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POLICIES ON THE USE OF WFP FOOD AID IN RELIEF AND DEVELOPMENT ACTIVITIES: MONETIZATION

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NOTE TO THE EXECUTIVE BOARD

This document contains recommendations for consideration and approval by the Executive Board.

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session of 1996, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in the plenary.

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BACKGROUND

Introduction

1. This policy paper is presented to the Executive Board in response to a request for a policy discussion on whether and under what conditions WFP ought to be involved in the sale of food aid commodities (monetization). Key operational issues related to the monetization of food aid by WFP are also addressed.
2. Below is a brief outline of previous discussions and decisions of WFP's governing body regarding monetization, together with a quantitative profile. The paper provides a review of WFP monetization in development and relief operations, in a changed global food aid context, and makes recommendations for future practice.

Mandate and governing body decisions

3. WFP's governing body has discussed monetization and related issues on numerous occasions. Traditionally WFP has pursued its mandate through the direct distribution of food commodities within targeted projects, although it has always been within its mandate to sell commodities where necessary (see document CFA: 24/5). The last time WFP's governing body reviewed policy on monetization, during the Twenty-fourth Session of the Committee on Food Aid Policies and Programmes (CFA) in 1987, the CFA approved the Executive Director's recommendation that, "...the CFA reaffirm its support for retention of the traditional project mode of operation of WFP assistance targeted to the poor and hungry...". It was agreed, however, that projects involving monetization could be submitted for approval, where they were "directly targeted to the poor where the direct distribution of food to them would be inappropriate" (CFA: 24/5, page 7).
4. An evaluation report of monetization in WFP-assisted projects, presented to the CFA at its Thirty-seventh Session in May 1994 (CFA: 37/SCP:12/6-C) noted a number of positive effects of monetization and several operational shortcomings. It concluded that "...monetization of a small proportion of WFP-supplied food aid has had positive results in enabling the achievement of project objectives and directly or indirectly in support of certain project costs...", but that "...monetizing is sometimes seen as the easiest and quickest way of ensuring the availability of cash for a particular project. In aggregate, this may reduce the availability of food for other projects as the commodities sold to generate funds are no longer available for direct distribution. In addition, the dual objective of monetization (to benefit the local market and to meet cash requirements) cannot be always confirmed." (paragraph 47).
5. While the focus of discussions has been on monetization in the context of development projects, the sale of commodities in emergency operations has also been discussed by WFP's governing body. In particular, during the Seventeenth Session of the CFA, many delegations "...concurred that the sale of commodities supplied under WFP-assisted emergency operations might meet the specific needs of certain victims of disasters and could, thus, be considered by the Secretariat on a case-by-case basis". However, some delegations pointed out that emergency food aid must go exclusively to the victims of disasters who had no purchasing power; they therefore objected to the sale of WFP commodities except in cases already authorized by the CFA in the past." (CFA: 17/21, paragraph 105).



6. More recently, the CFA, following a discussion on using monetization as a mechanism for improving food security in emergencies, "...concluded that the Programme should adopt a policy of partial monetization of relief food in certain emergency situations, if appropriate." (CFA: 34/13, paragraph 15).
7. The concentration on direct distribution of food commodities is reflected in WFP's Mission Statement (CFA: 38/P/5) and relevant operational guidelines. The emphasis on providing food directly to women, in order to tackle intra-household food insecurity, as women tend to have greater control over food than cash, also confirms this concentration on direct distribution.
8. WFP's Resource Policies and Long-Term Financing, approved by the CFA at its Fortieth Session in October 1995, affirmed the policy of full cost recovery for both development and emergency activities (CFA 40/5). Donors are required to provide cash resources alongside any in-kind commitment. Under normal circumstances, therefore, monetization to cover the non-food support costs of a WFP food-assisted project has become unnecessary.

