



Phare

Progress and strategy paper
Food aid

Series: PHARE-

Progress and strategy paper

Food aid

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Foreword

This paper is part of a series which will cover each of the main areas of Phare activity. It describes the nature of the problems faced in Phare's partner countries during their transition from planned to market economies. It goes on to examine actions undertaken to date, and to assess their impact on the transformation process.

There is clearly a need to ensure that the approach being taken in any given sector is relevant to the longer-term goals of economic transformation. For this reason, these papers also contain the thinking of those responsible for operating Phare on actions for the future and how Phare should contribute to the next phase of the transition.

The papers do not reflect any official position of the European Commission. They have been written by the Phare Operational Units and are intended as a stimulus to discussion for all those involved in the debate on economic transformation in central and eastern Europe.

Alan Mayhew

Relations with central and east European countries

The Phare Programme

The Phare Programme is a European Union initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe. Its aim is to help the countries of central and eastern Europe rejoin the mainstream of European development and build closer political and economic ties with the European Union.

Phare does this by providing grant finance to support the process of economic transformation and to strengthen newly created democratic societies. Phare also provides grant finance to help countries with Europe Agreements integrate with the European Union.

In its first five years of operation to 1994, Phare has made available ECU 4,283 million to 11 partner countries, making Phare the largest assistance programme of its kind.

Phare works in close cooperation with its partner countries to decide how funds are to be spent, within a framework agreed with the European Union. This ensures that Phare funding is relevant to each government's own reform policies and priorities. Each country takes the responsibility for running its own programmes.

Phare provides know-how from a wide range of non-commercial, public and private organisations to its partner countries. It acts as a multiplier by stimulating investment and responding to needs that cannot be met by others. Phare acts as a powerful catalyst by unlocking funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. It also invests directly in infrastructure, which will account for more Phare funds as the restructuring process progresses.

The main priorities for Phare funding are common to all countries, although everyone is at a different stage of transformation. The key areas include restructuring of state enterprises including agriculture, private sector development, reform of institutions and public administration, reform of social services, employment, education and health, development of energy, transport and telecommunications infrastructure, and environment and nuclear safety. Under the Europe Agreements, Phare funding is being used to make laws compatible with European Union norms and standards, and to align practices.

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Executive summary

This paper presents an overview of the food aid provided to the central and eastern European countries by the European Union since the beginning of their economic transition in 1989.

One immediate side-effect of the far-reaching economic reform process was disruption of the previous economic system, leading to a number of problems including reduced agricultural production and food shortages. Trade with ex-Council for Mutual Economic Assistance partners collapsed, and internal production and distribution systems, based on state-owned monopolistic structures, dissolved before they could be replaced by a functioning market system based on independent operators responding to market signals. In addition, foreign exchange resources were scarce, and most central and eastern European countries were facing deficits in their balance of payments and huge foreign debts.

In a number of countries, food shortages appeared. To ensure that the shortages did not undermine the democratisation process and economic restructuring, food aid, in the form of agricultural products, was the first instrument introduced by the European Union to support the central and eastern European countries as their transition got underway.

This paper summarises the policy and strategies applied by the European Commission, which is responsible for administering the European Union's food aid to the central and eastern European countries. The processes of evaluating food aid needs and then of financing and implementing an operation are reviewed, as is the use of the Counterpart Funds generated by the sale of the products provided as food aid on the local markets. Details of the food aid operations conducted in individual countries, in terms of budgetary allocations and specific products delivered, are provided in the annex. The impact and achievement of the operations that have been conducted to date are then assessed. The paper concludes with policy orientation for food aid operations in the future. The main conclusions are:

- resources from the Phare programme should be used principally to fund triangular operations (where food products are supplied by one central and eastern European country and imported by another). Where balance of payments support is envisaged to support food imports, European Agricultural Guidance and Guarantee Fund intervention stocks could be made available, given that their budget value is below the world market price
- conditionality, in terms of economic reform, has not been applied by the European Union to its food aid operations, unlike some other donors. Serious consideration will be given to the possibility of introducing such conditionality given the potential significance of Counterpart Funds. Certain requirements for their constitution, to be met by the partner government, should be made a precondition for the provision of food aid by the European Union. A plan for their use needs to be prepared, taking into account the benefits accruing from using them in the shortest possible time. Accumulated funds need to be placed in an interest-bearing account, offering competitive market interest rates
- most, if not all donors use the international market prices of the products provided in order to calculate the cost of their food aid operations. The Commission has always valued the European Union's operations by using European Agricultural Guidance and Guarantee Fund budget prices, which are up to 50 per cent lower than the world market prices. This method of valuation has led to underestimation of the European Union's real contribution to the international food aid effort. Phare is therefore considering the possibility of using international prices as a reference in the presentation of food aid operations costs in future.

