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Summary

Commodity (especially food) aid, counterpart funds from recipient sale of external aid (commodities or import support forex) and the macroeconomics of structural adjustment in Sub-Saharan Africa have become an academically and operationally prominent interlocking cluster of issues. Standard present analysis is both incomplete (especially on multiplier and production linkage impact) and too general (on sectoral and commodity specificities). As a result, CA/CF analysis and practice is rarely integrated into macro/sectoral strategy and policy; and procedures are discussed without adequate attention to their impact on national analytical and accountability capacity. These are not inherent limitations of CA/CF and can be addressed by acting within a clearer conceptual framework, elements toward which are set out.

COMMODITY AID AND COUNTERPART FUNDS IN SSA: Some Macroeconomic Aspects

By Reginald Herbold Green

> If you want to understand the causes that existed in the past, look at the results as they are manifested in the present. And if you want to understand what results will be manifested in the future, look at the causes that exist in the present.
>
> \- Buddhist Sutra

1. Commodity Aid, Counterpart Funds and Macroeconomics

In the 1980s, food and other commodity aid, their monetisation, counterpart funds and macroeconomic policy have become prominent in applied analytical and applied policy dialogue and practice in Sub-Saharan Africa for quite specific contextual reasons.

First, twenty-five years of low growth of food production, falls in earned import capacity, deterioration of infrastructure and war have created growing malnutrition and vulnerability to famine in most of SSA. Upsurges of drought and war in the first half of the 1980s triggered massive food aid, both for destitute refugees and for urban populations who did not lack purchasing power so much as physical access to food.

At the same time, the perceived need for quick disbursing assistance to halt the throttling of infrastructure maintenance and of directly productive sectors by import strangulation operation led to balance of payments support funding. Like much food aid, this was in large part sold to enterprise resulting in flows of counterpart domestic currency.

All this ran in parallel with the concern of external assistance providers in the 1980s that wrong macroeconomic policies in Africa (usually perceived as excessive interference with markets and price and inadequate presence of good governance) were the chief cause of its economic decline. That

concern in turn led to rising determination to utilise external transfers as a means to influence or control recipient state policy and practice - especially macroeconomic policy and government accounting (see Green 1991b). The domestic currency counterpart flows were seen as an effective and available instrument for utilising food and other commodity aid to alter recipient government allocations of, and accounting for, resources.

In practice counterpart funds were large relative to state spending, only in a minority of cases and for a few suppliers, so that the potential leverage tended to be overestimated (see Bruton and Hill 1990). And because donor policies and accounting frames were both in flux and divergent, largely relating to a shift from the old "capital budget aid - good; recurrent budget support - bad" dichotomy to a more analytical and contextual one; the pressures on recipients were inconsistent. At a high opportunity price in scarce personnel time, the divergences meant they were also evadable/avoidable. This confused situation was made even less coherent by the traditional view that food aid should feed the hungry directly both today and if monetised (traditionally frowned upon) also tomorrow, via use of counterpart funded rural investment and the new Human Condition/Adjustment With A Human Face/Absolute Poverty Reduction focus (see Green 1991a; World Bank 1989; World Bank 1990).

As is distressingly common in development theory, analysis and praxis, the new attention to food aid/counterpart funds has not been informed significantly by the earlier experience of the 1950s and 1960s (see FAO 1955; Dandekar 1965). Historical memory - both institutional and academic - has proven to be both fragmentary and occasional.

2. Macro Economic Analytical Framework

The commodity aid/counterpart fund official and quasi-official analysis has reached a certain consensus (Maxwell 1990 and in this Bulletin). There is agreement that, in general, the combination of commodity transfers, monetisation and first round expenditure is inherently neutral as to government budget balance, household/enterprise account and - less clearly - balance of payments. This assumes a rapid completion of counterpart fund disbursement (see Clement 1989; Roemer 1989).

In fact, this conclusion is not a general result, but one contextually related to SSA in the 1980s and probably 1990s. Import constraints cripple production and revenue constraints choke off even services all commentators agree are both crucial and state business. Therefore, commodity transfers do raise imports and utilised counterpart funds increase government spending by virtually their own amount.

However, that is only a partial first round analysis of monetary GDP at current prices. If increased government spending, balanced by commodity aid receipts, allows provision of more services, there will be a balanced budget multiplier (increase in real GDP). To the extent real public sector wages are raised, the balanced budget multiplier will be reduced unless higher real wages are offset by productivity gains. Given the below efficiency level wage/salary structure of many SSA states, such a rise in real wages or fall in unit labour cost of services is by no means implausible.

The assumptions behind the consensus assume a brief time lag from effective real resource transfer (aid eaten or put into a production process) and counterpart fund expenditure. Most monetisation and fund use procedures do not, in fact, result in brief lags. Longer lags make resource transfer/monetisation deflationary (households/enterprises pay; government does not spend) and lagged spending inflationary (government spending rises at a time real resource supply is not raised). The neutral result can then be obtained when disbursements (out of previous sale proceeds) approximate extractions (from sale of current aid) (Roemer 1989).

Further, there are sectoral specificities which modify the macro results. Neither by product nor by region are extractions (enterprise/household payments reducing demand) likely to correspond exactly to injections (government spending), rather than be above or below (Maxwell 1990). Further, construction demand is likely to rise and to be inflationary given that sector's characteristics.

More serious, the consensus concentrates on first round effects - not continued impact over time. This is particularly relevant in respect to GDP and the balance of payments. Post first round spending should raise GDP further. But that will inevitably raise import requirements (as indeed will balanced initial round additional government spending, albeit that could be balanced by commodity aid for state import requirements, e.g.

drugs, textbooks, vehicles and spares, fuel). As a result, the macroeconomic consensus is narrow and short term in outlook; not at all the ideal basis for using Commodity Aid and Counterpart funds as an input into Structural Adjustment's medium term, real output enhancement strategy.

This limitation is inherent in slow disbursing counterpart funds but applies more generally to all such funds not large enough relative to total recipient spending to allow serious forward macro or sectoral impact analysis or to limit fungibility (switching other resources away from use funded through monetised commodity aid). They are exacerbated if the commodity flow is variable and unpredictable in amount and timing - as is most food aid and some other CA.

To overcome these limitations requires analysis and allocation in a genuinely national macroeconomic and articulated sectoral perspective, with clear attention to policies as well as spending. Further, if commodity aid is highly variable, then it needs to be evaluated and assessed in conjunction with other types of resource transfer.

Whether these conditions suggest streamlined, more broadly focused, coordinated Counterpart Funds, or an overall dialogue on resource use with the proceeds of monetised commodity assistance flowing directly into general revenue, is an open question. Assuming a reasonable degree of effective governance and accountability on the part of the recipient state, the latter goal - in effect ending Counterpart Funds as a means of channelling counterpart receipt flows - would appear desirable.

However, some recipient states are not noted for accountability or good governance and some donors perceive themselves as having vested interests in controlling (or appearing to control) the uses of funds derived from the sale of their grant or soft loan assistance. In such cases, a conflict is likely to exist between effective control and assisting in capacitating the recipient state. Tight limits on spending, externally designed rules on monetisation procedures, substantial expatriate involvement in all stages of transfer-monetisation-spending, and preparing special accounts to a format quite different from the basic national budgetary one, all marginalise and fragment the recipient and reduce its capacity for good governance.

Despite these potential contradictions, there are a number of areas on which operational reform of the counterpart fund process and of overall dialogue leading to practice on spending should be both attainable and attained. Further, that process would help clarify more basic issues and, perhaps, thereby facilitate their longer term resolution (cf. e.g. Riley 1990).

3. Macro To CF: Some Links and Issues

1. The initial CF question is generation. This requires either specific (e.g. food) or generalised (e.g. import support) commodity transfers which are made to a recipient state which monetises them by sales to enterprises or households. To be an efficient component in meeting import capacity requirements all commodity aid needs to be in the framework of broadly agreed financial and commodity requirements. Similarly, CF levels - as a whole - should be related to an agreed estimate of government financing needs to provide broadly agreed levels of services. CF generating resource transfers are usually under 30% and, most government receipts are not from CFs (under 5% in most cases albeit 15% to 25% in a few) so that the exercise is both difficult and, at specific CA/CF level, inherently requiring flexibility and, therefore, at risk from fungibility (or made efficient by fungibility if one assumes the recipient has sensible import and expenditure priorities and procedures!).

2. Monetisation is necessary for CFs (albeit not for CA directed to government - e.g. pharmaceuticals - or final beneficiary - e.g. potential famine victim - use). It is also necessary for efficiency and cost control in distribution, sustaining or enhancing the domestic marketing system and providing a framework within which to provide positive incentives to domestic production.

   For food aid, the usual logical pattern is sale of physical food in urban areas with the proceeds used to buy domestically as near vulnerable populations as possible. Indeed, if domestic markets are in working order, paying wages to recipients to buy food (if necessarily partly supplied by food aid) makes better sense than traditional food for work (cf. World Bank/WFP 1990; Green 1986).

3. Collection and release of CF revenues are integral to avoiding deflationary/inflationary sequences from lags, as well as to the allocation of domestic state expenditure provided for under the CF agreement being effective. The lags result from the state being the *de facto* working capital supplier to wholesalers, manufacturers and retailers (public or private sector) buying the goods. IMF credit ceilings set with no real attention to working capital requirements, government sloth in collection and purchaser desire for interest free, extended credit contribute to that result.

   If possible, the state should sell to wholesalers for cash with the wholesalers using commercial bank credit to pay and repeating the process vis-à-vis retailers. If this is not practicable, then credit periods (say 60 to 90 days) for wholesalers should be set by the state selling unit and analogous ones (say 30 days average from delivery to them) by wholesalers to retailers. Given off-loading/sale to wholesaler time that would imply 120 days from CA arrival to CF receipts. If transport lags are common or commodity aid arrivals are bunched 180 days may be needed.

4. The public/private issue need not be central on the recipient side. In terms of physical use, monetised commodity aid is used by the private sector. Retailing usually, and wholesaling sometimes, is by private sector enterprises. The CF revenue utilisation by the state is - or can be - perfectly consistent with providing human investment, basic services and safety nets, physical infrastructure and enabling policies which stimulate enterprise and household initiatives and production growth (cf. World Bank 1989).

   The donor side has a more integral - and distorting - public sector involvement. Much commodity aid (food, fertiliser and some import support) is enmeshed in national production support and support cost minimisation (or transfer to another budget head, such as aid). The lack of attention to normal contractual provisions safeguarding the recipients (as to suitability, quality, quantity, arrival date, loss en route) are a function of donor bureaucracy which would not apply were the recipient free to buy from a low cost source and secure a normal commercial contract.

