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AUDIT OF
THE PL 480 TITLE I PROGRAM IN SOMALIA

Audit Report No. 3-649-87-2
January 26, 1987

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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MEMORANDUM FOR DIRECTOR, USAID/Somalia, Louis A. Cohen

FROM: RIG/A/N, Richard C. Thabet Richard C Thabet

SUBJECT: Audit of The PL 480 Title I Program in Somalia

This report presents the results of audit of the PL 480 Title I Program in Somalia. The audit reviewed program results. The audit objectives were to determine if (1) the program effectively supplemented Somalia's food supply without discouraging local production, (2) the goal of enhancing Somalia's private sector food distribution system was achieved through public auctions of Title I food, and (3) USAID/Mogadishu collected the correct amount of 1985 auction proceeds as required by the agreement.

The PL 480 Title I program did not effectively supplement Somalia's food supply and discouraged local production. Further, interference by elements of the Government of Somalia imperiled the goal of enhancing Somalia's private sector food distribution system through auctions of Title I food to private traders. In addition, USAID/Mogadishu did not collect the correct amount of 1985 local currency proceeds from the auctions as required by agreement.

Title I food aid to Somalia exceeded annual deficits in food supplies. At November 1986, 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained unsold in government warehouses about 15 months and had deteriorated. The audit staff requested a laboratory analysis of the grain, because of concerns about the potential adverse impacts of the distribution of unwholesome U.S. produced food. The analysis determined that the grain was unfit for human consumption. In addition, 100 percent of the 1985 Title I food grain and 92 percent of the 1986 grain arrived in Somalia during the harvest period - the worst possible time. The results of the commodity public auctions were disappointing with only 23 percent of the food auctioned in 1985 rather than the planned 40 percent. Also USAID/Mogadishu did not collect the correct amount of proceeds from the 1985 auctions.

To correct these problems, the report recommends that USAID/Mogadishu (1) reduce the Title I program by about $10 million, and verify that the commodities to be imported will provide the minimum disincentive to local food production, (2) take actions to assure that commodity deliveries are scheduled for pre-harvest periods and are made accordingly, (3) include provision in PL 480 agreements that preclude outside interference in the auctions, and (4) collect from the Government of Somalia the correct amount of 1985 auction proceeds.

USAID/Mogadishu essentially agreed with recommendations 1, 2 and 3, but disagreed with the arguments supporting them. The Mission disagreed with recommendation 4 and the related rationale, but did not support their position with documentation. In the absence of documentation, we continue to make recommendation 4.

Please advise me within 30 days of any additional information related to actions planned or taken to implement the recommendations. Thank you for the courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

The U.S. General Accounting Office in a March 1986 report recommended that the AID Inspector General review the PL 480 program in Somalia. This report was made in response to the recommendation.

Under PL 480 Title I, AID provided food through concessionary loans, to fill the annual gap between Somalia's food production and consumption. From 1976 to 1986 the food aid totaled $142 million.

The staff of the Regional Inspector General for Audit, Nairobi (RIG/A/N) conducted a program results audit of the PL 480 Title I program. The audit objectives were to determine if (1) the program effectively supplemented Somalia's food supply without discouraging local production, (2) the goal of enhancing Somalia's private sector food distribution system was achieved through public auctions of Title I food, and (3) USAID/Mogadishu collected the correct amount of 1985 auction proceeds as required by agreement.

The PL 480 Title I program did not effectively supplement Somalia's food supply and discouraged local production. Further, interference by elements of the Government of Somalia imperiled the goal of enhancing Somalia's private sector food distribution system through auctions of Title I food to private traders. Also, USAID/Mogadishu did not collect the correct amount of 1985 local currency proceeds from the auctions as required by agreement.

Monitoring of PL 480 food arrivals, storage and disposition was improved. Food for Peace Office files contained documentation on many actions taken or proposed as a result of the monitoring activity.

Title I food aid to Somalia exceeded annual deficits in food supplies. At November 1986, 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained unsold in government warehouses about 15 months and had deteriorated. The audit staff requested a laboratory analysis of the grain, because of concerns about the potential adverse impacts of the distribution of unwholesome U.S. produced food. The analysis determined that the grain was unfit for human consumption. In addition, 100 percent of the 1985 Title I food aid and 92 percent of the 1986 aid arrived in Somalia during the harvest period - the worst possible time. The results of the commodity

public auctions were disappointing with only 23 percent of the food auctioned in 1985 rather than the planned 40 percent. Poor results were expected again in 1986. Also USAID/Mogadishu did not collect the correct amount of proceeds from the 1985 auctions.