Section 1 - General characteristics

Background

Between the end of the 1980s and the beginning of the 1990s, the central and eastern European countries embarked on a far-reaching transformation of their economies from the centrally planned to the free market model. An immediate consequence of this transformation was disruption of the previous economic system, leading to a number of problems including reduced agricultural production and food shortages.

The economies of the central and eastern European countries were heavily biased towards intra-COMECON trade. When COMECON collapsed, it was impossible to immediately substitute a new and equivalent set of external trade relations. In addition, foreign exchange resources were scarce, and most central and eastern European countries were facing deficits in their balance of payments and huge foreign debts. The internal production and distribution systems, based on state-owned monopolistic structures, dissolved before they could be replaced by a functioning market system based on independent operators responding to market signals.

In a number of countries, food shortages were therefore one of the immediate side-effects of the economic revolution. To ensure that the shortages did not undermine the democratisation process and economic restructuring, food aid, in the form of agricultural products, was therefore the first instrument introduced by the European Union to support the central and eastern European countries as their transition got underway.

Definition of food aid to the central and eastern European countries

Under the European Union's programme of food aid to the central and eastern European countries, agricultural products are supplied to those countries experiencing a food deficit and then sold inside the country at market prices through the existing marketing system. The agricultural products provided have been primarily for human consumption, but in some cases also for animal nutrition. Such food aid should be viewed as an instrument providing a form of balance-of-payments support¹, since it has helped overcome problems linked to the scarcity of foreign exchange resources.

Soon after the start-up of the food aid operations, the Phare programme for economic assistance was launched. Phare's initial actions were often intended to phase out food aid as soon as possible, through delivery of agricultural inputs or other means of boosting local agricultural production.

¹ Phare has where necessary also funded humanitarian aid to some central and eastern European countries, such as Albania and Romania. This has taken the form of certain specific food products such as baby food, along with medicines and other emergency items. This document is not concerned with this food aid, which has an explicit humanitarian character. It focuses only on the form of food aid known in international organisations as 'programme food aid', i.e. aid composed of basic food products which, in all cases, are sold on the local markets as opposed to being distributed to target groups.

Objectives

The short and medium-term objective of the European Union's food aid to the central and eastern European countries has been to help them overcome food shortages, re-establish local production and self-sufficiency and at the same time alleviate the immediate hardships which the transformation process causes to the population. Care must be taken to ensure that, in meeting these objectives, markets are not overloaded with cheap imports, thereby discouraging local production, depressing domestic prices or preventing the emergence of private commercial operators. Food aid has to be progressively phased out as local production increases, until self-sufficiency is achieved.

The longer-term objective of food aid is to establish a new distribution network and to boost domestic trade in basic food commodities.

Principles

Certain fundamental principles have been incorporated into the European Union's food aid policy towards the central and eastern European countries:

Integrated approach

Account has to be taken, when providing food aid, of the other forms of assistance being provided to the partner country. An overall transfer of know-how strategy is devised, incorporating the food aid, which therefore forms part of an integrated package of assistance. In particular, it is closely related to the know-how provided through the Phare programme in agriculture, the humanitarian actions undertaken in certain cases and the balance of payments assistance extended to some end-users.

Relevance to the particular needs and situation

Food aid responds to food deficit situations resulting from the initial disruption caused by the process of economic transformation or, in case of structural food deficits, is provided to countries facing balance of payments problems resulting from the economic transition. Food deficit often results from economic adjustment problems in the agricultural sector during the transition to a market economy. It has a temporary character and in most cases lasts for two to three agriculture campaigns. Food aid has been provided during the adjustment phase and has been progressively phased out as the overall economic situation has improved, as agricultural production has increased and as self-sufficiency has been re-established (see overleaf).