PROFILE OF WFP MONETIZATION

Scale of WFP monetization

9. Between 1963 and 1986, an estimated 15 percent of WFP's food commitments to development projects was monetized (CFA: 24/5). The proportion of the total volume and value of WFP commodities monetized in development projects has remained fairly constant (see Table 1). From 1991-1996 an estimated 209 million dollars¹ of WFP food aid commodities, representing 13 percent of approved commitments for development, was monetized.² Of the 139 projects and project expansions approved over this period, 66 involved the sale of at least part of the commodities provided.³
10. In relief operations monetization has only been undertaken on a relatively small scale and approved on an ad hoc basis, usually to facilitate more rapid and efficient food distribution. The following sections of this profile are, therefore, limited to monetization in development projects.

Table 1

¹ All monetary values are expressed in United States dollars.

² The profile is based on the value, rather than volume, of commitments and includes budgetary revisions approved by the Executive Board.

³ The sale of WFP food aid to finance the purchase of locally produced commodities for direct distribution is excluded, since this is not regarded as monetization but as a commodity exchange according to a previous review of commodity exchanges (CFA: 29/4, paragraph 4).



SCALE OF MONETIZATION IN WFP DEVELOPMENT PROJECTS, 1963-96			
	Total commitments	Commodity sales	Proportion sold (%)
1963-1987	20.4 million tons	3.1 million tons	150.0
1987-1990	US\$2,283 million	US\$296.4 million	13.3
1991-1996	US\$1,612 million	US\$209.2 million	13.0

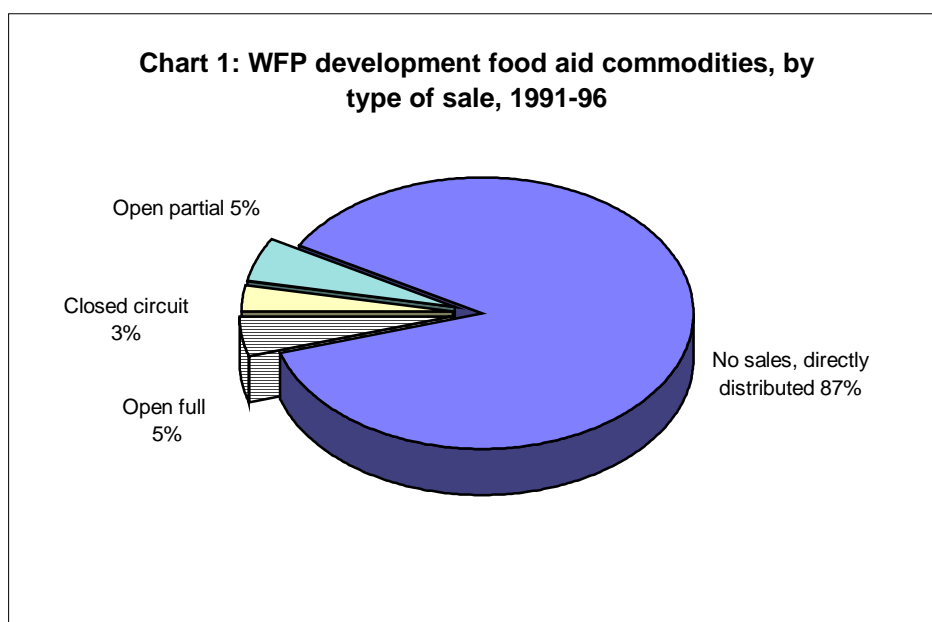
Source: WFP headquarters data and documentation.

