# No. 18853

## UNITED STATES OF AMERICA
## and
## BANGLADESH

**Agreement for a "Food for Development Programme" (with annexes and agreed minutes of negotiations). Signed at Dacca on 2 August 1978**

*Authentic text: English.*

*Registered by the United States of America on 30 May 1980.*

## ÉTATS-UNIS D'AMÉRIQUE
## et
## BANGLADESH

**Accord relatif à un «Programme de fourniture de produits alimentaires pour le développement» (avec annexes et procès-verbal approuvé des négociations). Signé à Dacca le 2 août 1978**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 30 mai 1980.*

# AGREEMENT[1] BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH FOR A PUBLIC LAW 480 FOOD FOR DEVELOPMENT (TITLE III ) PROGRAM

The Government of the United States of America and the Government of the People's Republic of Bangladesh have agreed to the Food for Development Program as specified below. This Agreement shall consist of the preamble, parts I and III of the PL-480 Title I Agreement of October 4, 1974,[2] together with the following part II (Particular Provisions), annex A (PL-480, Title III, Food for Development Program) and annex B (Program Description).

## PART II. PARTICULAR PROVISIONS

*Item I.* COMMODITY TABLE

| *Commodity* | *Supply period (U.S. fiscal yr.)* | *Approx. quantity (metric tons)* | *Max. export market value (millions)* |
|---|---|---|---|
| Wheat/wheat flour (wheat basis) .......... | 1978 | 200,000 | $26.0 |

*Item II.* PAYMENT TERMS (CONVERTIBLE LOCAL CURRENCY CREDIT—CLCC)

(1) Initial payment: none.
(2) Currency use payment: none.
(3) Currency use offset: up to one hundred percent (100%) of the value of financing provided under this Agreement, to support the Food for Development Program identified in item VII.
(4) Number of installment payments: thirty-one (31).
(5) Amount of each installment payment: approximately equal annual amounts.
(6) Due date of first installment payment: ten (10) years after date of last delivery of commodities in each calendar year.
(7) Initial interest rate: two percent (2%).
(8) Continuing interest rate: three percent (3%).

*Item III.* USUAL MARKETING TABLE

| *Commodity* | *Import period (U.S. fiscal yr.)* | *Usual marketing requirements* |
|---|---|---|
| Wheat and/or wheat flour (on a grain equivalent basis)........................................ | 1978 | None |

*Item IV.* EXPORT LIMITATIONS

A. The export limitation period shall be U.S. fiscal year 1978 or any subsequent U.S. fiscal year during which commodities financed under this Agreement are being imported or utilized.

B. For the purposes of part I, article III, A (4), of the Agreement, the commodities which may not be exported are for wheat — wheat, wheat flour, rolled wheat, semolina, farina, and bulgur (or the same product under a different name).

[1] Came into force on 2 August 1978 by signature, in accordance with part III (B).
[2] United Nations, *Treaty Series*, vol. 967, p. 203.

*Item V.* SELF-HELP MEASURES

A. The Government of Bangladesh (BDG) will continue to place special emphasis on actions contributing directly to development progress in poor rural areas and on enabling the poor to participate actively in increasing agricultural production through small farm agriculture.

B. To increase domestic production, the BDG agrees to (1) improve the system for the distribution of agricultural inputs including expanding the number of fertilizer retail outlets and simplifying procedures to ensure greater accessibility by all farmers; (2) pursue agricultural research goals which aid to increase and diversify food production; (3) take effective measures to disseminate agricultural research information through the extension service and by other means to Bangladesh farmers; (4) strengthen rural institutions and promote participation in agriculture and other productive processes; and (5) strengthen and expand cash-based rural works programs generating rural purchasing power.

C. To ensure remunerative prices for domestic agricultural production the BDG also agrees to make timely, appropriate and sufficient efforts to reach the government's fiscal year 1978-1979 voluntary procurement target of 600,000 tons of foodgrains; announce the procurement price for the spring 1979 boro crop including high-yielding varieties prior to the sowing season; encourage the active participation of private dealers in food procurement; limit all foodgrain imports to the minimum necessary to meet the difference between domestic production and total domestic requirements.

D. To improve planning for agricultural development and the food needs of its population, the BDG agrees to accord high priority to the task of developing policy options with respect to the rationalization of agricultural development goals, rural income and employment goals and maintenance of reliable supplies of foodgrains for the urban sector and the society's destitute. The new food policy unit to be established by the BDG will be the focal point of this effort.

E. To improve access of poorer segments to food, while increasing the market for domestic food production, the BDG agrees to a gradual shift of the ration system toward the more vulnerable groups, beginning in 1978. This effort will include, for example, reducing the subsidy and/or quantity of the ration in the statutory ration areas. The BDG will continue to limit during 1978-1979 modified rationing to class A card holders, except in emergency.

F. To protect its food supplies, the BDG agrees to continue to improve and upgrade foodgrain storage and stock management to ensure the effective and economic management of its foodgrain stock and distribution systems.

G. To assure coordination of food imports, the BDG agrees to provide to the U.S. Government (USG) monthly (within thirty days of the close of the month) statistics on its foodgrain stock position (e.g., opening stocks, actual arrivals, actual offtakes and actual procurement and closing stocks) and forecasts of future foodgrain stock positions under various agricultural conditions.

*Item VI.* ECONOMIC DEVELOPMENT PURPOSES FOR WHICH PROCEEDS ACCRUING TO THE IMPORTING COUNTRY ARE TO BE USED

A. The proceeds accruing to the BDG from the sale of commodities financed under this Agreement will be used for financing the Food for Development Program identified in item VII, or to the extent that such proceeds may not be used for such purpose, for financing the self-help measures set forth in item V and for other development activities in agriculture, rural development, population, family planning and health included in the BDG's annual development plans.

B. In the use of proceeds for these purposes emphasis will be placed on directly improving the lives of the poorest of the recipient country's people and their capacity to participate in the development of their country.

*Item VII.* FOOD FOR DEVELOPMENT PROGRAM TO WHICH CURRENCY USE OFFSET APPLIES

Annexes A and B set forth the understandings of the Parties concerning the Food for Development Program to be undertaken by the BDG with the proceeds from the sale of agricultural commodities financed by this Agreement. In the event of any inconsistencies between the provisions of parts I, II and III of this Agreement and annexes A and B, such annexes shall be controlling.