Example: Albania

The Albanian case is probably the most illustrative example of the 'phase-in-phase-out' approach, which responds to changing circumstances in the partner country. The country's cereal production went down from 650,000 tonnes (before the reform) to 225,000 tonnes (in 1991 the year of the economic collapse). This prompted the G 24, whose aid the European Commission is responsible for coordinating, to approve a food aid operation totalling some 450,000 tonnes. Two years on, local production had increased to 425,000 tonnes. The amount of food aid required had declined accordingly, and only some 250,000 tonnes were made available by the international donors in 1993.

Inter-agency coordination

It is essential that food aid operations be planned and implemented in close collaboration and consultation with other concerned donor agencies and G 24, whose aid to the central and eastern European countries is coordinated by the European Commission. Only in this way can a coherent approach be ensured, and in particular the risk of delivering excessive quantities (thereby depressing local agricultural production or provoking market displacement) be avoided.

Section 2 - Review of food aid operations to the central and eastern European countries

Overview of main food aid operations

As explained above, food aid has only been provided to certain of the central and eastern European countries, where there have been serious food shortages at some stage in the economic transition. Equally, the duration of food aid actions, and the size of budgetary allocations, have been specific to each case. Overall, however, in the period 1989-1993 a total of ECU 516.6 million has been allocated for food aid to a number of central and eastern European countries, with nearly 4.2 million tonnes of staples delivered. The table below shows the value of food aid delivered each year to each of the central and eastern European countries concerned:

Further details of the programmes undertaken on behalf of individual central and eastern European countries are given in the Annex .

Operational issues

Evaluation of food aid needs

After a request for assistance is presented by a country, the starting-point for any decision to provide food aid is an evaluation of its food aid needs through a thorough assessment of the overall demand and supply situation for food products.

A number of different factors are evaluated by the European Commission (general economic parameters; the balance of payments situation; the availability of foreign exchange or access to international credit markets; the ability of internal marketing, distribution and pricing systems to fulfil the roles required of them; and logistical aspects such as capacity of ports, internal transportation and storage). The main emphasis is put on comparing national consumption to national agricultural production, calculated on the basis of cultivated areas, yields and crops planted, livestock production, processing potential and losses. On this basis, an expected food balance-sheet is prepared, with European Union food aid meeting the shortfall between consumption and internal availability (production and stocks, adjusted for estimated losses, exports, commercial imports, food aid from other sources). The balance-sheet covers all basic food products (wheat, meat, dairy products, vegetable oil, sugar, etc.).

On the basis of the long and short-term objectives described above, and also the overall aid strategy of the G 24 towards the central and eastern European countries in question, this evaluation allows a decision to be taken on a particular food aid operation and the type and quantities of food products to be supplied as well as the most suitable means of distributing them.

Value of food aid delivered each year (MECU)

	1989	1990	1991	1992	1993
Albania			44	85	
Bulgaria			27		
Estonia			11	11	
Latvia			15	12	
Lithuania			20	21	
Poland	123	27			
Romania		48	49	14	10

The European Commission does not follow the International Monetary Fund recommended method of calculating the overall food aid needs purely on the basis of national budget deficits. This method entails a calculation of the sum needed to balance the state budget, and translation of this figure into quantities of food aid supplies. Inherent in this approach is the risk of delivering more food aid than is actually needed to compensate for the food shortage. If this takes place, internal prices may be depressed, with local production discouraged as a result, and negative effects on the emerging private commercial sector. Instead, the European Commission has opted for an approach which partially compensates the budget deficit through provision of food aid.

Budgetary considerations

The European Union does not have any specific budgetary instrument at its disposal to provide food aid to the central and eastern European countries, since food aid is provided under exceptional circumstances only and is considered a temporary measure. Two budget instruments have been used to respond to food aid requests from central and eastern European countries:

- the European Agriculture Guidance and Guarantee Fund has been the main source of funding to pay for the goods and their transportation, although this constitutes an exceptional use of this budget-line. Where the EAGGF is used, goods are supplied out of stocks built up through intervention on the markets of the European Union Member States in pursuit of the European Union's Common Agricultural Policy. The value of the goods supplied is expressed in standard budget value which is different from international market prices. The cost of transportation is determined through auction
- Phare has also been used to pay for goods acquired on the open market in the European Union or in other central and eastern European countries, and for their transportation to the country where food aid is required. Where the supplier of the goods is another central and eastern European country, the process is known as a 'triangular operation'. In such cases, it is estimated which central and eastern European countries have a surplus in the agricultural product required and could therefore be potential exporters. A number of potential exporters are taken into consideration, and the supplier is selected following a tendering procedure. The value of the goods corresponds to international market prices. Traditional trade links or established business contacts are other important factors taken into consideration.