Commodity aid can also seriously damage third party (often Southern) potential suppliers who cannot afford to provide soft loans or grants. This can be offset by triangular transactions (e.g. EEC, Netherlands, USA and Australia's grain purchases in Zimbabwe for Southern African food deficit states) but that remains the exception not the rule (as Australia, Thailand and Argentina have repeatedly pointed out with limited results).

Positively, public sector involvement is needed if "fair" (breakeven but below scarcity or imperfect market) prices or selectively subsidised (e.g. inferior staple) prices are desired. Payment has to be by the donor or recipient public sector and distribution via a monitored (albeit quite possibly private) selling structure. In practice a CF may be a useful means to finance such a subsidy (billing the CA at commercial cost and then financing the agreed subsidy expenditure as back to back transactions in a way beneficial to transparency and accountability with minimal personnel or procedural cost).

5. <u>Valuation</u> should be at commercial border price for low cost sources and routes - which may not be the book value as seen by the donor. Any other valuation is inherently distorting. However, that assumes a plausible exchange rate. CA/CF negotiations are a very poor forum for setting exchange rates, but severe over-valuation does reduce CF purchasing power and provides an implicit subsidy to the CA users which may or may not be desirable, depending on who they are.

6. But CF receipts are not the only <u>price</u> issue relevant to CA/CF. If a "fair" or "free market" price interacts with domestic security, transport and/or production problems to create a ruinous domestic grower price, then food aid (or other commodity aid by analogy) may act as a disincentive and distort production structures. Using CF (or other) funding to offset abnormal costs, to bolster producer prices in the short run, and to invest in cost reducing means to remove the distortion in the medium, is a possible approach. It is worth noting that this distortion effect is particularly likely if exchange rates are severely over-valued and the commodity provided is a close substitute for a different domestic one (e.g. wheat for sorghum and millet in the Sudan and Somalia). The cost reduction use

of CF is an example of the need to view producer incentives more broadly than a unique focus on prices - costs and ability to respond to prices also matter. For SSA food producers they usually matter more than prices taken in isolation.

7. CF use need not in macroeconomic logic have any relationship to the commodity providing the domestic currency flow and still less to projects or programmes whose import costs are financed by the particular CA donor. However, in practice some links may be psychologically or politically useful. Two examples are, first, the use of CF (especially from food aid) to increase entitlements of absolutely poor households by funding extension of basic services and safety nets and, secondly, holistic support packages with project - technical assistance - domestic currency (from CF) components.

8. Accounting and reporting are essential to accountability in both the narrow and the broad senses and for both providers and recipients. In principle, they should be an integral part of a coherent recipient government accounting and reporting system, with any alterations to other formats made by the donors. In practice, donors insist on reports in their own, very diverse, formats and make limited progress in trying to coordinate among themselves, still less with recipient systems (cf. Riley 1990; Riley et al 1990). Many recipient accounting/reporting systems are ill-designed and/or inadequately operated. The hauling out of portions of accounts and reports in separate systems to satisfy (or fail to satisfy) donors has the result of further enfeebling and decapacitating the overall national system to which they should relate.

9. Coordination goes beyond accounting. Logically it means integrating CA provision and CF utilisation into an agreed medium term macro and sectoral economic strategy with rolling budget on both the external and fiscal sides. That implies the dialogue should be around the national import and government expenditure budgets and the policies underlying them. In practice this rarely happens - at least explicitly. Donor coordination tends to focus on increasing ease of CF operation and effectiveness of CF policy leverage as perceived by them. Consultative Groups rarely handle CA in any detail and tend to

focus on PFP (and especially priority public investment finance programme), not foreign exchange and fiscal budgets.

10. NGOs have become a factor in CF discussion because they are a current fashion, are sometimes financed by CFs and have CF relationships which tend to hamper most streamlining and coordination proposals. In practice, the discussion has turned on external NGOs, whereas logic would suggest CF allocations should be to domestic NGOs. In either case coherence and accountability suggest that transfers to NGOs should go via the CF to the domestic government budget and thence to the NGOs and that the level of allocations to them should be negotiated in the same way as of those to, e.g. basic health services, rural public works, primary education or agricultural extension.

4. Toward Improved CA/CF Use

Proposals for CA/CF improvement are necessarily general if written at the level of CA to and CFs in SSA. In any particular case, some variations are likely to be necessary and/or appropriate.

One fairly general set of exceptions exists in respect of donors for whom and countries to which commodity aid is a small proportion of total recipient fiscal operations. In these cases, the administrative nuisances and institutional time opportunity costs of running CFs are large enough relative to gains that allowing CA monetisation proceeds to go direct to general revenue would appear optimal, with the most plausible alternative being direction of all CF type receipts to NGO programme support.

A second exception concerns donors who are now willing to have CA (and Import Support) proceeds go to general revenue after an overall dialogue on budgetary priorities and specific concerns within them. In these cases there is no very evident reason why they should set up 'their' or join in 'joint' CFs. Their perception that CFs do not in fact add to leverage in any way not better facilitated by dialogue is arguably correct, as has been pointed out forcefully in a recent consultant's report to the EEC (Goreux 1990). This view is shared by the IMF for countries with which it has Programmes (see Clement 1989 and in this Bulletin) and probably by many World Bank officials in respect to at least some SAP/Consultative Group countries. Certainly the arguments of the Long Term Perspective Study

(World Bank 1989) for backing ongoing country initiatives, not designing new conditional programmes externally, point in that direction.

The first main guide-line for better CA/CF use is to start from nationally proposed, and subsequently agreed in dialogue with donors, foreign exchange and government source and uses budgets, covering combined import support, investment and emergency heads on the external side and recurrent, capital and emergency (or calamity) on the government side.

From that base a real resource transfer and a real augmentation of government revenue target can be derived. At that point it is appropriate to identify commodities available for CF purposes which are needed in the recipient and not available domestically which could be supplied by CA in addition (or to a substantial extent in addition) to financial transfers and which would not cost substantially more on CA terms than the financial counterpart of low cost source commercial purchases. The main commodities in this cluster are likely to be maize, wheat, rice, vegetable oil, sugar and milk powder, albeit, for specific countries at specific times, other standardised commodities (including fertilisers, newsprint, textbook paper and pharmaceuticals) may also figure.

To the extent the commodities are not for direct government or refugee/disaster victim consumption, a strong case exists for monetisation (see World Bank/World Food Programme 1990). In that case the proceeds become part of the resources available for meeting the augmentation of government revenue target. Assuming that the overall foreign exchange requirements have been estimated with reasonable accuracy, they can be expended on government domestic purposes without directly or indirectly unbalancing the external accounts. Bringing CA direct to project or programme on budget involves only nominal monetisation, e.g. back to back cheques from Finance to Health and Health to Finance for donated drugs. Its value is in providing accountability - an intelligible, complete picture of sources and uses both *ex ante* and *ex post*.

This exercise should end with a set of foreign exchange/external resource commitments equal to the pre-exercise external gap, and with a set of commitments to government revenue equal to the pre-exercise government funding gap. These will not necessarily be the same sum; indeed they will not be unless all external grants and loans to enterprises/households are put through the budget which is rather unlikely.

Because the exercise has some aspects of a jig-saw puzzle, it needs for efficiency's sake to be done at one place and time, with the details and loose pieces needing to be followed up later as few as possible. This implies the locus should be at an annual Consultative Group/Forum meeting of the recipient with its external cooperating partners. The central working documents (external and governmental budgets), and their back-up studies of programmes and projects plus the overall strategy paper informing them, should be presented by the recipient. No other entry point is capable of generating a full capacitating process, nor of making the government feel the agreed programmes belong to it.

In the SSA context, these guide-lines would be consistent with substantially more food[1] aide and balance of payments support transfers. However, that is likely to be efficient only if food aid is billed for CF purposes at low cost commercial source c.i.f. price; if balance of payments support is freely usable on whatever exports from the donor are actually competitive (or better still is untied); and if triangular food aid is expanded and made standard practice in respect to buying from maize and sorghum/millet surplus countries with a view to establishing subsequent commercial intra-African grain trading and physical food security interaction.

CFs should receive the c.i.f. commercial price value of monetised CA promptly. It should then flow into the budgetary process - to pre-agreed uses - automatically. That requires an annual estimation exercise (including unused balances and desired end of year balances to provide a cushion against sharp, short term instability in transfers), not budgeting past receipts which enforces an 18 month lag from sale to release.

CA/CF programming should be set up to minimise unintended distortions, consistent with meeting resource allocation and human condition targets.[2]

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1 Food import needs in 2000 on relatively optimistic output trend estimates are over 30 million tonnes. If food aid is to be a constant share it will need to rise to over 12.5 million tonnes. Achieving peace in the Horn and Southern Africa, speedily followed by rapid livelihood rehabilitation, might reduce this target to 11 million tonnes a year versus 5 million actual average 1984/89 food aid deliveries. (See Green 1991, p. 31, and sources cited there for greater detail.)

2 Like "treason", "distortions" never flourish. If intended they are described as allocations or interventions to redress market failure, to offset undesired side effects of other interventions or to provide safety nets.

Nationally, this does not rule out "fair price" systems or self-targeting (e.g. "inferior staple") subsidies, nor financing safety net income transfers from CFs, but does warn against pricing and procurement which disable domestic markets and de-incentivate domestic producers. Globally, it implies third country procurement, whenever this is the least cost source, and some margin above that to enable the build-up of sustainable regional trade in food and food security programming.

CF use should be in the context of overall project/programme requirements to attain strategic aims. Any agreed domestic currency cost head may be suitable. Both psychological/symbolic and convenience/technical efficiency reasons do suggest some packaging may be useful, e.g. of food aid and rural development or of CF, and perhaps CA, with financial transfers from a single donor to a single project or programme.

The purposes of accounting and reporting are to ensure comprehensive transparency and accountability (in the broader sense). Proper budgetary processes at analytical, formulation, allocation, funding, disbursement, monitoring and evaluation turn on adequate, timely accounting and reporting (on real as well as financial out-turn with divergences from targets explained).