Annexes A and B are incorporated in the Agreement. Annex A is intended to be applicable to the Food for Development Program for Bangladesh. Annex B describes the specific Food for Development Program of the BDG.

IN WITNESS WHEREOF, the Parties each acting through their duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year written below.

For the People's Republic of Bangladesh:
[*Signed*]
A. M. A. MUHITH
Secretary

External Resources Division
Ministry of Planning

*Date:* August 2, 1978

For the United States of America:
[*Signed*]
DAVID T. SCHNEIDER
Ambassador Extraordinary and Plenipotentiary

*Date:* August 2, 1978

## ANNEX A

### FOOD FOR DEVELOPMENT PROGRAM

The Government of the United States (USG) and the Government of Bangladesh (BDG),

Recognizing the policy of the USG to use its agricultural productivity in a manner which will establish a strong relationship between food assistance and efforts by the BDG to increase the availability of food for the poor, and to improve in other ways the quality of their lives, and

Having agreed upon a proposal for the intended use of commodities or funds generated from the sale of such commodities to increase the access of the poor in Bangladesh to a growing and improving food supply through activities designed to improve the production, protection and utilization of food, and to increase the well-being of the poor in the rural sector of Bangladesh, and

Desiring to set forth the understandings that will govern the sale of agricultural commodities in Bangladesh in order to carry out the above-mentioned proposal pursuant to the authority of the Agricultural Trade Development and Assistance Act of 1954, as amended (hereinafter referred to as the Act), and the measures the two Governments will undertake to further the above mentioned policies,

Agree as follows:

*Item I.* RESPONSIBILITIES OF THE USG

A. Subject to the availability of funds and commodities, the USG agrees to furnish credit under authority of Title I of the Act to the BDG for the purchase of agricultural commodities over the life of the Food for Development Program as set forth in annex B of this Agreement.

B. On receipt of satisfactory evidence of disbursements from the special account for eligible uses by the BDG described below for the activities and/or programs described in annex B, the USG will apply such disbursements against the Title I payment obligation incurred under this Agreement as set forth in items II and III below.

*Item II.* RESPONSIBILITIES OF THE BDG

A. The BDG agrees to carry out the program detailed in annex B. In carrying out such program, the BDG agrees that it will:

1. Use the total amount of the commodities and proceeds generated from the sale of agricultural commodities financed under this Agreement to finance the development activities specified in annex B;
2. Submit on or before November 1 of each year during the period of this Agreement a comprehensive report to the USG on the activities and progress achieved under the Food for Development Program, for the United States fiscal year ending September 30 including, but not limited to, a comparison of results with program targets, a specific accounting for commodities and funds generated, their uses, the outstanding balances at the end of the most recent fiscal year, and any recommendations of the BDG for modification and improvement of the Food for Development Program;
3. Maintain adequate records for not less than three years after completion of the program to permit review and audit by the USG of measures taken to implement the Food for Development Program.

B. The BDG agrees to establish a special account in which it will deposit not later than six calendar months after the date of disbursement by CCC, the proceeds generated from the sale of the commodities provided to it for the Food for Development Program set forth in annex B of this Agreement. Part I, article II, F, of this Agreement shall not apply to sales proceeds disbursed from the special account for the Food for Development Program.

*Item III.* CREDIT FOR TITLE I LOAN INDEBTEDNESS

The USG and the BDG agree that:

A. The dollar equivalent of local currency disbursed for eligible uses identified in annex B shall be calculated at the exchange rate specified in part I, article III, G, of this Agreement, applicable on the date of disbursement from the special account. The dollar equivalent of local currency disbursed for the eligible uses identified in annex B shall be credited as payment for the purpose of part I, article II, H, of this Agreement against (1) the amount of each year's interest payment due during the period prior to the due date of the first installment payment, starting with the first year, plus (2) the combined payments of principal and interest starting with the first installment payment until the value of the local currencies disbursed has been offset.

B. For the period during which disbursements are made in accordance with paragraph A above, the BDG will furnish the USG a quarterly report of the deposits and disbursements made, certified by the appropriate audit authority of the BDG and a description of the activities for which the disbursements were made.

C. Not less than 60 days before the first Title I loan installment becomes due under the terms of part II, item II, of this Agreement, and annually thereafter, as may be appropriate, the USG will provide a schedule of amounts disbursed from the special account, showing application to Title I payment obligation.

D. The USG reserves the right to review use of disbursements and to determine eligibility for application against Title I payment obligations under this Agreement. If the USG determines that a disbursement was made for an ineligible use, notice of such ineligibility shall be given by the USG to the BDG and the two Governments shall, upon request of either, consult regarding such ineligibility. If the notice of ineligibility is not rescinded by the USG within 90 days of receipt of such notice by the BDG, disbursements for ineligible uses shall not be applied to the indebtedness, and, at the option of the USG the equivalent amount shall be restored to the special account. To the extent that any disbursements for ineligible uses were previously applied by the USG against the Title I payment obligation such application will be cancelled.

E. The USG shall have the right at reasonable times to inspect activities under the FFD Program and inspect and audit records, procedures, and methods pertaining to the disbursements made from the special account.

F. If currencies remain in the special account after completion of the Program set forth in annex B, the BDG shall use the remaining currencies for such economic development purposes as the two Governments may agree.

G. Annually at such time as the two Governments may agree, representatives of the Parties will meet in a place mutually agreed upon to discuss and review the progress of the Food for Development Program to consider modifications and improvements, and to determine the amounts and kinds of commodities to be financed under this Agreement during that year of the Food for Development Program.

*[Item] IV.* IMPLEMENTATION OF THE FOOD FOR DEVELOPMENT PROGRAM

A. The Food for Development Program, which is further described in annex B, will consist of activities of the BDG designed to assure remunerative prices to small farmers, stabilize food prices and increase food available to poor consumers during the lean season, develop and extend the technical base for small farmer agriculture, to improve small farmer access to necessary production inputs such as land and water, to improve the marketing system serving small farmers, to improve the management and planning of the agricultural sector, to increase the number of trained small farmers and technicians, to control communicable disease, and to reduce the incidence and effects of malnutrition. Annex B amplifies the above description of the Food for Development Program.