Implementation

After defining the objectives of an operation, the quantities and type of commodities to be delivered are agreed by all parties, and a Memorandum of Understanding is signed with the governments of the partner countries. This document governs the implementation of food aid operations, setting out details of transport facilities, delivery points, period of arrival, distribution and marketing procedures (system of sales, pricing), generation of Counterpart Funds, their management and use, and monitoring and evaluation procedures. Where a country has already signed a general agreement with the Commission on Counterpart Funds, the memorandum on food aid refers to it and, if necessary, incorporates amendments into the overall agreement.

In most cases transfer of the necessary know-how for implementation of the food aid operations also has to be provided to the recipient country. This assists governments in the planning of the arrivals, preparation of distribution plans, securing the warehousing and internal transport, establishing monitoring systems, setting up of Counterpart Funds, and the preparation of disbursement schemes from the Counterpart Funds.

Donor coordination

Proper coordination among the G 24 is essential if the short and long-term objectives of a food aid operation are to be achieved. Collaboration with other donor agencies and/or donor countries is therefore initiated early in the preparation of operations and a common approach is defined. Assessment of food aid needs is jointly conducted by the major donors and agreement is reached on the responsibilities of the different parties regarding the types and quantities of food aid to be supplied, as well as delivery periods. There is also coordination regarding the collection, management and use of Counterpart Funds.

Marketing

In all cases, the goods delivered as food aid have been supplied to the border of the partner country and handed over to organisations entrusted by its government to be in charge of internal distribution and sales.

The policy in terms of resale price has generally been to reflect the international market price of the goods supplied. In certain situations, where international prices have proved prohibitively high for local consumers, thus jeopardising the objective of alleviating hardship, the goods are sold at prevailing market prices, but in any case high enough in order to avoid the disincentive effects of cheaper imports on local production.

The system of internal sales has progressively developed from a fixed-price system towards a system of market prices. Early on during food aid operations, the use of fixed prices often proved the only way of ensuring quick distribution and sales: a functioning market for these products had not yet emerged and/or prices of a number of agricultural products were still controlled by the government. As the reform process progresses, it becomes possible to introduce an auction system of internal sales, where prices are set according to supply and demand. This development from fixed prices to marketing through auction has been observed in a number of the central and eastern European countries to which food aid has been provided: e.g. Bulgaria, Albania, Poland.

In some of the countries, a degree of outside support has been required at an early stage of operations to ensure effective distribution. This is because existing distribution networks were disrupted, with no new private distributors having yet emerged to fill this role. Support may be required in the form of transport, sales practices or control on prices set by merchants. This type of assistance has been provided to Albania through the Pellicano (Italian, but partly financed by EAGGF) and Pyros (Greek) operations.

Counterpart Funds

The benefits of food aid are not only limited to the physical provision of food. The local currency generated by the sale of food can then be put to other uses within the country concerned. These Counterpart Funds can sometimes have effects as significant as the use of the food itself, when set against the long-term objective of economic development. For this potential to be realised, however, it is essential to reach agreement with the government of the partner country on accumulation of the funds in an interest-bearing account at market interest rates. Procedures for disbursement, audit and control must also be clearly defined. The transfer of additional know-how may be required to ensure that the expertise to collect and monitor the Counterpart Funds is built up locally.

As one of the short-term objectives of food aid to the central and eastern European countries has been to alleviate the hardship resulting from the early stages of transformation, the Counterpart Funds generated have been used mainly for social purposes (e.g. for topping up pensions and family allowances, distribution of free meals). Another part has been used to cover local distribution expenses (internal transport, storage and handling cost). In Albania, Counterpart Funds were used successfully to support the state budget. Proceeds from food aid made up about 75 per cent of government budget receipts in 1992, and about 45 per cent in 1993.

Section 3 - Assessment

Impact of European Union food aid on the recipient central and eastern European countries

Economic effects

At the macro-economic level, the most important effect of food aid is its positive impact on the balance of payments. The food aid supplied has saved the central and eastern European countries concerned from making substantial expenditure on food imports, thereby depleting the already scarce foreign exchange resources available. On the internal markets of the central and eastern European countries concerned, food aid has helped stabilise prices, in addition to securing availability.