Types of WFP monetization

11. WFP-assisted projects involving the sale of food commodities have traditionally been divided into three categories, based partly on the differences in the sales process itself (open-market or closed-circuit sales) and partly on the use of generated funds (CFA: 24/5):
 - a) category A: projects in which monetization is an inherent part of their operation, such as support to dairy development, livestock development or food security reserves/price stabilization;
 - b) category B: projects that involve the sale of WFP rations to closed groups of designated beneficiaries outside normal commercial markets, either directly or through institutions. These rations are typically sold at subsidized prices in the context of public works programmes, and the generated funds are used within the same project context;
 - c) category C: projects that involve open-market sales in the recipient country of part of WFP-supplied food commodities to finance the internal distribution and administrative costs and non-food inputs of projects supported by directly distributed food aid.
12. A review of development projects from 1991 to 1996 which involved monetization reveals that this categorization is less applicable now; no category-A project has been submitted for approval since 1992. Categories B and C, however, remain distinct groups and are subsequently referred to as: closed-circuit monetization; and open-market monetization.¹
13. In closed-circuit monetization, WFP food aid commodities are provided in the form of a food ration to be sold to beneficiaries. Typically, participants in cash-for-work programmes are given the option of buying the ration, at a subsidized price, in return for a deduction from their wages. Since 1991, closed circuit sales were undertaken in 10 projects, accounting for 24 percent of the total value of commodities committed for monetization.
14. A review of projects involving open-market monetization reveals that the nature of projects included in this category and reasons for commodity sales have become increasingly diverse, ranging from the sale of just one percent of the commodities in support of a sea dike rehabilitation project in Viet Nam to the sale of 87 percent of the commodities to finance credit schemes in Cuba. It is useful to differentiate between projects in which all, or nearly all, of the commodities are sold (full monetization) and those in which only part of the commodities is sold to finance the non-food costs of a project supported by WFP food aid (partial monetization).

¹ Projects previously defined as Category A, approved in 1991 and 1992, have been included in the category of open-market sales.





Source: WFP headquarters data and documentation.

15. Of the 66 projects involving monetization since 1991, 56 have involved open-market sales. Of these, seven involved full monetization, accounting for 36 percent of total monetized commodities, while 49 involved partial monetization, accounting for around 40 percent (see Table 2).



Table 2
WFP DEVELOPMENT FOOD AID COMMODITIES BY TYPE OF SALE,
1991-96

Type of sale	Commodity value (million dollars)	Percent of total value	Percent of total monetized value	Number of projects
Open-market	158.6	9.8	75.8	56
Of which:				
partial	84.3	5.2	40.3	49
full*	74.5	4.6	35.5.7	
Closed-circuit	50.6	3.1	24.2	10
Total monetized	209.2	13.0	100.0	66
Direct distribution	1 402.3	87.0		73
Total	1 611.5	100.0		139

Source: Adapted from WFP headquarters data and documentation.

* Including previously defined Type-A projects

16. Cereals, especially wheat, make up the bulk of open-market sales and account for over two thirds of the total value of monetized commodities. Of the non-cereals provided for monetization, vegetable oil and dairy products are the most important, the latter largely accounted for by a single dairy development project in Cuba. Pulses, sugar, iodized salt and, in one case, tea, complete the list and typically were sold directly to beneficiaries as part of a food basket ration.

Geographical concentration of WFP monetization

17. Since 1991, 41 percent of all WFP monetization, in value terms, has taken place in Latin America and the Caribbean, 33 percent in Asia, 22 percent in sub-Saharan Africa, and five percent in North Africa and the Middle East (Table 3). Of the total value of WFP food aid provided to Latin America, 28 percent was monetized.
18. Monetization in Latin America has typically involved the sale of WFP food either on the open market in the recipient country to generate financial support for a range of food security projects or as an inherent part of project operations. Of the seven full monetization projects, six were in Latin America. Partial sales to cover the logistical and administrative costs of a food aid intervention involving direct distribution have taken place mainly in sub-Saharan Africa.