PL 480 legislation states that Title I food aid should not discourage the domestic production of food by substantially reducing farmer's prices and profits. This criteria is put into practice by limiting food aid to amounts that offset annual deficits in food supplies.

But Title I food aid to Somalia exceeded annual food deficits. For example, USAID/Mogadishu during the summer of 1985 provided to the Government of Somalia 13,016 metric tons of corn and 7,737 metric tons of soft wheat under the 1985 Title I agreement. But at November 1986 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained unsold in government warehouses and had deteriorated. The cause of this situation was USAID/Mogadishu's unwillingness to reduce the Title I program in line with improved Somalia food production. An additional factor was the absence of precise data on the food situation with which to fine-tune the supplying of Title I commodities, given the smaller food deficits. The effect was that a million dollars of corn and one-half million dollars of soft wheat became unfit for consumption, resulting in a loss to the Government of Somalia of $1.5 million. The report recommends that USAID/Mogadishu reduce the Title I program by about $10 million, and verify that the commodities to be imported will provide the minimum disincentive to local food production. USAID/Mogadishu agreed with the recommendation, but disagreed that the USAID had been unwilling to reduce the program.

Deliveries of food aid are most effective when they occur in the months just prior to the major harvest. At that time the food can best stem hunger resulting from crop shortfalls and least depress the prices farmers get for their production. Nevertheless, 100 percent of the 1985 Title I food grain (53,314 metric tons) and 92 percent of the 1986 grain (47,455 metric tons) arrived in Somalia during the harvest period - the worst possible time. The untimely deliveries were due to poor planning by USAID/Mogadishu and the Government of Somalia. The consequence was that food valued at $16 million in 1985 and $12 million in 1986 was not made available during the critical hungry period. Further, the consensus of the donor community was that the timing of deliveries discouraged farm production because farmers made less profit due to lower prices. In 1985, for example, maize prices dropped from an average June level of $.99 (So. Shs. 40) per kilogram to a September level of $.62 (So. Shs 25), the period concurrent with the major harvest and the arrival of Title I corn. The report recommends that

USAID/Mogadishu take actions to assure that commodity deliveries are scheduled for pre-harvest periods and are made accordingly. USAID/Mogadishu agreed with the recommendation, but disagreed that USAID/Mogadishu's planning had been poor, and that the timing of deliveries had discouraged local food production.

A goal of Somalia's Title I program was the enhancement of the private sector food distribution system. To achieve this the agreements specified that 40 percent in 1985 and 45 percent in 1986 of the Title I commodities must be auctioned to private traders. Results were disappointing in 1985, however, with only 23 percent of the food auctioned. In 1986 similar results were likely to occur, although the final outcome was not known. The poor results were caused in part by interference by elements of the Government of Somalia in the auction process, which discouraged private trader participation. The potential effect of a continuation of the situation is the collapse of the public auction process as a means of food distribution. Auctions generate more local currency for development per metric ton distributed than government distribution. The future effect of a collapse could be an annual reduction in development funds of $3.2 million (So. Shs. 129.6 million), based upon 1985's prices and program levels. The report recommends that USAID/Mogadishu include provisions in PL 480 agreements that preclude outside interference in the auctions. USAID/Mogadishu agreed with the recommendation.

The 1985 PL 480, Title I agreement with the Government of Somalia limits deductions from the proceeds of the food auctions to reasonable expenses associated with the auctions. After deductions the proceeds are deposited to the special account for use in development. USAID/Mogadishu incorrectly included an amount to partially defray the costs of shipping losses - costs not associated with the auctions - when it calculated the total allowable deductions. This occurred because the Government of Somalia disputed the total amount of deductions and USAID/Mogadishu apparently allowed the deduction to resolve the dispute. As a result of the deduction the funds made available for development were reduced by $360,222 of local currency(So. Shs. 14,589,000). The audit disclosed that the Government of Somalia forwarded an insurance claim for $483,348 for the full amount of shipping losses to Central Gulf Line's underwriters in early 1986 - a fact that underscored the error in allowing the deduction. The report recommends that USAID/Mogadishu collect from the Government of Somalia the correct amount of 1985 auction proceeds. USAID/Mogadishu disagreed with the recommendation, and the related rationale. Nevertheless, in the absence of documentation supporting the Mission's position, we continue to make the recommendation.