In many SSA countries, to achieve these standards requires alteration or broadening of present systems. For example, it should be possible to determine rapidly at national, provincial and - for most programmes, e.g. primary health care, road maintenance -for what the physical as well as the financial performance was targeted to be and is. With computerised systems, this type of multiple pattern retrieval is simple if the initial entry forms are properly devised. In virtually all SSA countries, more trained personnel and better equipment are needed to operate such systems. Both training/equipping and system improvement are logically mutual recipient/cooperating partner concerns and training at least is a logical CF allocation area.

CF reporting should provide data by programme, project and geographic unit (at least to province and perhaps district level) on receipt and disbursement by spending unit and on physical out-turn. Where CF is not the only funding source, the disbursement/physical out-turn data reasonably requirable are for the whole agreed programme/project not the CF component alone. CF reporting should be within the national accounting/reporting

process and therefore should both be uniform and compatible with the recipient's national governmental accounting/reporting coverage and format. Insistence on different coverages, formats and time periods by CA donors is a serious barrier to improving the national system and decapacitates recipient accounting and budgetary processes. It is this, and not multiple CF accounts, which is the basic problem to be faced and overcome.

Some SSA governments do not have coherent goals, plausible budgets or accounting processes and/or have revealed preferences in respect to additional spending which donors are not prepared to support. In such cases the process of integrating CA/CF into national strategies and of untying CFs has evident limitations and drawbacks. Capacity building assistance can allow a start to be made if the problems are of institutional strength, procedural design and personnel training and/or numbers. The bottom line problem is in respect to states whose goals CA providers decline to finance; but in whose programmes they find some activities they are willing to support. The problem is real but not unique to CA/CF; nor soluble primarily in that context.

The use of CA/CF to facilitate implementation of national strategies supported by donors articulated via specific projects and programmes is impossible without coordination. Ongoing monitoring and problem resolution needs to be primarily recipient country based. To be effective and/or capacitating it also needs to be recipient led and driven, even though to a significant extent it will need to be donor serviced and fuelled.

These proposals are neither instantly attainable nor 'academic' or 'long term goal' in nature. Each could be implemented to some degree now in the majority of SSA states and all have a case for priority implementation, in full or large measure, over five years. Accepting and beginning to act on them now would provide time and incentives for recipient capacity building and supplier rethinking of procedures.

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(In Sub-Saharan Africa): Macro Economic Aspects

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> Development leaves the great bulk of the
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I.

Commodity Aid, Counterpart Funds and Macroeconomics

Applied policy oriented discussion needs to be contextual and related to actual and to conceivable practice if it is to avoid a very high level of abstraction (with subsequent weak linkage to policy) on the one hand and a superficial description with so little depth as to make it at best a guide for tidying up (and at worst a facade for disastrous adventurist policy initiatives) on the other.

A set of stylized facts about Commodity Assistance (dominantly but not wholly food aid) and Counterpart Funds (by no means wholly from commodity aid in that balance of payments or programme or sectoral support

transferred as foreign exchange can also be married to a Counterpart Fund mechanism) in Sub-Saharan Africa are, therefore, a useful starting point for an applied macroeconomic analysis of Commodity Aid and Counterpart Funds.

First, most Sub-Saharan African countries have serious current account balance of payments - and in a majority of cases balance of trade - deficits. These have in many cases persisted throughout the 1980s parallel to low overall growth of production, inadequate maintenance of capital stock, drastical declines in real per capita expenditure on public services (excluding interest) and low capacity utilisation ratios.

Second, no reallocation of present earned import capacity is at present consistent with sustainable growth in per capita output in a majority of SSA economies. Countries with relatively long running Bank-Fund sponsored Structural Adjustment Programmes are not exceptions to this pattern.

Third, rapid increases in real export earnings - at least on a scale adequate to close the gaps - are unlikely in more than a handful of cases at least for a decade and more plausibly for twice as long. Excluding petroleum, about 75% of SSA's visible exports are derived from low income elasticity commodities for which the SSA share in globally trade production exceeds the price elasticity. In such cases for SSA as a whole real export growth rates in excess of global real growth of demand at constant prices reduces gross (and *a fortiori* net) export earnings even though any single country may be able to achieve gains unless - like Cote d'Ivoire and Ghana in the case of cocoa - the national share of global exports also exceeds the price elasticity. Therefore either new primary exports (with low African shares in present trade and/or high price elasticities and/or high income elasticities), pre-export processing, when viable, and

diversification into selected manufactured goods are essential to reduce dependence on external sources for operating and maintenance inputs as well as for the direct and indirect import context of fixed investment. To date SAPs have provided no real guidance, priority or resource allocations to this transformation and overseas resource transfers in general little more. Therefore with patchy data, limited analysis, small present bases on which to build one cannot foresee a speedy reduction in the ratio of imports needed for - e.g. 4% to 5% annual GDP growth, maintenance of physical infrastructure and revival of basic public services (at - say - 4% to 5% a year) to projected attainable levels of exports.

Fourth, substantial volumes of external assistance are provided as Commodity Aid. Much - not all - of this is probably additional to direct foreign exchange transfers. Perhaps 90% of Commodity Act strictu sensu is in the form of food aid with fertiliser, pharmaceuticals and agricultural sector inputs dominating the remainder.

Fifth, in strict macroeconomic terms the bulk of these imports are additional - there is no non external transfer avenue open for financing them and non-concessional financial flows are in the majority of cases approximately zero or negative even on a cash flow basis ignoring arrears.

Sixth, however, that generalisation does not apply at sectoral level (food aid does free some earned import capacity for use on other imports, e.g. petroleum and products, agricultural production inputs), at commodity level (e.g. food aid probably significantly increases wheat and rice consumption relative to other grains), nor by source, e.g. food aid from the USA, EEC, Canada, Japan and Australia does displace purchases from other Southern sources (except in cases in which third party purchases are financed).

Seventh, an increasing (and high) proportion of Commodity Aid is monetised. In SSA over 80% of non-emergency food aid (100% of programme and 20% of project) is monetised. Excluding Ethiopia and the Sudan almost 50% of food aid is programme and 25% project implying about 55% monetisation. Other Commodity Assistance - except pharmaceuticals - would show much higher proportions.

Eighth, the bulk (not all) of the local currency proceeds of monetised commodity aid go into Counterpart Funds. CFs cover not only food and other commodity aid but also a proportion of programme (sectoral and balance of payments support) aid transferred as foreign exchange.

Ninth, Commodity Aid is transferred almost exclusively in the form of consumer goods and current operating inputs, while at the same time there has been a decreasing but still dominant tendency to insist on the expenditure of Counterpart Funds on fixed investment projects.

Tenth, taken by themselves Counterpart Funds (even including non-Food Aid elements) are not large enough to have major macroeconomic effects in more than a handful of countries. However, there are exceptions notably Mozambique, Tanzania, Sudan and some Sahelian states. Further, if CFs are seen as an integral portion of overall external transfers then their potential macroeconomic significance is substantially greater in at least twenty to twenty-five countries.

Eleventh, it is highly unlikely that Commodity Aid - in particular Food Aid - to SSA will decline substantially in the foreseeable future. Nor is it likely that the handful of countries/agencies which do not require Counterpart Funds but allow local currency from sale of their commodity assistance to flow direct to general revenue will increase markedly. Indeed the reverse is somewhat likelier.

Therefore, analysis advocating converting commodity aid in general and food aid in particular to foreign exchange transfers or arguing for abandonment of the Counterpart Fund mechanism are unlikely to have much practical relevance to the evolution of policy. Quite possibly significantly less use of Commodity Aid would be desirable if it were truly replaceable by equal foreign exchange aid and, almost certainly, Counterpart Funds are not the optimum way of facilitating policy dialogue, implementing Structural Adjustment Programmes nor - with certain exceptions - promoting specific objectives (e.g. poverty reduction, basic health service provision). However, CA and CFs are not going to go away so that it is probably more useful in terms of policy impact over the next decade to focus on the specific major problems associated with their use and on how these could be reduced within the CA/CF context.

First, CFs (and uneven flows of Commodity Aid not offset by other aid flows and not correlated to national requirements) pose serious macroeconomic management problems.

Second, these are compounded if there are long and uncertain lags between receipt and sale of resources provided, collection of payment and approval of use.

Third, insistence on CF use primarily or solely on capital budget projects while unproblematic if the domestic component of the recurrent budget is readily domestically financable can create macro distortions when that is not the case.

Fourth, "off budget" Commodity Aid - which is common in CF cases and even more so in others, e.g. commodity aid direct to programmes or projects - destroys budgetary transparency, prevents national accounting or

accountability and is virtually certain to introduce macro/sector fiscal and resource allocation distortions.

Fifth, detailed conditionality - especially different detailed conditionalities from different donors/lenders - creates major problems in achieving rational national budgeting and markedly reduce flexibility within a fiscal year. When combined with delays in allocation/release (especially budgeting only after the CF has actually received payment) they are deeply decapacitating in respect to budgetary and more general macroeconomic management.

Sixth, Commodity Aid leads (CF or no) to severe reimbursement price formula agreement problems and frequently either to a somewhat absent minded acceptance of subsidies or to demands to eliminate them totally (occasionally to both at once for different commodities). Again this is a problem which is compounded by divergent donor approaches and requirements.

Seventh, multiple accounting and reporting requirements for aid (including but not limited to Commodity Counterpart Funds) are, in contexts of weak accounting systems and limited personnel, a serious barrier to developing timeous, accurate budgetary system accounting and analysis without which timely, informed macroeconomic analysis and management is impossible.

Most of these problems would to some extent exist even without CA and CFs. Each can be substantially alleviated with CA and CFs. That seems at present to be the most promising approach.

However, before looking at specific problems in detail, let alone proposing guide-lines for tackling (and hopefully eroding) them, it is prudent to outline a general macroeconomic framework in respect to Commodity Aid and, more particularly, the generation and expenditure of counterpart funds.

This is an area in which substantial general agreement appears to exist. However, this is confused by analyses which reach different conclusions by discussing different phases of CA and CFs without making that fact clear. Further, the present analysis usually assumes the existence of both CA and CFs; isolates them to a greater or lesser degree from overall external transfer levels and make-ups required to reach stated/agreed goals; and stops either at first round effects or limits subsequent round impact analysis to monetary, not production, results. None of these is entirely satisfactory as a macro policy conceptual base and each may be grossly unsatisfactory if CA and CFs are large relative to imports and to total government revenue.

II.

Macro Analytical Conceptual Framework

There is a present consensus in respect to Counterpart Funds which can be synthesized (as in Simon Maxwell's recent work) and is set out as Box 1. It is however useful to review the broad macroeconomic model behind this consensus before examining it in more detail.