B. The Food for Development Program which is further described in annex B will consist of activities of the BDG designed to develop and implement an open market sales program to stabilize price to consumers, to support the modified ration system for distribution to those persons in the quote A unquote category, to maintain incentive prices to farmers, and to utilize sales proceeds for agreed development purposes.

*Item V.* SUSPENSION OF THE AGREEMENT

The USG shall annually review the performance and implementation of this Agreement by the BDG. If the USG finds that the provisions of this Agreement are not being substantially met, no further financing under this Agreement shall be extended until the end of the following United States fiscal year or until the situation is remedied, whichever occurs first, unless the failure to meet the provisions is due to unusual circumstances beyond the control of the BDG.

## ANNEX B

### PROGRAM DESCRIPTION

*Item I.* PURPOSE

A. *Overall development effort to be addressed.* The BDG's goal to achieve foodgrain self-sufficiency by 1985/86 can be achieved only by concerted and simultaneous actions to increase agricultural production and to decrease the rate of population growth.

B. *Proposed Title III Program.* The purpose of this Food for Development Program is to stabilize grain prices during the agricultural year and to provide resources in support of specific BDG agricultural development programs. The Program will entail the maintenance of incentive prices during the months when foodgrain prices are low, the distribution of subsidized foodgrain to some of the poorest people in the society, and the allocation of local currencies generated through open market sales (OMS) and modified ration system (MR) for the sectors of the BDG development budget agreed upon herein.

*Item II.* BACKGROUND AND SETTING

In the past, the P.L. 480 Title I self-help measures have related to improving the terms of trade for agricultural producers by improving the input costs–output price relationship in such a manner that all farmers, especially sharecroppers, would have an incentive to adopt HYV technology. More specifically, the self-help measures have emphasized the following: shifting urban purchasing power from the statutory ration system to the open market supplied by Bangladeshi farmers; increasing the domestic procurement effort to maintain agricultural prices at harvest times; and using free or concessionally financed imported foodgrains to meet the needs of the poor.

In 1977/78, the BDG mounted a large-scale domestic procurement program which effectively maintained open market prices during the major aman harvest. In this manner one part of the agricultural policy objective was achieved. However, the Government continues to rely on the ration system to constrain prices during those months of the year when foodgrains are in short supply — the so called lean seasons.

In a typical year the price of coarse rice may fluctuate about 40 percent between the major aman harvest in December and January and the height of the lean season which occurs in October. Low prices at harvest times are a profound disincentive. High prices during the lean season reduce the real incomes of everyone, especially for the urban poor, the rural landless and small farmers who do not grow enough foodgrain for home consumption throughout the year. Open market sales are believed to be the most effective mechanism for constraining foodgrain prices during the lean seasons (approximately March-April and August-October).

*Item III.* PROGRAM DESCRIPTION

The P.L. 480 Title III Food for Development Program has four distinct components: (A) maintenance of incentive prices to farmers; (B) control of the prices during the lean seasons through open market sales by licensed grain dealers and flour millers; (C) the distribution of subsidized foodgrain to poor rural consumers through the modified ration system; and (D) the utilization of the sales proceeds for agreed development purposes. The Program will be subject to evaluations as provided in annex A. The Program will provide 800,000 MT of wheat over 3 U.S. fiscal years, including 400,000 MT for open market sales, 200,000 MT for the modified ration system and an additional 200,000 for open market sales if demand requires it. Otherwise the last 200,000 MT will be allocated to the modified ration system category A.

A. *Incentive prices to farmers.* The BDG will maintain open market foodgrain prices throughout the year through its domestic procurement program. The target stabilization price range for various crops will be within approximately taka 5 to 10 per maund (US dollar equals taka 15) of the Government's official domestic procurement prices for these crops. The Food Department will continue to procure all grain available at the announced prices during the harvest seasons. It will also continue procurement operations at all procurement points throughout the year, in order to avoid the possible adverse impacts on production incentives which might otherwise result in some areas when increased grain is available through the open market sales system.

The annual evaluation will provide for a review of the BDG's official domestic procurement prices to ensure that the margin between output prices and input costs is adequate to promote the adoption of high yielding varieties among small farmers and sharecroppers.

B. *Open market sales.* The BDG will conduct open market sales during the year, particularly during the lean seasons. The lean seasons are March-April, immediately before the boro rice harvest, and August-October, prior to the major aman harvest. The sales program will include the following features:

1. Open market sales will be initiated during each year well in advance of the lean seasons when open market prices so indicate. Sales will continue through each lean season. Before the end

of October and April, the foodgrain situation and harvest outlook will be reviewed to determine whether the open market sales period should be extended.

2. The initial phase of open market sales will be confined to wheat only. To this end, subject to commodity and budget availabilities, the USG will provide a total of 400,000 tons of wheat over the 24 months of the Title III Program. An additional 200,000 tons may be utilized for open market sales, depending upon demand; otherwise these supplies will be utilized in the modified ration system.

3. The points of sale will be the Ministry of Food's Central Supply Depots (CSDs) and Local Supply Depots (LSDs) including all LSDs and CSDs in statutory ration areas.

4. The Ministry of Food will offer wheat for sale to any licensed dealer and flour miller in any quantity above a minimum sized lot of 10 maunds (one maund equals 82.29 lbs. or 823 pounds) and up to a maximum of 200 maunds in one transaction from the CSD or LSD godowns. In addition to sales to licensed dealers, the BDG will explore the feasibility of selling wheat from CSDs and LSDs to any individual or group of persons willing to purchase at least the 10 maund minimum in order to ensure competition and avoid excessive profits by a few individuals.

5. The sales price to the licensed dealers will be fixed each year and will remain valid throughout the lean seasons. The sales price for wheat for the first year of open market sales will be taka 85 per maund. Either Party to this Agreement may call for a review of the wholesale price of wheat to licensed dealers and flour millers and the open market sales price may be changed by the mutual agreement of both Parties as recorded in an exchange of letters. The price may be adjusted in the second year by the mutual agreement of both Parties. The sales price each year should be high enough to prevent undue adverse impact on rice prices. It also needs to be high enough to provide an incentive to dealers to buy grain from farmers during the harvest season and stock it for later sale.