Table 3
WFP MONETIZATION BY RECIPIENT REGION, 1991-96

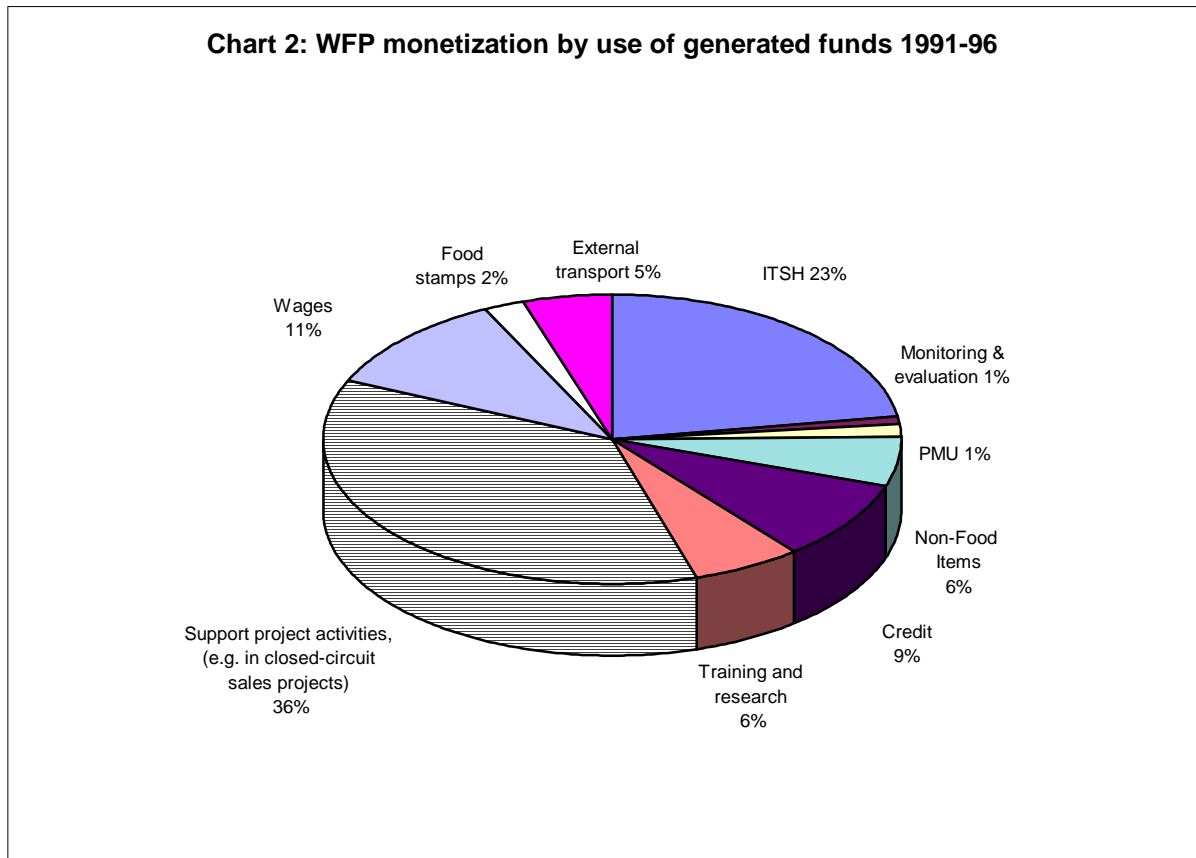
Recipient region	Number of projects involving	Value of commodities sold (US\$ m)	Proportion of sales in all regions	Value of total WFP commitment (US\$ m)	Proportion sold in region
			(%)		(%)
Sub-Saharan Africa	25	45.5	21.7	534.0	8.5
Asia and Pacific	16	68.7	32.8	612.0	11.2
Latin America and Caribbean	21	85.0	40.6	301.0	28.3
North Africa and Middle East	4	10.0	4.8	164.8	6.1
Total all regions	66	209.2	100.0	1 611.5	13.0

Source: Adapted from WFP data and documentation.

Use of funds generated from the sale of WFP commodities

19. Since 1991, over one third of the total funds generated from food sales was used for ‘financing project activities’; for example, strengthening market infrastructure in a dairy development project or the purchase of tools and materials in closed-circuit sales projects (Chart 2). The most common reason for monetization was to finance internal transport, storage and handling (ITSH) costs. This occurred in 27 of the 66 projects involving monetization, accounting for 23 percent of total generated funds. Other common uses were monitoring and evaluation (20 projects) and non-food items (21 projects); these accounted for only one percent and six percent of total generated funds, respectively.





Source: Adapted from WFP data and documentation.