First, in principle commodity aid imports - monetisation - expenditure of proceeds are at the first round neutral as far as the government budget, the enterprise/household sector and less clearly the balance of payment are concerned except under special assumptions so long as the expenditure follows close on the heels of the sales.

The sale of the commodities results in a transfer of resources from the enterprise/household sector to the government (whether or not there is a Counterpart Fund there is a counterpart flow of domestic currency). The

Box 1

Commodity aid and counterpart funds

Statement of principles

1. The local currency counterpart funds generated by commodity aid are not an additional resource over and above the commodities themselves: the resource transfer takes place when the commodities are sold into the local market.

2. The generation of counterpart funds provides an opportunity for donor conditionality over the size of the government budget and the composition of government expenditure. This may be appropriate if there is disagreement about the budget or if government finds it hard to protect essential expenditures.

3. The opportunity for conditionality will be lost if: counterpart funds are allowed to accumulate; they are eroded by inflation, subsidies or over-valued exchange rates; or the fungibility of budgets is not allowed for.

4. Conditionality is also more likely to be effective if counterpart funds are predictable, regular and sizeable.

5. It follows that where counterpart funds are appropriate they should be:

(a) planned in advance, preferably in the context of a multi-year agreement, linked to other aid and with the possibility of 'substitution actions';

(b) credited without delay to a government-controlled interest-bearing account at the full cif value, before subsidies or deductions;

(c) disbursed quickly, following an agreed plan, on deficit reduction or on specific projects approved within the public expenditure programme;

(d) subject to the normal procedures for project appraisal, monitoring and evaluation;

(e) managed in such a way as to minimise the administrative load on recipient countries, either in a single account for each donor or in a common counterpart fund account, covering several donors

Sources: Roemer 1989, Clement 1989, Bruton and Hill 1990, Goreux 1990, CEGOS-IDET 1989, Knop 1989, 1990, Riley 1990, WFP 1983, 1987, 1987c, 1990, as synthesized by Simon Maxwell.

expenditure of these funds reverses that shift. Thus the initial fiscal effect is neutral. The initial balance of payments effect will be neutral if all the commodity imports (at macro, not necessarily commodity, level) are additional to what otherwise could be imported and the expenditure generates no additional import demand (i.e. all local currency) or if the portion of imports which substitute for those which in the absence of commodity aid would be financed by other means equals the direct import requirements of the expenditure

In most of SSA additional commodity aid does in fact raise import capacity and imports almost 1 for 1 (albeit _ex post_ that is arguably not all at the first round level) because import capacity is a crippling constraint on output and maintenance as well as investment levels. It is almost equally generally true that government expenditure - which for this purpose includes domestic debt reduction relative to the non-food aid case - will rise virtually 1 for 1 with commodity aid. This result is contextual to most of SSA, not general. It arises because of very low (inadequate by any test) overall expenditures and because total Domestic Credit Formation levels are usually constrained by IMF or nationally set ceilings which are binding so that decreased government borrowing (from the public or the banking system) will reallocate rather than alter total domestic credit levels.

Foreign debt payments or foreign reserve accretions that would not otherwise have been made can have a different impact. However, they are possible only if imports do not in fact rise by the full amount of commodity aid so that the counterpart flows of funds (whether in Counterpart Funds or not) effectively give command over foreign exchange at the official rate. In that case presumptively the domestic payments by the government rise by commodity aid less imports substituted for by commodity

aid (still at macro not commodity level). In principle that is still broadly neutral macroeconomically in the SSA context. Nominally increased reserves could allow higher growth of money supply but this will not be the case if Domestic Credit Formation ceilings are in force. External debt reduction (including arrears claw-back) when financed by using the fungibility of non-commodity aid import capacity for that purpose is neutral budgetarily (on a cash flow basis) and on external account.

As a result at strictly first round macroeconomic model level there is no automatic reason to anticipate inflationary or deflationary impact. Real GDP effect is much less uniformly projectable. If all Commodity Aid results in net additional imports and all counterpart proceeds are spent promptly on domestic currency public expenditure on non-scarce goods there should be a balanced budget multiplier of unity representing the addition to flows of public services. The result will be analogous in the case in which domestic state debt is reduced if this reallocates credit uses within an unchanged DCF ceiling. To the extent either total domestic credit is reduced or imports are not raised pari passu with Commodity Aid the "balanced budget multiplier" will fall below unity.

Unfortunately that analysis is actually of monetary GDP magnitudes at current prices not real GDP. If the use of the counterpart flows raises unit costs above what they would otherwise be then the real GDP increase will be less than the nominal. This need not result from constrained enterprise/household sector supplies over the relevant demand range - although it can. It will also occur if nominal public sector wages and salaries are raised more than they would have been without Commodity Aid. That is likely to be inflationary well beyond the direct impact of the wage/salary increases themselves on the GDP deflator and the ratio of real to nominal balanced budget multiplier. Albeit how much depends both on

demand elasticities, the particular commodities provided by Commodity Aid and those demanded by government servants and the degree and nature of market imperfections. Assuming that government sector real wages are low (SSA is not homogeneous in this respect with a range from $5.00 to over $150 a month at lowest levels) and part of the increase remains real the morale, productivity and human welfare gains may well justify such uses.

However there are three limitations to this analysis. First, it assumes a brief lag between Commodity Aid sales and expenditure of resulting funds (whether or not handled through CFs). Second, it ignores sectoral specificities which are likely to cause a net inflationary impact. Third, it stops at the end of the first round which is highly unrealistic ignoring as it does all multiplier effects on real output, demand, budgetary balance and import/export balance.

If there is a significant lag between sale of (strictly enterprise/ household or banking sector payment to government for) commodity aid and expenditure of the proceeds by the government, then in the first instance the impact will be deflationary because net cash will be drained from the enterprise/household sector unless the commodity aid is dominantly substitutive not additional so far as overall import levels are concerned. The budget and external balance positions remain basically neutral, the "balanced budget multiplier" is reduced. However, if a pipeline situation develops in which after some period actual counterpart flow/Fund expenditures do approximate new commodity aid counterpart receipts by the government, the neutrality is then restored. At that stage attempting to run down balances will be inflationary albeit at the first round not altering the external balance. This will be the case because on a cash flow basis the run-down expands the government deficit. At nominal level this assumes Counterpart Fund balances are accounted for as government

assets and offset against gross borrowing from the banking system); at real level the accounting format is irrelevant to the fact of government injection of nominal purchasing power into, greater than extraction out of the enterprise/household sectors.

In this respect CFs (or counterpart flows more generally) are rather different from project aid, albeit similar to general or sectoral import support aid transferred in foreign exchange. In the project case (and in non-monetised commodity aid) the resource transfer occurs at or after expenditure (a non-monetised commodity aid transfer is not effective until it is used). It cannot (barring foreign exchange transfers in advance, which are highly unusual) very well be before it, whereas for monetised Commodity Aid such a situation is common - indeed descriptively speaking normal.

Sectoral specificities exist. Some domestic purchases have high import content and therefore hidden trade balance widening impact. Some domestic sectors, e.g. construction, have at least short term capacity constraints so that even moderate demand increases will lead to significant price rises. Because neither by product nor by region is injection likely to equal extraction exactly (as opposed to being above or below it) one would expect some prices to rise and others to fall and for the variations to be unequal by locality. Given the normal dynamics of prices, markup price setting and general market imperfections, the probable average result will be upward, not neutral or downward, price movements.

Third, and most crucial first round effects are a most inadequate cutoff point. Even if it is assumed that only truly domestic currency spending can be increased by the counterpart flows in the first round this is quite implausible for the further rounds because public expenditures have direct

or indirect secondary and subsequent round production and income effects. Barring totally survival spending (e.g. monetised commodity aid used to cover domestic costs of survival relief programmes) to assume away second stage production (as well as demand effects) is implausible. Unless they are unsound, e.g. road maintenance, basic health services, pure water provision close to users, road maintenance (as well as construction), agricultural research and extension, revenue collection and budgetary management all have direct or indirect production gain effects. The question is how much with what time lags and it is one which can only be answered concretely in a given context (geographic, structural and temporal).

While these production gains will raise GDP and incomes they will clearly raise import requirements - the enterprise/household sector marginal propensity to import can hardly be 0 and any attempt to hold it to that level would be both highly inflationary and likely to choke back the growth. Further, if, in fact, it is possible to utilise counterpart flows/Funds wholly on additional domestic purchases this implies - in the real world of most SSA economies - that the complementary additional import requirements are being financed out of some other type of resource transfers.

The fiscal balance effects of the subsequent rounds is likely to be positive in that some taxes, fees, etc., will accrue without - in most cases - any automatic post round one government expenditures. By how much depends on what expenditures are made by whom in what type of markets and on the nature of the revenue system especially in respect to indirect taxes and user fees.

Therefore, the apparent definition and coverage of macro in the present CF consensus is remarkably narrow even by Fund and certainly by Bank standards. This is highlighted by the lack of attention to domestic real food price policy (as opposed to retrieving import parity for CFs) and parallel macro level non-attention to production incentive/disincentive effects. The latter - like consumption, albeit less so production, multipliers - was a central element in pre-Structural Adjustment boom (or pandemic) years and remains so in a somewhat disconnected way at food aid sectoral and micro levels. Unless it is actually assumed that unregulated imperfect markets in countries with low levels of food availability and high levels of intra-year volume fluctuation are an adequate forum for price setting (in e.g. staple foods), and that such a policy is likely to prove politically sustainable (or even inaugurable) in more than a handful of countries in the 1990s, market parameter setting and management are going to exist (notably for staple food and real government wages). Except for the 'pure' market case the World Bank's perfectly sensible contention that relative prices matter at macro level in respect to productive, allocational and growth efficiency requires direct government attention to price policy beyond whether CFs claw back import parity. Similarly if donors (wearing their commodity aid hats) are concerned with production gains, it appears rather odd to drop incentive structures in key sectors from macro Commodity Aid modelling. This is especially true in respect to food because virtually all of the score of disincentive scenarios flowing from food aid to agricultural production (and/or budget deficits) are demonstrably offsettable (and in some cases have been offset) by particular price, institutional and output supporting (recurrent services and/or supportive investment) resource allocation policies.

In short the new macroeconomic consensus on Counterpart Funds is one remarkably inappropriate for a Structural Adjustment context. It is almost devoid of attention to production impact, to multiplier effects (production, consumption or credit) and to overall resource requirements to sustain overall fiscal and import budgets. Yet coordinated action on these fronts by recipient governments and by donors is strongly asserted to be crucial for Structural Adjustment especially in its Long Term Perspective Study mutation to concentration on sustainable output (and food production) growth above that of population, on human and infrastructural investment and on at least selective absolute poverty reduction allocations of resource.