As regards agricultural production, it was suggested by some that food aid would have a negative effect because it would depress prices, thereby reducing incentives to production. In practice, no serious negative consequences have been observed. This is because food aid has been used only as a temporary measure with a transitional character. Moreover, quantities provided have actually been quite small compared with overall consumption. With the exception of Albania, the volumes supplied represented on average less than ten per cent of import requirements and a very small part of local production (two per cent on average). Such low levels of aid delivered over such short periods cannot be said to have major negative effects on local production and this is borne out by follow-up evaluation.

Example: Poland - food aid did not force down agricultural production.

It is clear that the food aid programme did not force down cereal production in Poland, which actually increased, year-by-year from 1988-1989 to 1991-1992. In 1990-1991, Poland became self-sufficient in cereals and a net exporter in 1991-1992. This should be contrasted with the situation in the 1980s, when Poland was a traditional importer of cereals.

A significant positive impact can also be observed on the food processing industries in some cases. As the supply of raw materials from local production to the industry was very low, the food aid deliveries kept the factories working, increasing their turnover and having a positive effect on employment. Only European Union food aid kept the milling industry in Albania working; during the food aid operations to Romania, European Union aid represented 30 per cent to 50 per cent of output. In Albania, where food aid has been provided both in substantial quantities and in a wide variety of different products, it has boosted the rapid development of new forms of internal trade. The private transport sector has also benefited.

Social effects

Designed to alleviate food shortages, the European Union's food aid has been an additional source of food to the population, especially in critical moments when its availability was low. At the same time, the use of Counterpart Funds to fund social support programmes has further benefited consumers. Food habits have not been significantly affected, since the products supplied originated from Europe and have broadly corresponded to the usual consumption patterns in the partner countries. Where there have been some differences between the types of food provided as food aid and traditional patterns of consumption, it is most unlikely that habits will have been materially altered, given the short duration of the operations.

Operational aspects

Cost-effectiveness considerations

When humanitarian considerations are not the principal motivation behind the decision to grant food aid, and the prime objective is to solve economic problems, it becomes particularly important to take account of cost-effectiveness and/or comparative advantage when designing the operation.

The overall cost of a food aid operation is basically determined by two components: the cost of the food products themselves, and the cost of their transportation. Because products from European Agricultural Guidance and Guarantee Fund stocks cost less than the international price, twice the volume can be purchased for the same expenditure. At the same time, a reduction in the volume of EAGGF stocks reduces storage costs in the European Union. When food products are purchased at higher market prices, even if they are purchased nearer to the country requiring food aid and are therefore cheaper to transport, the saving on transportation is generally not high enough to offset the extra expenditure on the food products themselves.

When Phare resources are used, the food is purchased at the international market price, making many food products more expensive. Often the only way such operations may be considered cost-effective and may display comparative advantage is to add some other objective to that of economic support (for example, a stronger humanitarian component, or reduction of stocks in another central and eastern European country through a triangular operation. The triangular operations undertaken to date can be seen as positive in themselves because they may contribute to a renewal of traditional trade links which have been disrupted by the transformations in the region.)

Budgetary instruments

The lack of special budgetary instruments for food aid and the use for food aid of instruments not designed specifically for this purpose have complicated the implementation of food aid operations.

The EAGGF budget is very large but is designed to be an instrument of the European Union's Common Agricultural Policy, not as a mechanism for delivering food aid. Only certain products are kept in intervention stocks (cereals, beef, rice, olive oil, butter, milk powder) and, clearly, any other products which were required (e.g. sunflower oil, baby food, pig meat) have to be

purchased on the open market. Consequently, the EAGGF, as an instrument for food aid, does not possess the flexibility to respond to various situations (e.g. triangular operations or delivery of items which do not originate from intervention measures.)

The Phare budget has the advantage of greater flexibility, but it is meant to cover every aspect of economic transition in the central and eastern European countries. Any use of its resources for purchasing food aid automatically reduces the funds available for other operations which are more central to medium and long-term economic restructuring. Phare has primarily been used in triangular operations (such as the one conducted in 1992 in favour of Romania with 89,000 tonnes of wheat from the former Czechoslovakia).

Evaluation of food aid needs

The European Commission has in some cases been criticised for not having made a thorough and correct assessment of the food aid needs. Urgent action is usually required when requests for food aid are made in response to deficits. The Commission has, as a result of the strict time pressures involved, sometimes taken decisions which, with hindsight, were not the most appropriate in terms of products and quantities needed. The situation is different with structural food deficits, which are, by definition, expected. Evaluation of Albania's food aid needs has been a regular exercise, with the information required to define an operation provided well in advance.