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PART I - INTRODUCTION

A. BACKGROUND

The U.S. General Accounting Office in a March 1986 report, "FAMINE IN AFRICA: Improving Emergency Food Relief Programs," identified the 1984 food aid program for Somalia as the least successful of five countries surveyed. The report recommended that the AID Inspector General review the results of all the PL 480 programs in Somalia and identify needed improvements. This report was made in response to the recommendation.

AID provided the Government of Somalia two types of PL 480 food aid. Under Title I, AID provided food through concessionary loans, to fill the annual gap between Somalia production and consumption. Under Title II, AID donated food to combat hunger resulting from periodic droughts and to support ongoing feeding programs for refugees and others. From 1976 to 1986 the two types of food aid totaled $271 million: $142 million for Title I and $129 million for Title II.

About 94 percent of the $59 million Title II funding in USAID/Mogadishu's budgets from 1982 to 1986 was used by the United Nation's World Food Program, primarily for refugee support. Missions are not responsible for monitoring food which the United States donates through the World Food Program. USAID/Mogadishu was last required to monitor Title II food aid in 1984 when it monitored $2.9 million in bilateral emergency aid given in response to the Africa-wide drought. Thus USAID/Mogadishu has focussed since 1984 on the $20 million annual Title I program.

Title I food aid can be a valuable development resource for augmenting local production, enhancing food security and reducing malnutrition, providing it is made available under conditions that support rather than discourage domestic food production. The local currency generated from the sale of Title I food provides the local government with financial resources to use for development.

B. Audit Objectives and Scope

The staff of the Regional Inspector General for Audit, Nairobi (RIG/A/N) conducted a program results audit of the PL 480 Title I program. The audit objectives were to determine if:

-- the program effectively supplemented Somalia's food supply without discouraging local production,

-- the goal of enhancing Somalia's private sector food distribution system was achieved through public auctions of Title I food,

-- USAID/Mogadishu collected the correct amount of 1985 auction proceeds as required by the agreement.

To accomplish these objectives, RIG/A/N staff made an audit from September to November 1986 in Mogadishu and Baidoa, Somalia, and in Nairobi, Kenya at the Regional Economic Development Services Office (REDSO). The audit covered $40 million in program activity budgeted from October 1, 1984 through September 30, 1986. The audit staff (1) reviewed USAID/Mogadishu and REDSO correspondence and records, and (2) interviewed officials of USAID/Mogadishu, World Bank, United Nations Food and Agricultural Organization, World Food Program, European Economic Community Delegation, the Government of Somalia Ministries of Agriculture and Health, the Agricultural Development Corporation, and others. The audit staff also made physical observations of warehouses and port facilities in Mogadishu and of auction activities in Mogadishu and Baidoa.

Except for work that focussed on deductions from the local currency proceeds of the commodity auctions, the audit did not include a review of the accountability for and programming of the local currency proceeds generated from the PL 480 Title I program. These matters are the subject of another RIG/A/N audit. The audit was made in accordance with generally accepted Government auditing standards.

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PART II - RESULTS OF AUDIT

The PL 480 Title I program did not effectively supplement Somalia's food supply and discouraged local production. Further, interference by elements of the Government of Somalia imperiled the goal of enhancing Somalia's private sector food distribution system through auctions of Title I food to private traders. In addition, USAID/Mogadishu did not collect the correct amount of 1985 local currency proceeds from the auctions as required by agreement.

Monitoring of Title I food arrivals, storage and disposition was improved. Earlier deficiencies noted in a report by the General Accounting Office were not present, and Food for Peace Office files contained documentation on many actions taken or proposed as a result of the monitoring activity.

Title I food aid to Somalia exceeded annual deficits in food supplies. At November 1986, 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained unsold in government warehouses about 15 months and had deteriorated.

The audit staff requested a laboratory analysis of the grain, because of concerns about the potential adverse impacts of the distribution of unwholesome U.S. produced food. The analysis determined that the grain was unfit for human consumption. In addition, 100 percent of the 1985 Title I food grain and 92 percent of the 1986 grain arrived in Somalia during the harvest period - the worst possible time. The results of the commodity public auctions were disappointing with only 23 percent of the food auctioned in 1985 rather than the planned 40 percent. Poor results were expected again in 1986. Also USAID/Mogadishu did not collect the correct amount of proceeds from the 1985 auctions.