The BDG will advertise the sales price to licensed dealers and flour millers in the public media including the Bengali language press and radio on a regular basis. In addition the official wholesale price will be posted at the point of sale in BDG central and local supply depots.

6. The licensed dealers and flour millers will be free to sell the wheat at any price to consumers.

7. The BDG will meet the wholesale demand for wheat during the lean seasons provided that the overall foodgrain stock level for the public distribution system does not fall below 500,000 tons with a minimum wheat stock of 250,000 tons during the lean months.

8. The BDG shall meet the grain price stabilization objectives through open market sales according to market demand throughout the lean seasons. If foodgrain stocks fall below 500,000 tons and if wheat stocks drop below 250,000 tons the BDG may stop open market sales, postponing the use of commodities provided for open market sales under this agreement until a later time.

9. If this experimental program demonstrates that the open market sales mechanism can work effectively, the BDG may include rice as a commodity for open market sales.

C. *Distribution of subsidized foodgrain to poor consumers.* The Title III Agreement will provide 200,000 tons of wheat over the 24 months of the Program, to be allocated to the modified ration system for distribution to those persons in the quote A unquote category, i.e. whose incomes are so low that they pay no tax whatsoever to the Government. Up to an additional 100,000 tons of wheat may be provided through the modified ration system each 12-month period under the Title III Agreement, in the event that demand for wheat through open market sales is no more than 200,000 tons per annum.

D. *Use of Title III sales proceeds.* The proceeds from the sale of Title III wheat will be segregated from general revenue receipts by the BDG and deposited in a special account.

Sales proceeds shall be disbursed from the special account to support the BDG's Development Programs/Projects in the BDG's FY 1978/79 to 1980/81 Annual Development Plans. The BDG will use the local currency proceeds for its approved development programs in:

| | Taka (millions) |
|---|---|
| *Rural development sector* | |
| 1. Construction of thana training and development centre complexes | 20 |
| 2. Construction of thana workshops and godowns | 9 |
| *Agriculture sector* | |
| 1. Establishment of agriculture training institutes | 17 |
| 2. Shallow tubewell irrigation project | 40 |
| 3. Construction of fertilizer godowns | 25 |
| 4. Procurement and distribution of chemical fertilizers | 700 |
| 5. Rural development extension project | 20 |
| *Health and population sectors* | |
| 1. Construction, equipping and operation of family welfare centres | 92 |
| 2. Zero population growth project | 3.5 |
| 3. Thana health complexes | 270 |
| TOTAL | 1,196.5 |

Upon receipt of certified reports from the BDG that the sales proceeds have been utilized in the agreed manner, and upon an independent confirmation by the USG, the BDG's dollar repayment obligation under the Title III Agreement will be reduced in accordance with item III, A, of annex A.

*Item IV.* PROGRAM REQUIREMENTS

Given the many unknowns about the marketing of foodgrains—for example, the price elasticity of demand for wheat, the cross elasticity of demand of wheat for rice, the size of future rice and wheat harvests, per capita consumption of foodgrain, and the volume of foodgrain transactions in the private sector—the total amount of wheat required for lean season open market sales can only be roughly estimated. The USG and the BDG agree that the best approach is to test open market sales and to evaluate the impact upon prices and the ration system. Based upon an evaluation of the first year program, the volume of foodgrain made available for open market sales may be adjusted. The 100,000 tons allocated to the modified ration system represents about one quarter of the annual requirement for this category of the public distribution system. If the amount allocated to open market sales proves to be too large, the difference would be reallocated to the modified ration system.

*Item V.* EVALUATION

The BDG and the USG will evaluate the Program as set out below. The USG expects to work with the new food policy unit on these evaluations. An evaluation, as provided in section III, G, of annex A, of the first year's experience shall be held prior to reaching a decision on the exact allocation of foodgrains for FY 1979 and 1980. The ultimate test of the Program is whether—through a combination of domestic procurement during the harvest seasons and open market sales—foodgrain prices can be contained within a range of 20 to 25 percent between the low and high points in the cycle.

At the end of the first full year, a decision on second year shipments will be made on the basis of the BDG's performance against benchmarks in the four areas listed below. Modification in prices and other features of the Program might also be made on the basis of this evaluation.

A. *Benchmarks.* 1. Incentive prices to farmers will be maintained through the BDG's domestic procurement program throughout the year. Incentive prices are defined as an open market price within taka 5 to 10 per maund of the official domestic procurement price per maund. The BDG will encourage private sector purchases to complement its own effort.

2. An open market sales mechanism will be installed and operating effectively with yearly sales of some 200,000 to 300,000 tons of wheat from central and local supply depots to licensed dealers.

3. The seasonal fluctuations of foodgrain prices will be contained within a narrower range than the historical pattern.

4. Modified ration system distribution to card A recipients will total about 400,000 tons of wheat for each 12-month period of which 100,000 tons could have been supplied under Title III.

B. Additional review and evaluation requirements are covered in item II, A (2), item III, B, item III, D, and item III, G, of annex A.

C. The project will be evaluated not less than annually in accordance with item II, A (3). A detailed methodology will be developed during the first year. It will include elements such as but not limited to the following:

1) Detailed monthly reports from the Ministry of Food on procurement operations, ration system offtakes, and open market sales, to assess the volume of these transactions;
2) Daily price reports from the Ministries of Food and Agriculture covering 67 significant markets around the country;
3) Monitoring of wholesale transactions between the Ministry of Food and licensed dealers by the BDG and the USAID Mission to assess retail sales in village markets;
4) Analysis of cases in which open market sales fail to stabilize prices within the agreed range;
5) Continuing evaluation, by the BDG and USAID Mission, of agricultural input costs, including the extra costs borne by sharecroppers and small farmers, and the relation of input costs to output prices at harvest and to the open market sales price.