It should be emphasised, however, that in the early years accurate assessment was often hindered by unreliable agricultural statistics and other data which did not reflect the reality of the situation in the country concerned, and by difficulties in interpretation of definitions. In any case, these errors have not had any major influence on the final outcome of operations, nor have they led to negative effects on local production. In some cases, and particularly at the end of a series of operations in a given country, initial signs of market displacement have been observed. Significant stocks of food aid have made it more difficult to re-establish traditional international trade links where this might otherwise have occurred under local economic conditions.

Example: Problems encountered in re-establishing traditional trade links

As the end of the food aid operations in Estonia, Latvia and Lithuania illustrated, the availability of large food aid stocks slowed down commercial imports from neighbours in the former Soviet Union, which might otherwise have developed. Another example can be found with Albania: the unexpected appearance of private flour importers during the last quarter of 1993 meant that the total available stocks of grain and especially wheat flour (food aid, private imports, and local production) were too high compared with demand, affecting the pricing structure. Fortunately, this took place only at the end of the food aid operations and only for a limited duration. Production was therefore not negatively affected, as it would probably have been if the problem had occurred earlier during the operation (it is difficult to stop at short notice an operation which is already underway).

Donor coordination

In theory, if donors do not synchronise deliveries of food aid, a number of problems can emerge:

- for the partner country concentration of arrivals in the same period may reduce internal prices, whereas lack of supplies over a prolonged period may raise prices dramatically, and even cause social disturbance. In either case, the very objective of the operation (in terms of price stabilisation and fostering of internal trade) may be jeopardised
- for the donors concentration of arrivals in the same period can also increase operational costs for the donors themselves, either by overloading internal transport and distribution systems or by causing delays in vessels' discharging, so that demurrage penalties are incurred.

In practice, most of the implemented operations have been properly coordinated with other food aid donors and, when appropriate, with commercial importers. On some occasions, however, port congestion has been recorded, as well as congestion in distribution networks. For example, the last operation in favour of Romania was implemented concurrently with commercial imports of substantial quantities of cereals, resulting in serious port congestion. Before appropriate measures for speeding up discharging of European Union vessels could be taken, delays in unloading the first two vessels had already resulted in significant demurrage penalties. A similar situation developed in Durres, the entry port

for Albania, during November-December 1993. The congestion was due to a combination of insufficient donor coordination and increased commercial imports. Penalties were incurred, and internal logistics problems (in terms of warehousing and transport) were also encountered.

Counterpart Funds: the potentially significant impact of Counterpart Funds imposes an imperative to define, wherever possible, at the initial stage of preparation of operations, clear aims for the use of the Counterpart Funds. Given the urgency of getting some operations underway (because of the humanitarian dimension) such objectives were not always adequately defined for all food aid operations carried out to date, especially in the early years.

Experience has, however, taught useful lessons on how the impact of Counterpart Funds can be maximised. Their use for development purposes (for example, to cover local expenses of Phare projects) has proved difficult to achieve, because it requires coherence between the rate at which the funds are constituted and the rate at which they need to be disbursed to support the project. This has not been found to exist very often in practice. In general terms, Counterpart Funds have been most effective where they are used for simple and direct disbursement (e.g. social welfare schemes, direct budget support) not requiring particular coordination with other forms of aid, long-term planning and follow-up.

Problems can also be encountered with Counterpart Funds as a result of insufficient coordination between different donors. In this respect, problems were encountered in Estonia, Latvia and Lithuania, where donors applied different procedures for fixing the prices and for the constitution of the Counterpart Funds. Different prices were charged for the same product delivered as food aid by different donors, the internal price eroded and as a result the Counterpart Funds generated were smaller than expected.

Effect of food aid to central and eastern European countries on other food aid provided by the European Union

The idea that food aid has been provided to the central and eastern European countries at the expense of other traditional recipients of food aid is a myth. The operations described in this paper have not been part of the international Food Aid Convention, to which the G 24 are parties. The European Union and its Member States, like the rest of the G 24, have not offset food aid provided to the central and eastern European countries against obligations under the Convention. They have, on the other hand, continued to fulfil their obligations under the Convention as they have always done in the past. Consequently, aid to countries traditionally benefitting from food aid under the Convention has been maintained and there has been no reduction in food aid provided to the southern hemisphere as a result of increased food aid deliveries to eastern Europe.