The ultimate reason is that the present analysis posits Commodity Aid and Counterpart Funds as given starting points and sets out to optimise them in isolation. This is an inversion of the former macro approach (perhaps more conceptual than applied) of estimating total resource transfer requirements, estimating what proportion could be in the form of which commodities and thus keeping overall import demand and production growth squarely on the table. Oddly that earlier approach was much more consistent with integrating Commodity Aid into overall strategic planning as well as budgetary and foreign exchange management than is its successor.

A somewhat different limitation is the use of average levels of Commodity Aid. Just a one does not grow crops on average annual rainfall (or even on actual annual without reference to intra-seasonal distribution) so one does not balance budgets, optimise household incomes, stabilise growth rates or manage external balance on the basis of average commodity aid years. Still less can one do this in respect to food - the dominant form of Commodity Aid. This is true both on the recipient need (efficient absorption level) side which rises in drought or export earnings collapse years and on that

of donor supply which varies in part with domestic fashions and food surplus levels.

Macro management cannot efficiently be stop and go, with Commodity Aid flows and _a fortiori_ Counterpart Fund expenditures as likely to have a destabilising (pro-cyclical) as a stabilising (counter-cyclical) impact. That is likely to have an upward ratchet effect on prices and a downward shift or ratchet impact on production. Both commodity inflows and expenditures from the flow of funds (or reserves accumulated from past flows for stabilisation use) should be higher in bad years. In good both should be cut below medium term trend levels. Because of lags in delivery and in accurate need estimates the early warning needed for arranging non-survival commodity aid currently usually exceeds any plausible socio-technical early warning on output system that exists or can be devised as of 1991. Therefore, lagged upward and downward responses are virtually inevitable. The only evident way to avert significant negative real effects is to stockpile in the recipient which has its own problems. For CFs the problem is easier if the starting point is a good year - reserves toward future stabilisation can be amassed and money, unlike commodities is storable at low cost so long as the real interest rate is not highly negative.

Several of the elements of the _Statement of Principles_ at Box 1 appear to be doubtful or somewhat misleading.

"1" - it is true that counterpart funds/flows do not in themselves constitute real resources additional to the commodities (at time of use or replenishment of normal stocks, not of sale). But if these flows/funds are not spent, major deflationary impact is likely (in real, not merely

nominal, terms) unless spending from other sources is increased mutis mutantis.

"2" while counterpart fund spending (not "generation") does provide a lever for conditionality as to budget levels and composition, so does any resource transfer. Efficient conditionality would appear to require dialogue involving total levels and make-up of donor transfers as well as of recipient budgets, not isolated attention to one component.

"3" seems to overlook some aspects of possible desirable (desired) conditionality - e.g. lagged spending approvals and high inflation de facto operate in a deflationary way at real level (for any nominal level of budget deficit) because real re-injection of funds into the enterprise/ household sector is then regularly below extraction from it. Subsidies may be a desired form of expenditure - e.g. on "inferior" staples - albeit the case is for double entry bookkeeping with the subsidy a charge on the CF which is paid the c.i.f. price. Budget fungibility can only be avoided in dialogue on overall budget levels.

"4"'s conditions for effective (efficient?) conditionality set out apply more to transfer levels as a whole than to single components. "Regular" (if that means constant) food aid transfers for monetisation across very uneven output years are, in fact, remarkably inefficient.

"5-b" appears to overlook that one barrier to prompt recovery of Commodity Aid proceeds by the government is IMF ceilings on Domestic Credit Formation which force many SSA governments to become financial intermediaries for Commodity Aid to the extent it actually does increase imports and working capital levels. The need for interest is a trifle obscure if pre-planning allows expenditure from CFs as rapid as that achieved for other government revenues as posited in "5-a" and "5-c".

"5-c" implies that CFs should not be used for recurrent budget purposes. In the context of efficient use of overall resource levels this is an inherently unsound proposition. "5-d" has the same implication since recurrent programmes are rarely called "projects" and cannot be appraised, monitored or evaluated by standard project criteria.

"5-e"'s principle is not self-evidently well served by the proposed method (which is in any case not generally acceptable to donors). If uses are pre-planned then automatic direct payments from a general collection account into pre-designated project and programme spending accounts covering all domestic and foreign resources for that vote or item would appear much simpler. Further, no mention is made of the separate accounting and reporting requirements of donors which are often more destructive of national accounting and reporting development and more decapacitating of macro management than multiple accounts.

Further, the whole body of literature assumes that at macro, programme and project levels donors always (or at least usually) know better. At least at the latter two levels the historic evidence for this thesis is not convincing in respect to a significant number of SSA states (not necessarily because national _ex ante_ preferences look particularly good _ex post_). Further, imposed conditionality - as opposed to genuine dialogue leading to mutual understanding and a broad degree of genuine consensus - is quite incompatible with (or at any rate adds to the difficulty of) raising national decision taking or management capacity at any level.

Attempts to transform the present conventional wisdom principles into a more serviceable form have been made. Box 2 (by Simon Maxwell) is an example.

Box 2

Commodity aid and counterpart funds

A new statement of principles

1. The purpose of commodity aid or Balance of Payments support which results in counterpart funds is to assist the recipient country in adopting policies or undertaking development programmes or projects that would otherwise not be possible. In general, these will focus on poverty alleviation and food security.

2. The local currency counterpart funds generated by commodity aid are not an additional resource over and above the commodities themselves: the resource transfer takes place when the commodities are sold into the local market.

3. The expenditure of counterpart funds will set in train a process of demand expansion for a varied basket of commodities. For this reason, a diversified package of commodity aid and foreign exchange is most appropriate, including access to consumer goods.

4. The generation of counterpart funds expenditures provides an additional opportunity for dialogue and donor conditionality over the size and composition of government expenditure. This may be appropriate if there is disagreement about the budget or if government finds it hard to protect essential expenditures.

5. In addition, the planning and monitoring of counterpart funds will require attention to policies on poverty alleviation, taxation, commodity pricing and sector policy, in order to maximise the benefit of commodity aid and avoid the risks of dependency and disincentives.

6. Dialogue on policy issues and budget expenditures will be especially important when the commodity aid/counterpart fund package makes a sizeable contribution to commodity supply or to the government budget, at national or regional level.

7. The opportunity for dialogue and conditionality will be lost if: counterpart funds are allowed to accumulate; they are eroded by inflation, subsidies or over-valued exchange rates; or the fungibility of budgets is not allowed for.

8. Conditionality is more likely to be needed and is more likely to be effective if counterpart funds are predictable, regular, sizeable and adjusted to the inter-annual fluctuations of the recipient economy.

9. It follows that where counterpart funds are appropriate they should be:

(a) planned in advance, preferably in the context of a rolliing, multi-year agreement, linked to other aid and with the possibility of 'substitution actions' on a year to year basis;

(b) disbursed in the context of an agreed policy framework, subject to regular monitoring;

(c) credited without delay to a government-controlled interest-bearing account at the full cif value, before subsidies or deductions;

(d) disbursed quickly, following an agreed plan, on deficit reduction or on specific projects approved within the public expenditure programme;

(e) subject to the normal procedures for project appraisal, monitoring and evaluation;

(f) managed in such a way as to minimise the administrative load on recipient countries, either in a single account for each donor or in a common counterpart fund account, covering several donors, preferably by a specially constituted unit.

(Proposed by Simon Maxwell)

Sections 1, 3, 5, 6 and 9b are new and 4 (odd 2) significantly modified. The impact is to raise the profile of dialogue and agreement relative to outside conditionality; to stress multiplier and incentive effects; to underline the CA/CF should be additional to other resource transfers; to relate CF use more closely to overall external transfers and budget levels. However, the problems at 1 (now 2), 3 (now 7), 4 (now 8 - unless "regularity" has been redefined in light of the stress on adjustment to intra annual fluctuations read together with 9a) and 5 (now 9) b, c, d, e appear to remain.

Surprisingly, given the overall (macro) approach to all transfers viewed together and the emphasis on "poverty alleviation and food security", the sections implying that CA and Balance of Payments support transfers leading to CFs are not appropriately allocated to recurrent programmes remain unaltered. Whether donors are seriously interested in (or at any rate very expert on) the enhanced production by poor people strand in "poverty alleviation and food security" is very much open to doubt. Actual resource allocations to (and donor reaction to innovative national proposals for) programmes and projects in this area suggest that the gaps between rhetoric, articulation and resource allocation are very wide to date.

III.

Macro Frame To CF Sectoral: Some Links and Pointers

A macro framework provides a means to organising and relating sectoral (or institutional) issues and guide-lines for handling them. It cannot by its nature provide detailed answers at contextual level and is probably

somewhat better at flashing "no through road" warnings than in posting the kilometres and directions of turn-offs and by-passes to reach destinations.

The initial issue in respect to CA/CF is generation of CFs. The precondition for a CF is monetised Commodity Aid. The logical prior condition for CA is a commodity which the recipient country needs to import for production or consumption reasons endorsed by both transferor and recipient. For CA to be a suitable vehicle the commodity should be largely additional to other transfers and the commodity should cost the same via CA as via commercial purchase from low cost sources. These two conditions need to be met substantially - not 100%, which they rarely are.

But determining the appropriate volume of CA in any commodity from any source requires coordination (preferably by the recipient, second best by an independent body) so that total pledges do equal some agreed target. Further, because CA will not meet all import nor CF all financing requirements CA should be derived from an agreed overall import requirement and source projection (including but by no means limited to a Priority Investment Programme for the public sector) and CF from a similar exercise related to the Government Budget (preferably Recurrent, Capital and Emergency viewed together).

The reasons that CA needs to be disaggregated are fairly evident from this perspective. Because goods are not fungible, fertiliser is not substitutable for grain at CA level (in terms of funding CFs, of course, it is). Additional micro reasons exist - in a root crop/sorghum/millet growing and eating area, wheat or rice are substitutable at use level but may have taste change impacts which increase the difficulties of restoring domestic production/use levels.

<u>Monetisation</u> is essential to having a CF. Except in emergency cases with non-functioning or grossly exploitative markets, it is also more efficient and flexible than direct distribution. Even in these cases it may be desirable to add additional CA to be monetised to meet domestic currency costs of collection/distribution and an integrated foreign exchange component to meet associated import costs (e.g. vehicles, fuel, spares).