To correct these problems, the report recommends that (1) USAID/Mogadishu reduce the Title I program by about $10 million, and verify that the commodities to be imported will provide the minimum disincentive to local food production, (2) take actions to assure that commodity deliveries are scheduled for pre-harvest periods and are made accordingly, (3) include provisions in PL 480 agreements that preclude outside interference in the auctions, and (4) collect from the Government of Somalia the correct amount of 1985 auction proceeds.

A. Findings and Recommendations

1. The $20 Million Annual Title I Program Should Be Reduced

PL 480 legislation states that Title I food aid should no discourage the domestic production of food by substantially reducing farmer prices and profits. This criteria is put into practice by limiting food aid to amounts that offset annual deficits in food supplies. But Title I food aid to Somalia exceeded annual food deficits. For example, USAID/Mogadishu during the summer of 1985 provided to the Government of Somalia 13,016 metric tons of corn and 7,737 metric tons of soft wheat under the 1985 Title I agreement. But at November 1986 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained in government warehouses unsold and had deteriorated. The cause of this situation was USAID/Mogadishu's unwillingness to reduce the Title I program in line with improved Somalia food production. An additional factor was the absence of precise data on the food situation with which to fine-tune the supplying of Title I commodities, given the smaller food deficits. The effect was that a million dollars of corn and one-half million dollars of soft wheat became unfit for consumption, resulting in a loss to the Government of Somalia of $1.5 million.

Recommendation No. 1

We recommend that the Director, USAID/Mogadishu:

a. reduce the annual Title I program by at least half ($10 million), and

b. review the adequacy of the analysis supporting future proposed commodities to verify that those selected will provide the minimum disincentive to local food production.

Discussion - PL 480, Title IV, Section 401 states that no agricultural commodity may be provided under the law unless the Secretary of Agriculture has determined that "the distribution of the commodity in the recipient county will not result in a substantial disincentive to or interference with domestic production or marketing in that country."

In practice to make the determination the Secretary of Agriculture relies on an annual program analysis furnished by the USAID of the recipient country. The USAID provides the analysis to the food Aid Subcommittee of the Interagency Development Coordinating Committee. The Subcommittee is chaired by the U.S. Department of Agriculture (USDA).

An important element of the analysis is a section making the disincentive analysis to support the determination required by section 401 of PL 480, Title IV. The disincentive analysis provides information on prices and marketing of both program and substitutable commodities.

The PL 480 legislation and the programming analysis establish the framework within which commodities are to be furnished. A primary objective of the analysis is to ascertain the types and levels of commodities that can best be provided. Although the analysis can be quite complex, usually this means determining the food that would be needed to offset the recipient country's annual deficits in food supplies. Such quantities are believed to least disrupt the country's agricultural economy.

In 1985 and 1986, however, food supplied to the Government of Somalia was excessive. For example, USAID/Mogadishu during the summer of 1985 provided to the Government of Somalia 13,016 metric tons of corn and 7,737 metric tons of soft wheat under the 1985 Title I agreement. But at November 1986 7,007 metric tons of corn and 2,727 metric tons of soft wheat remained undistributed in government warehouses. This occurred because inadequate demand existed for the commodities.

The Audit Staff inspected the 1985 Title I corn and soft wheat in several warehouses. Because of the grain's deteriorated condition, the audit staff requested that the Mission obtain a laboratory analysis. The audit staff was concerned about potential harm to consumer health and adverse publicity for the U.S. should the Government of Somalia distribute nearly 10,000 metric tons of unwholesome U.S produced food. The Mission subsequently obtained from the Ministry of Health a laboratory report that concluded that the 1985 Title I corn and soft wheat were unfit for human consumption, based on the random samples analyzed. A copy of the report was forwarded to the Government of Somalia's custodian of the grain for appropriate action. Shortly before publication of the audit report, the audit staff was notified that the Minister of Agriculture was having additional tests made, because of the magnitude of the economic decision related to the disposal of the grain.

From 1980 to 1985 the food situation in Somalia changed greatly. In 1980, Somalia had a food grain shortage. According to a report by the Food and Agricultural Organization of the United Nations, Somalia had a food grain requirement of 511,000 metric tons and available supplies of only 481,000 metric tons in 1980. But in 1985 available supplies of 756,000 metric tons exceeded the requirement of 606,000 metric tons by 150,000 metric tons (see Exhibit 1). The changed situation was primarily due to increases in production for sorghum of 95 percent and for corn of 168 percent.

The picture for concessional imports contradicted the improved supply picture. From 1980 to 1985 concessional imports increased 200 percent. The trend for Title I followed that of all concessional imports, increasing 96 percent from a low in 1979 of 33,000 metric tons to a 1985 and 1986 level of about 65,000 metric tons (see Exhibit 2).