REVIEW OF WFP MONETIZATION

WFP monetization in a changed context

20. Since the last time WFP's governing body explicitly discussed monetization policy in 1987, several developments have taken place that have changed the external and internal context for food aid and that directly or indirectly influence a discussion on WFP monetization.
21. In the first place, global food aid flows have declined dramatically in recent years, as a result of decreased global agricultural surpluses, government-held grain stocks and shrinking donor aid budgets. The sale of scarce in-kind food aid on the open market has become harder to justify than was the case when WFP had at its disposal large amounts of food commodities and very limited cash resources.
22. Within WFP the share of resources committed as cash has been steadily rising. At the end of the eighties approximately 70 percent of the total value of commitments was in the form of in-kind donations. By 1995, more than 50 percent was in the form of cash, tied in varying degrees to the purchase of food in specified markets. WFP is increasingly procuring commodities. Cash purchases, of which 60 percent are in developing countries, now account for around 40 percent of all commitments. This implies less need to monetize food aid in-kind to generate cash. The implementation of WFP's Resource Policies and Long-Term Financing (CFA: 40/5) in which non-food support costs have become budget items in project proposals also implies the need for less monetization.



Monetization in development projects

Closed-circuit monetization

23. In some circumstances, undertaking income-generating activities, such as in cash-for-work projects, needs to be supported by targeted food aid. Selling food aid commodities to beneficiaries at affordable prices is sometimes more appropriate than providing solely food or cash directly. In many developing countries poor remote regions are not adequately served either by private sector markets, or by public distribution mechanisms due to prohibitive transport costs to, and lack of purchasing power in, the targeted region. In such areas basic food commodities need to be provided to beneficiaries participating in income-generating activities.
24. WFP-assisted projects involving closed-circuit sales provide food commodities direct to beneficiaries at accessible (subsidized) prices. The sale itself constitutes a direct income transfer to the beneficiaries which is represented by the level of subsidy. There is likely to be a continuing need for such projects, particularly in remote regions of many developing countries which cannot be reached by other distribution mechanisms. The cost-effectiveness of such projects needs to be assessed, comparing the cost per ration to local market rates and to alternative local purchase arrangements.

Open-market monetization

25. **Partial monetization.** This has frequently been undertaken to cover the related financial costs of food aid deliveries. With the implementation of WFP's Resource Policies and Long-Term Financing, non-food support costs have become budget items in project proposals, so that financial assistance to cover these costs is provided by donors together with in-kind contributions. Therefore, the sale of part of the commodities to cover these costs should be no longer necessary. Only in exceptional circumstances when some donors do not have the flexibility to provide sufficient or timely cash to support their food aid in-kind contributions or commodities appropriate for direct distribution, will there still be a need for the sale of a small part of the commodities.
26. **Full monetization.** In a number of cases, WFP has sold all of the food commodities provided to generate cash resources to support programmes that enhance food security but not necessarily through direct food assistance. Food aid in-kind is not an inherent part of the project and monetization is used solely to generate cash. Food aid in this case is regarded as an available resource in place of unavailable cash. Such food aid, fully monetized to generate funds to support development initiatives, approximates to programme food aid.
27. The risk is that development initiatives, however valid in themselves, may not always be consistent with WFP's stated mandate which explicitly focuses attention on alleviating hunger among the poorest people by identifying areas where food aid has a direct role to play in reducing chronic or acute food insecurity.
28. Only under exceptional circumstances should WFP monetize food commodities to generate cash resources for activities other than a direct food intervention. Flexibility in activities should be afforded by the direct provision of cash and not through the sale of scarce food aid commodities. The rationale for using food aid in-kind to support such an intervention needs to be made clear. As with all WFP food aid, the intervention must not cause market displacement, create disincentives to local production, or risk prolonged food aid dependency.