There are related suitability arguments. It is frequently more plausible to monetise Commodity Aid in major cities and to procure food domestically to meet the needs of these in rural areas whose food entitlements have been reduced below acceptable levels. The CA is in fact likely to be in commodities fitting the urban consumption pattern better; disincentive effects for domestic producers are minimised; the food actually reaching the hungry is more likely to mesh with their dietary (and production possibility) patterns.

If the marketing system is viable, "work for food" (the inverse of "food for work") programmes are desirable - which implies monetisation of some Emergency Food Aid. They can do a good deal to maintain-upgrade-extend rural infrastructure, avert "dependence" and loss of self-respect syndromes and provide cash for non-food essential needs (which cause the apparent conundrum of households selling even when their initial food supply was already inadequate). They pose three problems: projects, structure for supervision and management and bridging food/finance need to be in place <u>before</u> the drought/flood/other calamity; both food and foreign exchange are needed because of added fuel-vehicle-spares costs even if tools are to hand or locally available as well as the non-food goods which will be purchased out of wages; donors must have mechanisms for responding fast to emergency food/complementary resources packages. At present these conditions are rarely met - the third perhaps least of all.

<u>Collection</u> and <u>release</u> of CFs should seek to achieve speed (to avoid lags which can create distortions), automaticity (to limit burden on scarce personnel) and simplicity (to achieve first two). The automaticity of release target is not one uniformly sought by donors but is a consequence of the macroeconomic logic and a reason both for pre-agreed levels of transfer to pre-agreed programmes/projects and for making agreed allocations on an annual cash flow projection over the recipient's fiscal year (as is done for virtually all other sources of domestic currency).

Collection lags in large measure result from the government needing to be the effective source of the working capital chain to wholesaler and retailer albeit limited bookkeeping and accounting capacity may play an equal or greater role. The logical cure is to use 180 (say) day commercial bank finance to the wholesaler who pays on delivery and sells on - say - 60 day credit to retailers. The most common barrier to this is IMF "trigger clause" bank lending ceilings (overall in this case, not to government) which simply do not estimate the nominal working capital needs of the commercial system for posited (and supposedly agreed) increase in inventory volume and prices. Treasury should not go into commercial banking operations, but if the banks are barred from taking on new, self-liquidating, basically sound, routine business they have no option but to do so (and thereby to add an average of 180 days to collection time).

When it is desired to vary CA/CF levels to parallel national fluctuations, then a reserve build-up or run-down may need to be targeted (in any case the CF needs some "working capital" level to make automatic transfers consistent with less than fully predictable timing of receipts). However, the key need is to alter CA levels (without which CF spending boosts could be dangerously inflationary) so the particular form reserve build-ups might often appropriately take, would be buffer stocks (especially of food) to

serve as both real resource and finance bridging until a CA increase in response to a shock could work its way through donor bureaucratic and unavoidable logistical pipelines.

The macro frame suggests that the public/private issue is not inherent in CA/CF, or at least not on the recipient side. If a viable commercial enterprise sector (private, public or mixed) exists, Commodity Aid can be sold into it and payment be made to the CF at once using commercial bank working capital finance. Similarly the CF can be expended on central government, local government, domestic NGO and civil society groups and/or on lending to domestic enterprises via a normal financial intermediary. In any event a quick glance at as sober a document as the Bank's Long Term Perspective Study demonstrates that SSA governments in almost all cases need to spend more not less even on rather narrow definitions of the enabling - supporting - servicing roles of the state.

The public sector excess involvement problem may be more integral on the donor side. Much of the impetus behind food aid (and in some cases fertiliser aid) is a spin-off of domestic producer support. Since that is probably the dominant reason, much of it is additional to (not a substitute for) other forms of aid, the distortion is at worst a mixed burden for recipients. Further, the bureaucratic involvement of donor governments often seems rather greater and more complex than of the recipient. A catalogue of horror stories - e.g. seeking to shift the loss of an uninsured wheat aid shipment to the recipient, setting transfer prices well above commercial levels, limiting carriage to (high cost) national flag vessels, seeking to redirect a cargo already condemned as unfit for human consumption - does suggest that the donor bureaucratic role does have distorting effects which are inefficient for everyone except - perhaps - donor government, bureaucrats and their rent seeking enterprise clients.

However, as the latest GATT round's travails make clear, Northern agricultural sector support is not about to end and common sense suggests that government financed food aid will always involve seeking to serve non-recipient interests (e.g. shifting part of grower support to the aid budget) and bureaucratic convenience with minimisation and vigilance not elimination of the attainable objectives.

A more basic CA problem resulting from public sector involvement on the donor side may be - and sometimes is - distortion of production and trade with respect to third countries. In regions with large net food surpluses but structural and episodic surplus and deficit countries in virtually every year, food aid is likely to damage surplus countries who are forced to stockpile or to sell to more distant (and thus usually lower f.o.b price) markets. There is a possible - and sometimes practised - corrective measure - third country procurement (for cash or CA in a different commodity) in the "natural" supplier. However, it is a recognised "exception to the rule" not a standard category because it does not meet donor domestic concerns and is harder for their bureaucracies to operate.

More positively, public sector involvement is desirable if a "fair price" system and/or a degree of price stabilisation are desired. While, in principle, these could be secured by regulating a wholly private enterprise system, in practice the presence of government (and public sector owned commercial enterprises) makes them rather easier to institute, to monitor and to enforce.

<u>Valuation</u> for CF purposes should normally be at commercial border price assuming use of low cost sources and transporters. That poses problems (more for the transferors than the recipients) because no CA supplier actually prices that way and their actual costs relate to the prices they

pay (frequently well above market) for commodities and transport. For smooth operation of the CF an annual price is desirable based on estimated average commercial landed prices from low cost sources over the course of the relevant fiscal year. (For the CA to be effective in real terms it should logically be in volume not value, terms.)

If subsidies are agreed - e.g. on a non-preferred, self targeting, low income staple - the CF should be reimbursed at c.i.f. and also make a payment to a low income household food security budget head of the agreed subsidy amount. If, in fact, the CA is sold at above c.i.f. - e.g. auctions of preferred staples including wheat, rice, sugar, cooking oil - then a case exists for the CF receiving c.i.f. or sale value whichever is greater.

Two problems in practice complicate valuation. One is the quantity to be paid for. Recipients tend to wish all wastage to fall on the CA supplier and suppliers the reverse. Neither is particularly equitable or logical. Basically CA - like commercial shipments - should be volume checked on arrival (it rarely is) and the actual delivery weight used for calculating the amount due. That puts the obligation to limit wastage on the party in command (at least nominally) at each stage. This implies that a loss factor must be included in domestic pricing structures (as is normal commercial practice).

There is one logical exception to this rule. Costs of disasters (e.g. wars) necessitating food aid do include wastage by hijacking or destruction as well as abnormal transport costs. It would often be reasonable to include these in agreed uses of CFs, but as with other "subsidies" as a double entry basis (payment to CF on delivered volume at c.i.f., agreed payment from CF for "abnormal wastage and logistical costs").

Clearly an over-valued exchange rate reduces CF purchasing power. But CA/CF is a wholly unsound forum for dialogue on exchange rates or transitions from over-valued to sustainable ones. If broad agreement on rate adjustment processes and goals has been reached in a broader context (e.g. all Bank sponsored SAP/CG cases) then the CA/CF process should accept that rate.

But prices go beyond those paid to the CF. If CA is not to have distorting effects it should normally be sold at prices roughly analogous to what commercial market prices would be in its absence. However, two problems arise. If the distribution system is operating on clearly excessive margins or if the particular commodity is basically directed to an absolutely or moderately poor user group (which may include some intermediate goods buyers) then a "fair price" case can be made. That would involve either controlled or monitored prices which did cover full cost (including all transaction/indirect taxes applying to the product) and some profit for distributors of average or above efficiency but might be substantially below counter-factual "free market" prices (and *a fortiori* those of any residual parallel market).

But assuming there is domestic production of the commodities - or close substitutes - a second price question arises. A "fair price" or even a "free market" price may, given domestic production, transportation and commercialisation costs, result in a producer price which is unattractive or ruinous. (If it results in one so high as to make the CA unsaleable because of rapid domestic output increases and price undercutting, the commodity is not suitable for CA to that recipient. In that case a normal: shift domestic production pattern and/or reduce domestic costs and/or protect and/or devalue - option analysis situation arises. In the context either of debilitated producers needing time to get rehabilitated or of

defective physical and commercial infrastructure which can be improved in a reasonable time period, cost reduction plus either a protective tariff or an interim grower subsidy to offset abnormal costs (which might or might not be an agreed use of CF funds) may be appropriate. A protective tariff on food as a result of food aid - desirable as it may be under some circumstances - is unlikely to be a realistic approach.

Both for general reasons and because the lags in CA deliveries can contribute to destabilisation a "buyer of last resort" minimum price may be appropriate for some commodities (in practice staple and secondary non-perishable agricultural products). In practice this results in intra year reserves which (unless explosive retail price jumps in scarcity years are seen as appropriate) will require a subsidy whether its physical operator is a public or a private enterprise. Working capital and, perhaps, a set subsidy contribution might be an appropriate use of CF resources albeit one very hard to estimate in advance.

Incentives to producers include, but are not limited to prices - still less official prices. Indeed in SSA only about a tenth of differences in agricultural output trends appears to correlate with differing national official price policies (probably significantly less for food and more for industrial and, especially, export crops). Physical and commercial infrastructural weaknesses, availability of tools-inputs-goods to buy, women's load and weakness of basic health-education-water-extension services appear to be distinctly more important in many countries and areas. Programmes (including maintenance and operating costs) and projects increasing these incentives and ability to respond to them - especially if structured to raise rural non-agricultural incomes, e.g. in construction and maintenance - are appropriate uses for CF resources to the extent

(usually considerable) they are hampered by government domestic currency constraints.

Subsidies are a major source of controversy in CA/CF operation, as well as more generally. Separate issues are involved. For CFs the implications are clearly simple - c.i.f. charging with subsidies a cost to the general Government budget unless agreed as a use of CF funds. For CA the issue is more complex because non-agreement to finance an expenditure is not the same thing as insisting on its termination with menaces which is what a 'proposal' to halt food aid amounts to. The CF action (non-approval of cost) is an incentive; the CA one (cutting off supplies) a threat. Given the high cost and low efficiency (at least for developmental or poverty reduction purposes) of many subsidies the incentive is worth using; whether the threat is, depends on wider issues as to the appropriate nature of dialogue.