## AGREED MINUTES OF THE NEGOTIATIONS BETWEEN THE UNITED STATES OF AMERICA (USG) AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH (BDG) FOR A PUBLIC LAW 480 FOOD FOR DEVELOPMENT PROGRAM (TITLE III)

1. *The Agreement.* USG officials advised that the Agreement provides for (1) the supply of 200,000 metric tons of wheat/wheat flour with a total export market value of $26 million during FY 1978 and indicates a multi-year commitment (covering FY 1978, 1979 and 1980) to provide a total of 800,000 metric tons of wheat with a projected value of $104 million over the life of the Agreement; and (2) for the inclusion of a Food for Development Title III provision which calls for the BDG to carry out a grain price stabilization program over the three-year period of the Agreement.

USG officials explained that the duration of the program is intended to be 24 calendar months from the date the original Agreement is signed and that this period would encompass parts of three U.S. fiscal years.

BDG officials noted that the Agreement provides for the possible importation of wheat flour to which they do not agree given severe problems of handling and storing wheat flour in large quantities.

2. *Commodity deliveries.* USG officials reminded the BDG representatives of the importance of arranging purchases and scheduling shipments to ensure that deliveries are made to vessels at U.S. ports by not later than September 30, 1978. Any deliveries after that date will be charged against FY 1979, and may have the effect ultimately of reducing the value of financing which can be made available over the three-year period of the Food for Development (FFD) program.

USG officials suggested that after the United States Department of Agriculture (USDA) issues the purchase authorization, and as soon as commodities are purchased and vessels booked, the BDG should promptly open letters of credit for both commodities and freight.

USG officials advised that in case unit prices become higher than those projected in valuing this Agreement, purchases will be limited to the dollar value specified in the Agreement, in accordance with article I, E, part I, of the Agreement.

3. *Payment terms.* In view of the combination of an FFD program with the proposed Agreement, no initial payment or currency use payment is required. A currency use offset of up to 100 percent of the value of financing provided under the Agreement is provided to fund the FFD program outlined in annex B.

4. *Usual marketing requirements.* The usual marketing requirement (UMR) for wheat/wheat flour as set forth in item III, part II, is not applied because of the BDG's financial and economic situation.

5. *Export limitations.* Provisions shown under paragraphs A and B, item IV, of part II are standard.

6. *Self-help measures (item V, part II) and sales proceeds.* USG officials explained that inclusion of an FFD provision in this Agreement does not relieve the USG of the legal requirement in section 109 of the Act.

Language indicated in item VI, part II, of the Agreement indicates that sales proceeds are to be used for the FFD program outlined in annex B. However if for any reason generated sales proceeds are not used for that approved program, such proceeds are to be applied to items V and VI of part II of the Agreement.

Any interest which may be earned from the local currency deposits in the special account would not be eligible for use under the loan forgiveness provisions of the Agreement.

7. *Reporting requirements.* USG officials noted that reporting is an essential part of the Title I PL-480 program. The BDG is responsible for the submission of timely reports on compliance, shipping and arrival information, self-help and uses of sales proceeds, as required under the provisions of the Agreement.

8. *Operational considerations.* The USG officials advised the BDG officials that commodity suppliers are refusing to load vessels when acceptable letters of credit for both commodity and freight suppliers are not available at the time of loading. This has resulted in costly claims by vessel owners for demurrage and/or detention claims and carrying charges by commodity suppliers. Delays in opening letters of credit and settlement of final ten percent of freight will also result in higher commodity prices and freight rates. With particular regard to ocean freight, letters of credit for 100 percent of ocean transportation should be opened not later than 48 hours prior to vessel's presentation for loading.

BDG officials stated that appropriate measures will be taken to ensure that operable letters of credit for both commodity and freight will be opened, and confirmed by designated U.S. banks, immediately after contracting under each purchase authorization is concluded, and before vessels arrive at loading ports.

USG officials advised the BDG representatives of the following new legislative and regulatory requirements:

(A) Purchase authorizations will be issued under the Agreement only after the Secretary of Agriculture has determined that (1) adequate storage facilities are available in the recipient country at the time of exportation to prevent spoilage or waste of the commodity and (2) the distribution of the commodity in the recipient country will not result in a substantial disincentive to domestic production.

(B) Purchases of food commodities under the Agreement must be made on the basis of invitations for bid (IFB) publicly advertised in the United States and on the basis of bid offering which must conform to the IFB. Bid offering must be received and publicly opened in the United States. All awards under IFBs must be consistent with open, competitive and responsive bid procedures.

(C) The terms of all IFBs (including IFBs for ocean freight) must be approved by the General Sales Manager/USDA prior to issuance.

(D) Commissions, fees or other payments to any selling agent seeking to obtain a contract are prohibited in any purchase of food commodities under the Agreement.

(E) If the BDG nominates a purchasing agent and/or shipping agent to procure commodities or arrange ocean transportation under the Agreement, the BDG must notify the General Sales Manager/USDA in writing of such nomination and provide along with the notification a copy of the proposed agency agreement. All purchasing and shipping agents must be approved by the Office of the General Sales Manager in accordance with new regulatory standards designed to eliminate certain potential conflicts of interest.

BDG officials stated that arrangements will be made to relay to its Washington Embassy all instructions, information and authority necessary to enable timely implementation of the Agreement including (1) commodity specifications; (2) contracting and delivery periods; (3) names and addresses of U.S. and foreign banks handling transactions (letters of credit for commodity and freight); (4) authority to request and sign purchase authorizations and other necessary documents; (5) complete instructions information/authority regarding arrangements for purchasing commodities and contracting for freight (including the appointment of purchasing and/or shipping agents if applicable); and (6) instructions to contact Program Operational Division, Office of the General Sales Manager, USDA, regarding the foregoing.

9. *Food for Development Program.* The Food for Development (FFD, Title III, PL-480) program outlined in annexes A and B is to be supported by the commodities provided under this Agreement and funded by currencies (taka) generated from sales of commodities financed under the Agreement. Disbursements of generated currencies for eligible uses will result in forgiveness of equivalent dollar value of indebtedness. USG officials advised the BDG representatives of the following points:

(*A*) *Responsibilities of the USG.* 1. Annex B indicates annual and total dollar levels targeted by the USG for the period of the FFD program. Title I financing available for the annual dollar targets illustrated may vary from the amounts shown. However the USG will give priority to providing the total dollar value of financing indicated over the life of the program. Priority will be given in each fiscal year's Title I PL-480 budget to financing commodities to be shipped in connection with FFD programs.