Section 4 - Conclusion and future orientations

With the progress of reform, the overall economic situation in the central and eastern European countries has improved and the downward trend in agricultural production has been reversed in most countries. Food shortages in most cases have disappeared, so that food aid is no longer required. Where there are food deficits, the countries are for the time being able to meet their requirements through commercial imports. Even if some still face balance-of-payments problems and lack of foreign exchange, limiting their import capacity, this is not being translated into food shortages on the domestic open market.

In this respect, the European Commission is still carefully monitoring the evolution of agricultural production, and the food supply, in a number of countries, particularly those where the agricultural recovery is still precarious, and where production is therefore vulnerable to factors such as drought. There is clearly a link here to assistance provided to the agricultural sector in the countries concerned: one of the purposes of such assistance being to improve food supply through measures such as improvement of existing distribution networks and/or of local production, and the establishment of distribution services.

Future orientations

The availability of Phare resources for food aid purposes is limited because of the nature of the Phare Programme, which is that of assistance to the central and eastern European countries in the wider restructuring of their economies. If it proves necessary to undertake future food aid operations with Phare resources, they should be used as far as possible to support triangular operations involving two central and eastern European countries as supplier and importer. Such operations are a positive step towards re-establishing traditional trade links which have been disrupted by the transformation in central and eastern Europe.

If future food aid operations need to be undertaken in the central and eastern European countries, the European Union should give very serious consideration to the possibility of introducing some form of conditionality in economic reforms. This has not been the case to date, although a number of other donors use this approach. The question of the role food aid has to play in the economy of the central and eastern European country concerned will be integrated into the design. The description of objectives should also cover aspects related to the balance of payments, national budgets, foreign exchange resources, etc. As a general rule,

quantifiable objectives should be included in the operation design to allow follow-up evaluation beyond simply recording the type and quantities of food delivered and Counterpart Funds collected.

Maintaining effective coordination with other donors will also be an important goal. In terms of delivery periods, this will reduce the risk of encountering again the problems which arose in Albania and Romania (see Donor coordination). In terms of Counterpart Funds, experience in Estonia, Latvia and Lithuania (see Counterpart Funds) taught that donors must coordinate marketing methods and pricing policy, as far as possible, for each product provided in a given recipient country, to maximise the size of the funds.

The potential significance of Counterpart Funds generated by sales of products provided as food aid also imposes certain responsibilities on the partner government. Certain requirements for the constitution of Counterpart Funds, to be met by the partner government, should therefore be made a precondition for the provision of food aid by the European Union. A plan for their use needs to be prepared, taking into account the benefits accruing from using them in the shortest possible time to prevent their value from being eroded by inflation. Accumulated funds need to be placed in an interest-bearing account, offering competitive market interest rates.

Most, if not all, donors use the international market prices of the products provided in order to calculate the cost of their food aid operations. The Commission has always valued the European Union's operations by using EAGGF budget prices, which are up to 50 per cent lower than the world market prices. This method of valuation has led to underestimation of the European Union's real contribution to the international food aid effort. For example, if the value of the goods provided as food aid to the central and eastern European countries is calculated on the basis of international market prices, the European Union's food aid amounts to about ECU 650 million, against about ECU 517 million when it is calculated in terms of budgetary commitments. The European Commission is therefore considering the possibility of using international prices as a reference in the presentation of food aid operations costs in future.

Annex - Programme summary sheets

Poland

Poland was the first country to benefit from food aid, in 1989 and 1990. After price controls on most food products were lifted and most of the food subsidies eliminated during the summer of 1989, farmers withheld food from the market in expectation of high price increases, even though by the turn of the year inflation was declining. The effect was that, by December 1989, wheat stocks were sufficient for only a few weeks' bread production.

During 1989 and 1990, a total of ECU 150 million from the European Agricultural Guidance and Guarantee Fund and Phare budgets was therefore made available.

A breakdown of the products provided is as follows:

wheat	1,100,000 tonnes
rye	200,000 tonnes
maize	100,000 tonnes
olive oil	5,400 tonnes
lemons	15,000 tonnes
oranges	5,000 tonnes
meat	10,000 tonnes

The serious shortages, in particular that of cereals, were overcome as a result of this food aid. Since then no further food aid resources have been allocated to Poland nor food aid delivered.