CF uses in macroeconomic principle need not have any relation to the CA source. There is no particular logic in financing rural development projects out of food aid CFs. Because CFs are in domestic currency there is a very definite logic in financing programmes or projects (or elements in them) which have low direct, indirect and multiplier import requirements.

That said, there are symbolic/psychological and operational efficiency reasons in favour of certain CA provision/CF use links. The former is illustrated by use of food aid CFs to enhance entitlements of low income households, improve agricultural production potential, reduce vulnerability to future natural disasters.

The latter is illustrated by packages involving two or more of financial aid for basic import content of project and related public services - CA

for operating inputs - CF for local cost of related public services and enterprise investment. For example, a textile enterprise might receive foreign currency and local currency loans for investment, buy CA provided cotton and be enabled by government expenditure on roads-schools-clinics-water supply. In such cases it may be convenient to the recipient to have one resource provider with whom to deal and for the transferor to have a lesser number of projects in which it involved in all aspects for case of analysis, monitoring, execution. That, however, is a "one stop shop" argument and not one specific to CFs.

Accounting and reporting raise endless problems in CF practice. These turn on non-fits between government and donors' desired/actual procedures, very different donor procedures, fragmented CFs, off budget CA/CF use and generally weak accounting/reporting.

There is general agreement on the logic of all CA going on budget - including direct to project CA and monetised CA not going to government projects. Without it no coherent view of the budget or of CA/CF is attainable.

Equally there is agreement that accounts and reports should be transparent, accurate, intelligible and timeous. Unfortunately donor ideas (and in some cases legislation) as to the required format to achieve this differ widely (not to say wildly) among themselves and tend, up to a point, to be based on their national processes which assume much higher levels of skilled personnel and data processing capacity than is (or in the foreseeable future can be) available in SSA. Up to a point, because on programme expenditure donors frequently want tracing of use beyond the point they could follow it at home. For example, to seek to learn more about a primary health care allocation from a CF than that it went to the relevant

spending/accounting unit (national or regional); that total expenditure by that unit on PHC was approximately at the levels agreed/proposed when the CF allocation was approved and that the underlying services posited were provided at or near proposed levels (with reports on why divergences occurred both on the financial and the real sides) is neither practicable nor necessary. It is rather like trying to trace a USA airport security fee to a particular guard's salary or baggage scanning machine's repair bill.

In practice donors often do not agree - or agree with major exceptions - on both counts. The same holds true of the nominal agreement that one CF per country is desirable. In fact the latter is something of a mare's nest. In the context of an agreed set of allocations from CF or CFs made on an estimated revenue basis and transferred automatically to the designated spending unit accounts, and of a uniform reporting system (on financial expenditure and "physical" results), the number of CFs would be a very secondary problem. A single one would facilitate accounting by avoiding miscrediting particular commodity sale receipts but that is a distinctly less crucial problem than multiplicity and complexity of release and reporting procedures.

What is lacking to date are the realisations that CF release and accounting/reporting should be integral parts of the national budgeting, spending and accounting process (and parts which are compatible with, not wholly alien transplants rejected by, it) and that the bottom line problem in many cases is lack of trained personnel and appropriate equipment. The former implies that accounts/reports to CF funders should be in roughly the same format as those prepared for national use with additional data at a minimum and conversion to different accounting systems primarily a donor responsibility. This may well require radical transformation of the

governmental accounting system (albeit often more by additions particularly in the breakdowns of spending and "physical" outturn fields than by junking what currently exists and starting afresh). If so, the alterations are urgently needed for national budgeting and macroeconomic purposes and do not constitute a cost of CA/CF. However, it also requires that CF accounting/reporting be made a branch of governmental and not governmental accounting a congeries of incompatible sub-sections reporting (perhaps accurately and intelligibly) to donors, but unable to produce coherent, complete accounts for their own Ministries and central economic policy institutions. In fact, the attempt to meet donor requirements is in weaker government accounting/reporting systems a major decapacitating influence for governmental accounts and the budgetary and macroeconomic management processes.

The donor answer that such criticisms overlook how bad government accounts are is true, but itself overlooks two factors. As noted, the diversion of time to separate "for donor eyes" accounts and reports on a variety of formats helps create the inadequate overall government accounting. And the bottom line is very often lack of adequate numbers of trained personnel at all levels down to initial entry bookkeeper (or machine operator). Presumably donors and recipients have a joint interest in addressing that problem. Donor contributions could include CF allocations for allowances-room-board of trainees, salaries of trainers and other local costs and foreign exchange programme aid for the import content of buildings and equipment and foreign personnel salaries to allow substantial bookkeeping-accounting-auditing-financial analysis programmes to be mounted full and part time in recipient countries at recipient institutions, where desirable with initial donor based training institutions as joint venture partners during the first - say - five years.

<u>Coordination</u> is a constant theme in CF discussion but it usually means donors coordinating their positions (up to a point) and proposing reorganisation of governmental procedures to meet them. This is, perhaps, a rather narrow approach.

Macroeconomic logic would lead to the key coordination focus being on fitting specific and aggregate CA receipts and CF disbursements to national External and Governmental budgets and budgetary processes as agreed in dialogue with donors in response to government proposals. Donor or third party initiatives would logically be partial - not total - and the exception rather than the rule. Even a consortium of donors is ill equipped to design a national strategy much less operate shadow External and Governmental budgetary processes so that there is a clear technical and locational efficiency case for recipient leadership. Further, if the process is donor driven there is little chance of its building national commitment and capacity - quite the reverse. Donor verbal concern about dependence syndromes and lack of recipient initiatives is to date rarely complemented by a willingness to allow recipients to exercise a coordinating role or to a generally positive response to recipient substantive initiatives or proposals to alter donor procedures.

Beyond that coordination arises in respect to ease - or even practicability - of action on several other themes. Again the logical initiator of dialogue and drafter of initial proposals is the recipient. Governmental accounts and national price policies (free market, managed market or other) are the logical starting point with consequences for, and perhaps adaptations at the margin to fit, CA/CF operations not the other way around.

The role of NGOs in CA/CF has attracted increasing attention partly because they have expanded, partly because they are fashionable as private and/or civil society bodies, partly because their pluralism gives rise both to opportunities and to coordination problems and partly because present relations to CFs do not fit most streamlining and efficiency raising proposals.

The gap in the discussion is domestic NGOs (or "civil society" groups) who would appear to be the logical allocaters of CF resources - not the international/foreign NGOs. At present it is unclear whether international NGOs on balance strengthen and capacitate or marginalise and decapacitate the latter. One way to strengthen the former tendency might be to limit NGO CF allocations to domestic or domestic/international NGO "joint venture" programmes/projects which would greatly increase the incentives for the international NGOs to work with the domestic and the capacity of domestic NGOs to pick their own partners and to have genuine dialogue with them on programme content.

The coordination problem can best be described as inherent, permanent and potentially serious but not necessarily fatal or even disfunctional. NGOs (especially domestic ones) if they understand national goals and strategies (especially if they were involved in the process of formulating them) can inform their choice of local/micro initiatives to be consistent with them. Similarly for small projects and programmes they can mobilise specific knowledge social pressure and volunteer time for selection/design, monitoring/control and execution in a way well nigh impossible for government. The mechanics of coordination might be helped in some cases by creating an NGO council/secretariat which inter alia would coordinate their two way communication with ministries and the budgeting process and facilitate the pairing of domestic and international NGO partners.

Allocations to NGOs (domestic or international) from CA do not now always pass via CFs. This is a problem in terms of orderly, uniformly "on budget", transparent accounting. However, it seems to be an inherently trivial one. All the resources can go to the CF which then pays out to the approved NGO projects/programmes in the same way it does to any other (or via the NGO secretariat if administrative and accounting considerations make that preferable).

IV.

Notes Toward Improved CA/CF Use

Proposals for CA/CF improvement are necessarily general if written at the level of CA to and CFs in SSA. In any particular case some variations are likely to be necessary and/or appropriate.

One fairly general set of exceptions exists in respect to donors for whom and countries to which commodity aid is a small proportion of total operations. In these cases the administrative nuisances of running CFs are large enough relative to gains that allowing CA monetisation proceeds to go direct to general revenue would appear optimal with the most plausible alternative being direction of all CF type receipts to NGO programme support.

A second exception concerns donors who are now willing to have CA (and Import Support) proceeds go to general revenue after an overall dialogue on budgetary priorities and specific concerns within them. In these cases there is no very evident reason why they should set up "their" or join in "joint" CFs. Their perception that CFs do not in fact add to leverage in any way not better facilitated by dialogue is arguably correct as has been

pointed out forcefully in a recent consultant's report to the EEC by Goreux. This view is, perhaps paradoxically, shared by the IMF for countries with which it has Programmes and would probably be supported by many World Bank officials in respect to at least some SAP/Consultative Group countries.

The first main guide-line for better CA/CF use is to start from nationally proposed, subsequently agreed in dialogue with donors, foreign exchange and government source and uses budgets covering combined operating, investment and emergency on external side and recurrent, capital and emergency (or calamity) on the government side.

From that base a real resource transfer and a real augmentation of government revenue target can be derived. At that point it is appropriate to identify commodities available for CF purposes which are needed in the recipient and not available domestically which could be supplied by CA in addition (or largely in addition) to financial transfers and which would not cost substantially more on CA terms than the financial counterpart of low cost source commercial purchases. The main commodities in this cluster are likely to be maize, wheat, rice, vegetable oil, sugar and milk powder albeit for specific countries at specific times others (including fertilisers, newsprint, textbook paper and pharmaceuticals) may also figure.

To the extent the commodities are not for direct government or refugee/disaster victim consumption, a strong case for monetisation exists. (Bringing direct to project or programme CA on budget involves only nominal monetisation, e.g. back to back cheques from Finance to Health and Health to Finance for donated drugs.) In that case the proceeds become part of the resources available for meeting the augmentation of government revenue

target. Assuming that the overall foreign exchange requirements have been estimated with reasonable accuracy, they can be expended on government domestic purposes without directly or indirectly unbalancing the external accounts.

This exercise should end with a <u>set of foreign exchange/external resource commitments</u> equal to the pre-exercise external gap and a <u>set of commitments to government revenue</u> equal to the pre-exercise government funding gap. These will not necessarily be the same sum indeed will not be unless all external grants and loans to enterprises/households are put through the budget which is rather unlikely and, in respect of enterprise and - perhaps - external direct resource transfers to international and domestic NGOs, not uniformly desirable. "Pre-exercise" is a nominal term - in the course of dialogue with funders the totals and their make-up will presumably alter to some extent, albeit with adequate pre-meeting pre-consultation probably not radically.