2. As the BDG makes disbursements from the special account described below and in annex A, the USG will apply the dollar equivalent of such disbursements to outstanding Title I indebtedness, as earliest payments of interest and then of principal and interest. To the extent that disbursements exceed earliest installments, interest will be credited to the BDG at the same rate as that charged in the agreement.

(*B*) *Responsibilities of the BDG.* 1. The BDG is required to establish a special account, as described in annex A, item II(B). The special account is to remain under the sole control of the BDG but account records must be subject to inspection and audit by the USG. The account may be established as an interest-bearing account in a commercial facility, as a non-interest-bearing account in the central banking authority, or as an account in a government ministry or department which is used to control deposits into and withdrawals from the treasury of the BDG. The account must be established and deposits made not later than six months after the date of disbursement by the Commodity Credit Corporation (CCC). The CCC will notify the American Embassy in Bangladesh as all such disbursements occur.

2. The BDG is required to deposit the proceeds generated from the sale of commodities in the special account. Disbursements made in accordance with annex B will constitute use of the proceeds determining forgiveness of the Title I debt.

3. The BDG has an obligation to maintain records of deposits to and disbursements from the special account and to maintain sufficiently detailed records of disbursements to provide an audit trail. Annex A requires that records be maintained for not less than three years after completion of the full program outlined in annex B.

4. The reporting requirement of item II, A, in annex A will substitute for the annual self-help report which would otherwise be required by part I, article III, C, of the Agreement.

(C) *Credit for Title I indebtedness.* 1. The credit for Title I indebtedness is secured through operation of the special account. Deposits to the special account should represent only the proceeds from sale of the commodities. Forgiveness will apply only to the amounts of proceeds generated from the sale of the commodities that are deposited in the special account. If the BDG sells wheat through the modified ration system, at subsidized prices, then the amount of proceeds deposited will be less than the FOB value of the wheat for which forgiveness can be granted.

2. As disbursements are made from the special account, detailed records of amounts and purposes of those disbursements must be maintained. The BDG is required to report quarterly to the American Embassy on its disbursements from the special account; the Embassy in turn will report those disbursements to Washington, together with a certification by the Ambassador or his designee that disbursements reported were made for eligible uses.

3. Under the terms of annex A, not less than 60 days before the first Title I installment would otherwise fall due, CCC will furnish a schedule showing application of disbursements to amounts due under the Title I agreement.

4. Title I indebtedness will be forgiven only as disbursements are made from the special account. It will be the American Embassy's responsibility to determine that disbursements were in fact made for eligible uses, and so to certify to the CCC. If the Embassy finds that any disbursements were made for ineligible uses it shall follow the notification and consultation procedure outlined in item III, D, of annex A. USG personnel will regularly wish to inspect activities supported under the FFD program (as described in annex B) and records, in accordance with item III, E, of annex A.

5. Item III, G, of annex A requires an annual review by the two governments, at a time mutually agreeable to both of them. It is intended that the annual review cover at a minimum the progress made to date by the BDG toward completing the activities and programs outlined in annex B and the need for an agreement by the two Governments on budget adjustments necessary for the continuing progress toward the goals and objectives of annex B in the coming year.

10. *Price of wheat in open market sales.* USG officials opined that the open market sales price for wheat during the 1978-79 lean season should be about taka 95 per maund. The reasons for this opinion were that the difference between the official procurement price of taka 84 per maund and a wholesale wheat price of taka 95 ought to be sufficient to encourage private grain traders to purchase domestic wheat and to carry these stocks to the lean season for sale when prices would be higher. Thus a BDG price of taka 95 per maund would not undercut the initiative of the private grain traders. In addition, a price of taka 95 per maund would lessen the possibility that wheat made available for open market sales would be sold during those times when the coarse rice price was lower than the grain price stabilization target upper limit.

The BDG officials replied that taka 85 per maund is the upper limit for the wholesale price of wheat for the following reasons: (*a*) the BDG has purposely set the official procurement price of wheat high relative to rice (64 percent) as compared to world market prices (i.e., 42 percent) to encourage the diversification of cereal grain production into wheat; a higher wholesale price of wheat, i.e., taka 95 per maund, would make the percentage even higher (72 percent) relative to rice; (*b*) domestic wheat production is a very small fraction of total cereal grain production (about three percent); it is grown by small, marginal farmers who cannot afford the higher input costs of boro rice production (i.e., fertilizer and irrigation pumping) and it is consumed mostly on the homestead; (*c*) since the wheat crop is consumed on the farm, the BDG has always experienced great difficulty procuring a significant quantity even though the procurement price, relative to rice, is very high; (*d*) according to the Ministry of Food statistics the price of wheat has only exceeded taka 95-97 per maund in two months in the last four years and these months were the time of the 30 percent failure in the 1977 boro rice crop; (*e*) given this, the Ministry of Food is convinced there will be no wholesale buyers of wheat at a wholesale price of taka 95 per maund which would imply a retail price of between taka 103 and 105 per maund; (*f*) no one knows what the cross elasticities between wheat and rice are except that they vary considerably from harvest season to lean season; (*g*) the BDG is anxious to make the study of the cross elasticities a high priority assignment for the forthcoming food policy unit but, in the meantime, they must rely on the conventional wisdom of the Food Ministry and the available data; the conventional wisdom and data both indicate that grain dealers will not purchase wheat during the lean season at a wholesale price greater than taka 85 per maund; (*h*) if the wheat price is too high, then the rice price during the lean season will also be high; e.g., the conventional wisdom is as follows: if the wholesale price of wheat is 85, retail will be about 92 to 95 and the corresponding coarse rice price will be about 145; if the wholesale price of wheat is 95, retail will be 103 to 105 and the corresponding rice price will be about 160; (*i*) the BDG was reluctant in the first instance to administer two prices for the same commodity, i.e., taka 80 per maund in the ration system and taka 85 in OMS but agreed to do so because USG/BDG joint analysis seemed to indicate that taka 85 is about right, at least for a start; (*j*) the President approved taka 85 per maund for OMS; any change would require cabinet approval; (*k*) the BDG's calculation is that the economic subsidy on wheat (i.e., CIF Chittagong plus internal distribution costs) is taka 8 per maund if sold in the ration system at taka 80 per maund, while the economic subsidy on rice is taka 57 per maund.