Bulgaria

The food deficit experienced by Bulgaria in 1991 had an exceptional character, and was caused by the general economic disruption which resulted from the first reform measures. In particular, the cooperative production system ceased to function efficiently, owing to lack of credit and inputs. Moreover, at the beginning of the year, the repayment of foreign debt was stopped and Bulgaria did not have access to hard currency credits.

ECU 26.6 million from the EAGGF budget were therefore allocated to Bulgaria for food aid in 1991.

The funds have been used to deliver the following products:

meat	11,000 tonnes
butter	4,000 tonnes
milk powder	7,500 tonnes

After completion of that food aid operation no further budgetary allocations for food aid have been made available to Bulgaria.

Romania

In the period 1990-1993, ECU 121 million were allocated to Romania in response to a food deficit resulting from the disintegration of the centralised state and cooperative system of agricultural production which caused a significant fall in agricultural output. The general level of economic disruption, and the fall in output, was more severe in Romania than in the other central and eastern European countries. The decline in agricultural production was significant and shortages appeared in nearly all foodstuffs. The decision was therefore taken to supply a wider range of products to Romania than in the other cases where this form of assistance was provided.

The following goods were supplied to the country over the period:

maize	125,000 tonnes
barley	125,000 tonnes
olive oil	5,000 tonnes
butter	10,000 tonnes
meat	20,000 tonnes
skimmed milk powder	2,000 tonnes
full cream milk powder	2,000 tonnes
baby food	1,500 tonnes
sunflower oil	20,000 tonnes
sugar	20,000 tonnes
wheat	289,000 tonnes

(89,000 tonnes of which came from Czechoslovakia)

The last food aid operation to supply 150,000 tonnes of milling wheat was completed in summer 1993.

The breakdown of the overall budget allocations over the four years is as follows:

1990	ECU 48 million (EAGGF and Phare)
1991	ECU 49.1 million (EAGGF)
1992	ECU 14 million (Phare)
1993	ECU 9.9 million (Phare)

Estonia, Latvia and Lithuania

In 1991 and 1992, Estonia, Latvia and Lithuania experienced a severe deficit in cereals, both for human consumption and animal nutrition. The deficit was a side-effect of the separation of the three countries from the economic system of the former Soviet Union, into which they had previously been very tightly integrated. On the one hand, they had been intensively specialised in meat, at the expense of other forms of agricultural production; on the other, they had been guaranteed the necessary inputs for these high levels of meat production at artificially low prices from other republics of the Former Soviet Union. On a more general note, trade with partners which had absorbed some 90 per cent of exports from the three republics was severely disrupted.

In 1991 and 1992 a total amount of ECU 90 million was therefore allocated to the three Baltic States (Estonia, Latvia and Lithuania) for food aid. Two decisions for ECU 45 million each have been approved.

The funds originated from EAGGF and were used to deliver cereals (wheat, rye and barley).

The breakdown of goods delivered to each country is as follows:

First Tranche	(ECU 45 million)
Estonia	144,000 tonnes
Latvia	190,000 tonnes
Lithuania	255,000 tonnes
Second tranche	(ECU 45 million)
Estonia	145,000 tonnes
Latvia	155,000 tonnes
Lithuania	274,000 tonnes

The deliveries under the second tranche were completed in May 1993.

Albania

The food deficit experienced in Albania has both a structural and an exceptional component, the latter being due to inefficient production methods, combined with the initial negative effects of the transition period on agriculture. The legacy of the previous economic system is that a mentality of self-sufficiency, rather than producing to meet wider demand in the market-place, was ingrained among agricultural producers. Also there was no functioning distribution system.

The total budget allocated for food aid to Albania to date amounts to ECU 129 million.

The budget has come from EAGGF and the breakdown is as follows:

1991	ECU 44 million
1992	ECU 85 million

The following goods were supplied in the period 1991-1993:

wheat or wheat flour or durum	830,000 tonnes (wheat equivalent)
skimmed milk powder	10,000 tonnes
butter	6,000 tonnes
meat	26,685 tonnes
rice	3,651 tonnes
sugar	10,000 tonnes
olive oil	2,000 tonnes

ECU 7 million of the budget allocation were used for transport and internal distribution of the goods supplied (partial funding of the Pellicano operation).



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