Because the exercise has some aspects of a jig-saw puzzle it needs for efficiency's sake to be done at one place and time with as few details and loose pieces to be followed up later, as possible. This implies the locus should be at an annual Consultative Group/Forum meeting of the recipient with its external cooperating partners. The central working documents (external and governmental budgets), and their back-up studies of programmes and projects plus the overall strategy paper informing them, should be presented by the recipient and - with whatever advisers and assistance it chooses - prepared by it. No other entry point is capable of generating a full capacitating process or of making the government feel the programmes agreed belong to it.

The implications of the proposed approach for volume of Commodity Aid and Counterpart Funds are nominally indeterminate. In fact they imply, in the SSA context, that at least food aid can be increased substantially and to the extent that doing so is basically additional, should be. Over 1984/89 food aid to SSA averaged on the order of 5 million tonnes out of 12.5 million tonnes of food imports. It is unrealistic to expect the recent 2.0% to 2.5 % average annual food production growth rate to rise above 3% for SSA as a whole over the 1990s. That is about the population growth rate and the starting point includes severe shortfalls from requirements so that a minimum developmental target consumption growth rate is 3.5%. That yields total food import requirements of 33 million tonnes by 2000. If cereals remained at about 50% food aid and non-cereals at perhaps 20% that would imply 12.6 million tonnes of food aid. In a few cases this would imply substantial use of CF revenues would need to be onlending to the enterprise sector or net domestic government debt reduction (with the same end result) because the government's domestic revenue gap is closing (could be projected to close) rapidly but that is not the case in most.

It is just possible that peace in Southern Africa and the Horn could reduce these totals by up to 1 to 1.5 million tonnes a year but largely on emergency aid and therefore not radically affecting CF levels. Even so the broad case that there is potentially more room for CA remains.

Monetised CA should be sold at commercial c.i.f. from low cost supplier prices or for amenity foods which will in fact command a premium at auction or an analogue thereto. The proceeds should be deposited within 30 days of sale in a CF. That will require that the buyer obtain commercial bank finance which will require initial negotiations with the IMF for a once for all rise in allowed domestic credit levels to shift this price of working capital finance from the government to the banking system.

That approach does not rule out "fair price" structures for staples. Indeed commercial c.i.f. is fairly compatible with them. Other subsidies, e.g. on non-preferred staples, abnormal transport costs, should be paid by the Treasury to the relevant wholesale unit (to facilitate transparency and accountability). If agreed the CF may reimburse the Treasury on an predetermined formula.

The CFs receipts should be handled in the budgetary process like any other domestic revenue source, i.e. estimated in advance. They should be allocated by project and programme and paid to the relevant spending account automatically - perhaps quarterly. A single CF would facilitate crediting and disbursing but is not essential.

The CA/CF operation should be conducted on lines creating as few unintended distortions as possible. A "fair price" system is intended as is an agreed subsidy for a specific purpose reimbursed by the CF. A subsidy not reimbursed by the CF may or may not be distorting, but is not the product of CA/CF and not best discussed in that context. The commercial c.i.f./higher auction proceeds route combined with sale on arrival to commercial channels (public, private or mixed) can broadly achieve the objective of non-distortion on the recipient side. How to do so on the donor side is harder to see at least when food aid is inextricably linked to domestic agricultural support. That is not a reason for not trying to make the transactions more nearly analogous to commercial ones, e.g. in ensuring delivery on time and charging for delivered not nominally shipped volumes.

Third country procurement's wider use (it is now about 9% in SSA) would reduce the donor public sector distorting effects on global, and domestic procurement (now 6%) on national, food production and trade. Monetisation

greatly simplifies the second and if the seller has any significant food import of other products (e.g. milk powder, sugar, vegetable oil, wheat) swap transactions may facilitate the former. For countries which do provide food aid but do not have domestic surpluses concentration on third country (especially regional surplus country) procurement would be desirable as it should pose few domestic problems for them.

While overall agricultural (or other commodity) pricing cannot usefully be treated as a sub-topic of food (commodity) aid and CFs, their interaction should be kept in view. The chief CF role would seem to be in providing local currency finance toward agreed programmes/projects which reduce non-price disincentives or inability to respond to price incentives with secondary ones in financing setting up buyer of last resort price smoothing mechanisms and selective interim abnormal cost cover programmes to provide remunerative prices when either market failure or remediable in a finite period excess transport/marketing costs would otherwise provide them. The reality of widespread macro, sectoral, local and micro market failure in SSA remains and the failure of ill designed interventions to offset or lessen it is no case for not seeking to identify well designed ones.

CF use should be in an overall project/programme requirements to attain strategic aims context. *A priori* any agreed domestic currency cost is suitable. Both psychological/symbolic and convenience/technical efficiency reasons do suggest some packaging may be useful, e.g. of food aid and rural development or of CF, perhaps CA and financial transfers from a single donor to a single project or programme (e.g. foreign exchange - drugs direct to programme - CF for domestic costs to rural and urban primary health care).

The purposes of accounting and reporting are to ensure comprehensive transparency and accountability (in the broader sense). Proper budgetary processes at analytical, formulation, allocation, funding, disbursement, monitoring and evaluation turn on adequate, timely accounting and reporting (on real as well as financial outturn with divergences from targets explained).

To achieve these standards in many SSA countries requires alteration or broadening of present systems. For example, it should be possible to determine rapidly at national, provincial and - for most programmes - district level what budgeted and actual spending were on a programme, e.g. primary health care, road maintenance and what the physical performance was targeted to be and is. With computerised systems this type of multiple pattern retrieval is simple if the initial entry forms are properly devised. In virtually all SSA countries more trained personnel and better equipment are needed to operate such systems. Both training/equipping and system improvement are logically mutual recipient/cooperating partner concerns and training at least is a logical CF allocation area.

CF reporting should provide data by programme, project and geographic unit (at least to province and perhaps district level) on receipt and disbursement by spending unit and on physical outturn. Where CF is not the only funding source, the disbursement/physical outturn data reasonably requirable are for the whole agreed programme/project not the CF component alone. CF reporting should be within the national accounting/reporting process and therefore should both be uniform and compatible with the recipient's national governmental accounting/reporting coverage and format. Insistence on different coverage, formats and time periods by CA donors is a serious barrier to improving the national system and decapacitates

recipient accounting and budgetary processes. It is this and not multiple CF accounts which is the basic problem to be faced and overcome.

The use of CA/CF to facilitate implementation of national strategies supported by donors articulated via specific projects and programmes is impossible without coordination. The basic frame has already been discussed at mobilisation level. Ongoing monitoring and problem resolution needs to be in the same broad frame but - evidently - primarily recipient country based. To be effective and/or capacitating it also needs to be recipient led and driven even though it will to a significant extent need to be donor serviced and fuelled.

In this regard NGOs are not inherently different from governmental units (international being analogous to donors and domestic to recipient units). This implies that CF funds to NGO programmes, projects should be "on budget" and go to domestic NGOs or joint domestic/international NGO projects/programmes, not to international NGOs as isolated entities with no formal accountability to host country entities (in this case NGO, civil society or local governance ones). For ease of accounting and communication, an NGO council/secretariat is likely to be a useful coordinating and servicing device for this sector.

From these proposals a second CA/CF guide-line revision is attainable and is set out at Box 3. These proposals are not ones instantly attainable but neither are they "academic" or "long term goal" in nature - each could be implemented to some degree now in the majority of SSA states and all have a case for priority implementation in full or large measure (with some country specific modifications) over five years.

Box 3

Commodity aid and counterpart funds

A revised statement of principles

1. The purpose of commodity aid/sectoral or Balance of Payments support which results in counterpart funds is to assist the recipient country in meeting agreed strategic objectives through carrying out policies programmes and projects. It does so by contributing (with other resource flows) to meeting foreign exchange and government financial requirements. The strategic priorities are likely to include food security, basic service extension and enhanced production by poor households (human investment and poverty reduction).

2. The real resource transfers are represented by the commodity or financial inflows not the counterpart funds. However, the latter do constitute a mechanism for translating household/enterprise payments for goods imported via CA transfers into government revenue for use on agreed programmes and projects.

3. The expenditure of counterpart funds will result in both demand and production expansion (multiplier effects). These can only be analysed at country level and managed via overall external and government fund mobilisation within which CA/CF form integrated components. Diversified packages of CA can best be determined and agreed and effective allocations of CF identified and agreed in a national consultative group type exercise.

4. Dialogue and conditionality turn on overall provision and allocation of support. CA/CF are of significance in this context but are rarely either central to or dominant within it.

5. In addition, the planning and monitoring of counterpart funds will require attention to policies on poverty alleviation, taxation, commodity pricing and sector policy, in order to maximise the benefit of commodity aid and avoid the risks of dependency and disincentives. However, these policies cannot and should not be developed as adjuncts to CA/CF - the reverse is the case.

6. Dialogue on policy issues and budget expenditures will be especially important when the commodity aid/counterpart fund package makes a sizeable contribution to commodity supply or to the government budget, at national or regional level.

7. The efficiency of CA/CF as means and mechanisms to promoting strategic ends via agreed project or programme allocations will be weakened if severe lags occur in CA arrival or CF collection and spending or if there are sharp fluctuations in CA neither offset by inverse changes in other transfers nor responding to recipient context changes (e.g. drought, flood, terms of trade collapse and their more positive mirror images). If CA is insignificant relative to total resource transfers the operation costs of CFs are likely to outweigh benefits.

8. It follows that where counterpart funds are appropriate they should be:

(a) planned in advance, preferably in the context of a rolling, multi-year agreements, linked to other aid and with the possibility of substitution actions' on a year to year basis;

(b) disbursed in the context of an agreed policy framework, subject to regular monitoring;

(c) credited without delay to a government-controlled account at the full cif value, before subsidies or deductions;

(d) disbursed on an automatic basis to the agreed programme and project spending accounts (including subsidies and domestic debt reduction where appropriate;

(e) subject to normal budgetary process formulation, evaluation, accounting, monitoring and evaluation on the financial and physical sides;

(f) managed in ways minimising the administrative load on recipient countries, and in a way contributing to strengthening the national budgeting and reporting as well as the national strategic planning and articulation/allocation processes.

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