29. **Commodity sales for local food purchases.** When WFP commodities are sold on the open market in the recipient country and the funds generated are used for the purchase of locally produced commodities for direct distribution, this is regarded as a commodity exchange and not monetization. However, in recent years barter arrangements have been largely replaced by open market sales and subsequent local purchase. The sales process of the initial transfer of commodities and the cost-effectiveness implications are the same as for other open-market sales, and should be managed in the same way.
30. **Third-country monetization.** Monetization in a third country may be proposed by donors for reasons of cost-effectiveness or limited absorptive capacity in the recipient country. The funds generated will typically be used to purchase food commodities in the beneficiary country or in a neighbouring country for direct distribution to final beneficiaries. The initial transfer and sale of commodities approximate to a commercial export from the donor to the purchasing country, since the proceeds of the sale do not stay in the purchasing country. If the commodities are bought with foreign exchange, this will replace a commercial import of the same or equivalent commodities and will not normally be exempt from import duties. WFP will not, normally, undertake third country monetization.

Monetization in relief and rehabilitation operations

31. Food aid in emergencies is almost exclusively directly distributed. In the initial stages of an emergency, WFP's primary role is to get food aid as quickly and as efficiently as possible to beneficiaries either directly or through distributing agencies. WFP, like other relief agencies, has little experience in monetizing food aid as part of emergency operations. However, there have been context-specific reasons for undertaking monetization in a small number of situations.
32. For example, in both Somalia and Liberia monetization took place initially as a response to problems encountered in transporting and delivering food aid commodities directly in conflict situations, primarily because of a breakdown in social and logistical structures, the security risk to staff, and theft of food aid commodities.
33. In such cases, the sale of food aid commodities to local traders and the use of commercial channels to get the commodities in local markets may be a practical solution to problems related to direct distribution. The funds generated may be used in asset-building linked to disaster prevention and market stabilization, for example, rehabilitation of roads and bridges.
34. In refugee camp situations and where there is large-scale displacement of disaster-affected people, food aid will invariably need to be directly distributed. In a non-camp situation, there may be more justification and potential for monetizing food aid, as well as distributing food directly to vulnerable groups.
35. In response to a slow-onset emergency, such as drought, monetization of food aid may have a more important role to play. As a result of drought-induced domestic production failure, there may be sharp increases in staple food prices above normal seasonal variations. Prices may be further driven up by hoarding, both by vulnerable people as a coping strategy and by speculative traders waiting for a peak in prices before selling. Apart from the initial negative income effect on the poor, some will be forced to sell productive assets (such as livestock) at exchange rates with food that are much reduced. Prolonged lack of purchasing power and the sale of productive assets to meet basic needs can lead to destitution, a condition which will outlast the immediate emergency.



36. To stabilize markets, a well-timed inflow of commodities is required, either through commercial imports (private or government-sponsored) or programme food aid. WFP can play a crucial advocacy role, advising the international donor community on the types of assistance required. This would help ensure greater consistency between interventions. The Programme's capacity to fulfil this role requires strengthening, in particular through a better understanding of the vulnerability of beneficiaries and local market mechanisms.
37. WFP can also offer logistical support to bilateral food aid operations. In very urgent situations, WFP can mobilize its own stocks in the region or through triangular transactions on the basis of a projected commitment from a donor. Responding in such a preventative way would certainly be much more cost-effective than waiting to respond to a fully fledged emergency situation.
38. WFP's capacity to support markets in such a situation should not, however, be exaggerated. Given the scale of WFP food aid relative to total needs at a time of abnormal supply deficit, the sale of WFP commodities is likely to have a limited and localized impact.
39. More importantly, WFP's presence in the disaster-affected country implies an ongoing food aid programme, typically targeted to the most food-insecure. Using WFP stocks for market stabilization would mean that, at least initially, there would be a diversion of resources away from ongoing projects, whereas a more effective response may be for WFP to intensify direct distribution to the most vulnerable.
40. **Rehabilitation.** After an initial relief phase, beneficiaries may be better served by gradually replacing direct food distribution with cash transfers (see Box). If food shortages still exist due to a weak market infrastructure, it may be appropriate for WFP to consider monetization at the local level. As beneficiaries will still require income support in order to purchase from the recovering market, the sale of food aid to local traders will need to be accompanied by some form of direct income transfer, for example through a coupon system. The funds generated from the sale of commodities could be used to support such a system.
41. This would promote a "return to normal", run less risk of creating lasting dependency than directly distributed food aid, and could prevent further displacement. As some beneficiaries will continue to need direct food in-kind, monetization would be undertaken alongside direct distribution of food aid.