The USG team suggested the compromise of taka 90 per maund with a review of the price question in December at the agreed time of the first evaluation meeting. The BDG agreed to a review of the price question at any time, as the suggested amended language to annex B indicates, but for all the reasons stated above insisted that the initial agreement provide for a taka 85 wheat wholesale price.

11. *Open market sales mechanism.* USG officials noted that the proposed Title III Agreement was one of the first such Agreements to be negotiated under the revised PL-480 law. Ordinarily the USG would require that the mechanism for the sale of U.S.-supplied wheat in the open market would be specified in considerable detail. In particular, and in view of the grain price stabilization objective, it will be necessary to agree on appropriate lower and upper price limits and, furthermore, on such other price levels, i.e., "trigger prices" as may be required to signal the beginning and/or the end of open market sales. USG officials recalled that BDG representatives had expressed the opinion that while such understandings are necessary it would be preferable to reach them through a process of frequent informal consultations between the two Governments. BDG officials noted the need for maximum built-in flexibility so that the BDG could rapidly adjust to the experience it gains in the course of open market sales. USG officials agreed to this point and suggested that on such matters as "trigger prices" and related details the two Governments should reach informal understandings through frequent joint consultations and record such understandings by exchanging informal letters between the responsible

officials of both Governments. The BDG officials agreed to this proposal and noted that it would be in keeping with their concern to retain maximum built-in flexibility.

BDG officials provided to the USG officials a copy of the draft government circular order which describes the open market sales mechanism. The text of the draft order is as follows:

"Government of the People's Republic of Bangladesh
"Ministry of Food
"Bangladesh Secretariat—Dacca

"No. 414(175)MF/S-7/IF-7/78, dated 3-7-1978

"*From:* Mr. Ataul Haq
"Joint Secretary

"*To:* 1) The Director of Supply, Distribution and Rationing System, Dacca
"2) All Deputy Commissioners
"3) All Subdivisional Officers
"4) All Regional Controllers of Food
"5) All District Controllers of Food
"6) All Subdivisional Controllers of Food

"*Subject:* Release of wheat in the open market for stabilization of price of foodgrains

"The undersigned is directed to say that it has been decided by the Government to undertake open market operation on increasing scale to stabilize prices of foodgrains and to restrict upward trends of the same during the lean periods, i.e., from mid-March to April and from August to October. Open market operation will augment supplies in the market through larger scale of foodgrains into the market through the traders so that improved availability of food can stabilize price within reasonable limit. This will be undertaken along with other existing channels of supplies like S.R. ration to the priority groups, modified rationing and Food for Work in the rural areas.

"Open market operation is designed to stabilize prices of foodgrains at reasonable level when it tends to rise beyond the desired limit. It should be undertaken whenever required according to the requirements of specific area. It is important to review the price trends in the different areas continuously to determine when open market operation is required. Our objective being to contain rice price within a maximum ceiling of Tk. 150 per maund (coarse variety), open market operation can be undertaken when prices in the hats and bazars rise above Tk. 145 per maund. Decisions for starting open market operation will be taken by the Subdivisional Controller of Food on specific assessment of price trend in consultation with the District Controllers of Food and Subdivisional Officer. Director of Supply, Distribution and Rationing should be intimated immediately as soon as the need for open market operation is firmed up. If possible, he should be consulted before.

"The following procedures for releasing foodgrains for the open market operation should be followed:

"(*a*) Foodgrains will be sold to the licensed dealers/flour millers from the local government godown to increase availability in the markets to bring down price to reasonable level. It is important that the volume of operation should be undertaken on an adequate level. Half-hearted attempts may encourage hoarding and malpractices without creating any impact on supply of foodgrains in the local market. Judgment of the Subdivisional Controller of Food in this respect is extremely important and should be based on his assessment and accumulated experiences of the market price trends of foodgrains.

"(*b*) Dealers and flour millers of foodgrains will be entitled to purchase an amount of wheat in lots of minimum and maximum of 10 and 200 maunds respectively per purchaser per transaction at Tk. 85 per maund or at any other appropriate price as may be notified by the Government from time to time. They will be instructed to retail out the same to the members of the public without taking recourse to hoarding.

"(*c*) Nature of open market operation may require the sale prices of goods will not be regulated and be left to the normal forces of demand and supply. But price stabilization of foodgrains being a major objective, it is necessary that the dealers undertake not to sell wheat at more than Tk. 95 per maund. This will provide adequate margin of profit to pay for their trading and storage expenses. Considering the substitutability of demand between rice and wheat, it is estimated with adequate wheat being available at the above-stated price, market price of rice would be contained at Tk. 150 per maund (coarse variety) even during the lean months.

"(*d*) Issue of any foodgrain to the dealers would be stopped as soon as the market price registers decline below Tk. 145 or any other limit as may be fixed by the Government.

"(*e*) Marketing operation should be undertaken only in recognized hats and bazars where foodgrains are transacted at any appreciable scale. If necessary operation can also be undertaken in the urban areas.

"It is necessary to emphasize that success of the open market operation is dependent on the following factors:

"i) Assessment of the price trends of foodgrains by the local officers and the volume of marketing operation required for price stabilization at the desired level;

"ii) Regularity at which stocks are released to the small purchasers in the open market;

"iii) Adequacy of supplies in the market;

"iv) Check against hoarding and black marketing.

"The role of Subdivisional Controllers of Food and Inspectors of Food in conducting operation on the basis of the above objectives is important. Food Department may make advance projections of requirement of open market on the assessment of price trends and local production forecasts. Adequate stock of foodgrains should also be moved to the probable areas of operation in advance. Participation of the Union Parishad Chairmen and members through appropriate measures for price stabilization through increased supply in the market need be encouraged.

"Open market operation may be a recurring necessity during the lean months in some areas. As such it should be assessed and evaluated continuously. The Subdivisional Controller/District Controller of Food shall submit a fortnightly report to the Director of Supply, Distribution and Rationing, with copy to the Ministry of Food about result of marketing operation undertaken in their respective jurisdiction. Supplies of wheat shall be made against delivery order from L.S. Ds/C.S.Ds from where the normal rationing requirement of an area is made. The total offtake under marketing operation scheme should be shown in a separate column as is used in the monthly offtake report.

