity X (rice)

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- ◆ Consumption: What are the national-level requirements for rice on an annual basis?

National-level rice consumption can be calculated using historical consumption patterns or the percentage of rice in daily caloric intake. While this figure will not account for consumption differences according to income levels, geographic regions (urban versus rural) and individual preferences, it offers a benchmark for determining national needs.

- ◆ Impact upon domestic production: Will the sale of Title II rice cause a significant disincentive to local rice production?

In order to address this question, the analysis should look at several different factors: the elasticity of domestic rice production, the existence of a structural food deficit, the prices of imported and locally-produced rice, and the percentage of food aid in comparison with the overall size of the rice market. The combination of these factors will help to assess the potential impact of food aid upon local production.

- ◆ Impact upon domestic production: Will the sale of Title II rice cause a significant disincentive to the production of other staple foods?

In order to address this question, the analysis should again look at the elasticity of production for staple foods, the degree of substitution between staple commodities, the prices of imported goods and locally-produced goods, and the percentage of food aid in comparison to the overall size of the market.

- ◆ Impact upon domestic marketing: Will the sale of Title II rice interfere with commercial rice marketing?

Under this area, it is useful to construct a food balance sheet for rice, including statistics on production, foreign inflows (food aid and imports), total domestic supply and consumption requirements. In this manner, it may be possible to determine if there is a supply shortfall in the domestic market, implying that there are market distortions that prevent availability from meeting requirements. It is also important to look at the market structure for rice and the Usual Marketing Requirements (UMR), or the average annual imports for rice over the past five years.

D. The Role of Food Aid

The purpose of this section is to provide a brief overview of the role of food aid in the recipient country. Food aid can have an important impact upon the functioning of the domestic food economy, and for this reason it is important to be aware of present and future food aid projects. This section should, where possible, provide information on the quantities of food aid in a host country from US and non-US sources. The section should include the following information:

- ◆ The percentage of food aid (US and other donors) as part of total consumption;
- ◆ The percentage of food aid (US and other donors) as part of total food imports;
- ◆ Types and quantities of food aid monetized and/or distributed over the past five years;
- ◆ Types and quantities of food aid programmed for monetization and/or distribution in the current year.

III. Storage and Handling Capabilities

The Bellmon Amendment also requires that there are adequate storage facilities within the recipient country to handle the importation of food aid. The Bellmon Analysis should therefore address not only the tonnage of storage capacity available, but also the facilities available at the port and for transportation. The storage analysis can be divided into three parts:

Port Facilities: What is the major port (or ports) of entry? What is the port's handling capacity, and are there problems with congestion?

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Storage Facilities: What is the total storage capacity available in-country? This should be estimated by looking at public facilities, private facilities, and those owned by PVOs and the WFP. Also, it should be noted whether storage facilities are available outside of the port area.

Transport capabilities: What is the state of transport facilities, including roads, railways and other networks?

Section Three: Feasibility of Monetization and Market Considerations

- ◆ **Monetization targets:** If it is determined that food aid will not have a negative impact upon local production and marketing, what are the target levels of food aid that can be imported? A general benchmark is that food aid should not exceed ten percent of the average annual imports over the past five years, or the Usual Marketing Requirements (UMR).
- ◆ **Market Structure:** How many buyers are there in the market for the commodity? How many levels (importers, wholesalers, and retailers) are involved? What brands or varieties of the commodity are already being imported into the market?
- ◆ **Cost Recovery Analysis:** Under current market conditions, will the monetization meet USAID/FFP's cost recovery benchmark of "100 percent FAS or 80 percent C&F, whichever is greater?" (A cost recovery analysis should be included with the document.) Will the PVO need to pay taxes on the commodity?
- ◆ **Sales Method:** What type of sales method should be used – closed negotiation, tender or auction?

Section Four: Conclusion

The final section should summarize the findings of the feasibility study, including the findings of the disincentive analysis and the proposed levels of food aid for monetization.