Box

Sales of food aid by beneficiaries

In both relief and rehabilitation operations, a portion of the food aid ration is often sold by beneficiaries themselves. This is not regarded as monetization, but it raises a number of critical targeting and efficiency questions. It is accepted that even the extremely food-insecure need to meet basic non-food needs such as fuel, clothing and shelter, and that such sales are not an indication that individual nutritional requirements have been met. even malnourished people will tend to sell some of their food allocations. This is not a reflection of over-allocation. It is more a result of the limitation in the range of commodities provided.

An important consideration for beneficiaries, and for WFP, is the resale (transfer) value of the commodities, as this is the real value of the income transfer to the beneficiary. Beneficiaries will often sell commodities at a much reduced rate, involving an efficiency loss. In general, higher-value products will have *relatively* higher transfer value per unit cost, although the only way to ensure that the highest and most appropriate transfer in being made is through needs assessment and market knowledge.

This highlights the need for a coordinated response of the United Nations system to ensure the provision of a wider range of non-food item. WFP will continue to emphasize this issue in its discussions with other United Nations agencies and through its participation in the Inter-Agency Standing Committee (IASC), under the Chairmanship of the Emergency Relief Coordinator.

Operational issues

42. There are a number of key operational issues that affect the decision to undertake monetization. These issues will be covered in more detail as part of comprehensive operational guidelines on monetization to be incorporated into the Programme Design Manual.
43. **Cost-effectiveness.** In open-market monetization projects, commodities should be sold at a price that covers the total value of commodities and international transport costs to point of entry (i.e., c.i.f. plus port handling). A sale at below the import parity price constitutes a subsidy to the buyer (parastatal entity or private trader) at the expense of the intended beneficiaries. In addition, a sales price lower than the import parity price (less import duties if exempt) constitutes an artificially low import price, which risks displacing commercial imports and disturbing local markets.
44. In practice, selling commodities at c.i.f. price may not always be possible, especially where this is based on elevated FOB costs of donated commodities, donated commodities are not valued as highly as the local commodity equivalent, the sale takes place under monopsonistic conditions, or international transport costs are particularly high. The lead time, timing of delivery and the packaging of commodities are also important determinants of sale price. WFP must, in practice, sell at no lower than the most competitive locally available rate for the same or equivalent commodities. This complication strengthens the argument for replacing the need to monetize with a direct cash contribution. Where monetization does take place the sales terms, including the basis of sales price, should be



negotiated and resolved prior to the arrival of the food aid shipment and commodities should be sold through normal commercial market mechanisms.

45. **Generated funds.** Internal and external audits have previously noted a number of problems with fund management practice. These include: inconsistencies between planned and actual use of funds; unauthorized establishment of funds; lack of reporting on transactions; inadequate organizational and support structures; unclear definitions of responsibilities; and inadequate safeguard measures.
46. Considerable work has already been undertaken to address these issues, and to make financial and accounting policy clearer and more comprehensive. Guidance on fund management procedures has been updated in the Country Office Accounting Guide (November 1996). Plans of operations for new projects must reflect this new policy; where possible, existing plans are being amended. Local audits of all generated funds must be undertaken on an annual basis.
47. The division of responsibilities for fund management has been clarified. After delivery, the recipient country's government has title over commodities and, therefore, over funds generated from their sale, with the limitation that such funds have to be utilized as laid down in the project agreement. Joint bank accounts should be avoided. If requested by the project authority or where the interest of the project so requires, the WFP country office may manage funds or the Country Director (or other WFP officer) can act as a signatory to the bank account. This agreement would be formulated and negotiated prior to the final signing of the plan of operations, in consultation with the Finance and Information Systems Division. Funds should be treated and administered by WFP as "Funds in trust" (Directive FS96/002, 6 November 1996).
48. For partial monetization to cover ITSH or essential non-food inputs, funds generated are deposited into a separate bank account, which is treated as a trust fund and is under the control of the Country Director. Where an emergency operation has been initiated without any formal government request, funds generated through approved monetization are managed directly by the WFP country office.
49. In the case of monetization for local food purchases, any funds generated resulting from a time lag between the delivery of the WFP-supplied commodities and the purchase of the local commodities will be subject to the same control and reporting requirements as funds generated in full open-market monetization projects, depending on the level of WFP's administrative involvement.
50. **Market reconnaissance and analysis.** In order to predict the impact of an intervention involving monetization, WFP needs to have sufficient knowledge of the market situation prior to the intervention and ensure careful monitoring of the impact post-sale. Monetization of food aid has a direct impact on local market mechanisms. In isolation, WFP commodity sales may have a marginal impact in the context of national imports and production, but many agencies monetizing at a more local level may have a significant impact. This highlights the need for a greater degree of coordination and collaboration between agencies involved in the provision of food aid.
51. The details of how to undertake and what to include in a market analysis will be included in comprehensive operational guidelines on monetization. Apart from an assessment of beneficiary vulnerability, WFP should at least be aware of the main market conditions, including the main actors, main traded commodities, normal sales and purchase mechanisms and the capacity of the local banking sector. WFP can draw on an extensive