"(S) 3/7/78 Ataul Haq
"Joint Secretary (General)
"Ministry of Food
"Dacca."

12. *Timing of the annual review.* The BDG and USG representatives agreed that the first annual review will be held on or about December 1, 1978, following the August-October lean season and before the annual aid group meeting in January 1979. BDG officials observed that in view of the newness of the FFD program for grain price stabilization all circumstances should be taken into account when evaluating performance. BDG officials noted specifically that due to the projected low lean season stock levels in August and September and in view of the very recent slippage in the delivery schedule by some donors it may not be possible to mount as large an open market sales program as they had originally planned in 1978. In this regard BDG officials noted that the 200,000 tons of wheat to be provided under the Agreement would arrive, in all probability, too late to be actually sold through open market sales in October. While the BDG is anxious to initiate the open market sales program it can only do so to the extent that its overall foodgrain stock position is not placed in jeopardy.

13. *Establishment and operational design of the special account for the deposit and withdrawal of Title III sales proceeds.* BDG officials advised that the special account would operate as follows:

1. The taka equivalents of the dollar amounts disbursed by the United States Government (USG) (in accordance with part I, article II, D, of the Agreement) for foodgrains supplied under the Agreement will be credited to the Head of Account which accommodates receipts of foreign loans, with contra-debits to the Head of Account pertaining to state trading in foodstuff. For this purpose the USG will furnish the requisite disbursement statements to the Bangladesh Government (BDG).

2. The BDG will open a deposit account, within the Public Account of the Republic, called "Deposit Account for Sales Proceeds of Foodgrains" in section P, Deposits and Advances; part II, Deposits Not Bearing Interest, (C), Other Deposit Accounts". This deposit account will be used exclusively for the purpose of recording transactions under PL-480 Title III agreements.

3. Taka proceeds accruing from open market sales, as a consequence of this Agreement, will be credited directly to the above deposit account by the grain purchasers.

4. A portion of the total sales proceeds from foodgrains distributed under modified rationing, attributed to have accrued from sales out of stocks received under the Agreement, will be credited to the deposit account by contra-debit to the Head of Account pertaining to state trading in foodstuff. These two entries will represent non-cash receipts and expenditures.

5. The local currency disbursements for "eligible uses" as identified in annex B, item III, D, of the Agreement will be initially booked under the respective service heads indicated in the budget.

6. Quarterly, or more frequently if possible, the debits on account of local currency disbursements for "eligible uses" will be transferred to the deposit account with contra-credits to the service heads, reflected as negative expenditures under those heads.

7. The details of the credits to, and debits against, the deposit account will be forwarded by the BDG to the USG on a quarterly basis.

8. The amounts of debits raised against the deposit account will be converted to dollars in the manner indicated in annex A, item III, A, for the calculation of credits representing payments for purposes of part I, article II, H, of the Agreement (and refer also to annex A, item III, A), under intimation to the USG and subject to the stipulations indicated in annex A, item III, D. Subject to the same stipulations, equivalent taka amounts will also be debited to the Head of Account pertaining to payments of interest on foreign loans and/or the Head of Account which accommodates repayments of principal amounts of foreign loans. (These debits being non-cash entries will be accompanied by contra-credits to a balancing head within the Public Account of the Republic.)

14. *Use of sales proceeds.* USG officials stated that they did not expect any inconsistencies to arise between annex B, item III, D, "Use of Title III Sales Proceeds" and the BDG's Annual Development Plan. However in the event of any inconsistencies between these two documents, annex B shall be the controlling document under the Agreement.

15. *Role of the private sector.* USG officials emphasized the importance of involving the private sector in the purchase, storage and distribution of wheat and rice. In this regard USG officials called the evaluation section (annex B, V) to the attention of BDG officials. At the time of the annual evaluation the USG will look forward to reviewing the steps the BDG has taken to encourage private sector initiatives and to ensure that BDG activities in the food system do not greatly restrict incentives to private initiative, the impact of these steps and the steps the BDG will take in the future.

16. *Open market sales commodities.* Referring to annex B, item III, B, 9, USG officials noted that the impact of open market sales would probably be much greater if rice was included with wheat in the open market sales operation. BDG officials stated the Government might include open market sales of rice in a later phase of the program, consistent with resource availabilities.

17. *1979/80 foodgrain requirements.* BDG officials understood USG intentions with respect to the delivery of Title III wheat to be as follows, based upon their understanding of annex B. Under the FY 1978 Agreement the USG intends to provide 200,000 tons of wheat. In U.S. FY 1979, and according to the pledging statement made at the Paris Aid Group Meeting, the USG intends to provide 400,000 tons for the Title III, Food for Development Program, by June 30, 1979. Finally, in U.S. FY 1980 the USG intends to provide only 200,000 tons of wheat under Title III. BDG officials stated that taking into account the current projections on production and consumption in the Two-year Plan this amount for FY 1980 will not be proportionately adequate to bridge the foodgrain gap. USG officials explained that while the program spans three U.S. fiscal years its total duration is only 24 months. Thus if the Agreement is signed by August 1, 1978, the current program would end in July 1980. However before that time both the USG and BDG will have gained enough experience to know whether and how the program should be changed or continued. Thus if a new program was agreed by mid-FY 1980 there would still be enough time to deliver additional foodgrain, if required, financed in the U.S. FY 1980 budget.

18. *Suspension of the Agreement.* USG officials noted that if the United States suspends the program pursuant to annex A, item V, the United States will not resume financing even after the end of the following U.S. fiscal year (as provided therein) or the situation is remedied, whichever occurs first, unless the BDG demonstrates a commitment to proceed with the Food for Development Program. The USG will determine whether

unusual circumstances beyond the control of the BDG, as referred to in annex A, item V, caused the failure to meet the provisions of the Agreement.

For the Government
of the United States of America:

[*Signed*]
DAVID T. SCHNEIDER
Ambassador Extraordinary
and Plenipotentiary

*Date:* August 2, 1978

For the Government
of the People's Republic of Bangladesh:

[*Signed*]
A. M. A. MUHITH
Secretary

External Resources Division
Ministry of Planning

*Date:* August 2, 1978