knowledge base in many developing countries that has been developed through the rapid expansion of cash purchases.

52. Guidelines covering all aspects of commodity sales procedures and generated fund management, including the strengthening of monitoring and reporting arrangements, will be updated and incorporated into the Programme Design Manual.

POLICY RECOMMENDATIONS

53. The following recommendations are made:

- a) Country Strategy Outlines should demonstrate the analytical rationale for monetization and its operational modalities in all cases where monetization is likely to feature in a Country Programme;
- b) WFP will not undertake projects involving full open-market monetization to fund activities that are not related to direct food assistance, and where the generation of funds is the primary objective;
- c) In accordance with the Resource Policies and Long-Term Financing, open-market monetization to cover support costs of a directly distributed WFP food intervention should, normally, no longer be necessary. However, where some donors do not have the flexibility to provide sufficient or timely cash resources for this purpose, and in the absence of any alternative financing, some monetization may still need to be undertaken;
- d) The open-market sale of food commodities to finance the purchase of locally produced food for direct distribution to beneficiaries should be managed in the same way as open-market sales for other purposes and must be demonstrably cost-effective. The initial commodity sale must not disrupt normal recipient country markets.
- e) WFP should continue to use closed-circuit monetization where it is considered the most appropriate modality, in line with past practice.
- f) In emergency operations WFP will consider monetization where it is clearly demonstrable that the monetization process itself has benefits over and above the income transfer to the beneficiaries and where the generation of funds is not the primary objective of commodity sales. Examples include:
 - i) situations in which direct distribution is not feasible for security, risk of theft or prohibitive cost reasons but national traders are able to move food into the target region using established trade routes and where monetization would act as a stabilizing force on markets and may help prevent large-scale displacement of disaster-affected people; and
 - ii) where local monetization would promote a “return to normal” when used in a transitional way following the end of an emergency, and/or where relief food aid is in danger of causing dependency and inhibiting normal market mechanisms, but severe food deficits still exist and commercial imports are limited.
- g) WFP would monetize on behalf of donors as a bilateral service as long as the intervention is consistent with WFP’s ongoing programmes and its Mission



Statement, and does not distort local markets, cause import displacement or price disincentives, nor infringe FAO Principles on Surplus Disposal.

- h) In all cases where projects that involve monetization are envisaged:
 - i) the cost-effectiveness implications of the monetization process should be made explicit through an *ex ante* analysis comparing the cost of procuring, transporting and selling food commodities with alternative methods of supporting the intervention.
 - ii) WFP should have a sufficient prior knowledge of market conditions, actors and mechanisms to determine the likely impact of monetization and the most appropriate and cost-effective way of undertaking the process.
 - iii) There should be no market displacement, production disincentive or risk of creating lasting dependency among beneficiaries.