The Somalia food situation at the time of the audit continued to be improved. A November 2, 1986 USAID cable stated that a staff element of the Ministry of Agriculture (The Early Warning System Department) "has determined that food production plus carry-over stocks from last year plus imports less consumption will give Somalia approximately 750,000 metric tons of grains for carry-over into 1987. This equates to a one year requirement plus approximately 200,000 metric tons."

Farmers were experiencing severe pressures on profits in 1986. Information supplied to the Food for Peace Office by an agricultural project official estimated that traditional farmers in the Lower Shebelle region of Somalia would experience a 51 percent reduction in net profits from 1985 to 1986. In fact the profits reduction would be even greater because the estimate unrealistically assumed that the Government of Somalia could successfully support the price of corn at $.37 (So. Sns. 15). Because of limited funds the government had purchased only a fraction of the total production at that price. Thus, the farmers would experience an actual profits squeeze more severe than estimated.

Given the changed Somalia food situation between 1980 and 1985 USAID/Mogadishu should have redoubled its efforts to analyze the food picture. But the audit disclosed a questionable pattern of analysis.

On October 16, 1984 USAID/Mogadishu made the following food production deficit assessment: "Based on what looks like a record harvest...and no expectation of a drought..., the mission does not expect any serious food problems for Somalia. Total production plus commercial imports should be at least 25 percent higher..." On November 27, 1984 the Mission forwarded a request for 11,000 metric tons of corn and 60,000 metric tons of other commodities. In a December 26, 1984 PL 480 programming cable, USAID/Mogadishu stated that based on current deficiency of agricultural inputs, an inadequate distribution system of river water, and low flow of water from watershed areas, the Mission estimated that one-half of present corn harvest will be lost. Therefore Title I corn would not suppress producer prices. Another programming cable dated January 13, 1985 stated that the Mission and the Government of Somalia estimate that 85 percent of the corn crop would be lost due to a drought and lack of fuel to run irrigation pumps. A cable dated April 16, 1985 stated that the anticipated shortfall in maize production appeared to have only partially materialized.

The foregoing pattern of analyses was questionable in the light of the actual 42 percent increase in 1985 corn production over 1984. Whether the analysis was inadequate due to unreliable data or conflicting opinion within the Mission or between various organizations making estimates was unclear.

The absence of reliable data on Somalia's food situation certainly hampered USAID/Mogadishu's efforts at analyzing the food situation. Various USAID/Mogadishu cable traffic specifically pointed out the unreliability of the data used in the various analyses. At the time of the audit reliability had recently improved as a result of work done by an European Economic Community funded staff unit at the Somalia Ministry of Agriculture.

A January 1986 draft report prepared jointly by the Government of Somalia, the World Bank, USAID/Mogadishu and other donors pointed out the problems in continuing concessional food aid at past levels. The report pointed out that planned concessional food aid, excluding that for refugees, was great, an amount roughly half the ordinary expenditures of the Government of Somalia.

The report further stated that concessionary levels of roughly half of planned levels, with improved commodity selection, would least disrupt market prices. The report stated that from "an agricultural development point of view, imports in excess of [half the planned amount] would be excessive and much more than this would be disastrous for incentives." Given the evident waste and ineffectiveness of the Title I program at past levels of about $20 million annually, USAID/Mogadishu should reduce the program by at least half, and review the commodity import candidates to select the least disruptive to local markets.

Better commodity selection at reduced program levels should eliminate the waste that has occurred as a result of providing excessive Title I food to the Government of Somalia. Providing excessive food resulted in one million dollars of corn and one-half million dollars of soft wheat remaining unsold in government warehouses. The commodities became unfit for consumption, resulting in a loss to the Government of Somalia of $1.5 million.

In conclusion, USAID/Mogadishu should take immediate steps to reduce the PL 480 Title I program. Further, the adequacy of the analyses supporting future proposed imports should be reviewed by the Mission Director to verify that those selected will provide the minimum disincentive to local food production.

Management Comments

Management essentially agreed with the report's recommendation. Management disagreed however, that USAID/Mogadishu was unwilling to reduce the Title I program. Management stated that the absence of accurate and timely data caused the surplus corn deliveries, and that at the time the corn was ordered the best available information indicated the corn would be needed. Thus, the unanticipated 1985 bumper crop of corn was the primary reason the Title I corn exceeded the deficit, rather than the Mission's unwillingness to reduce the Title I program.

Office of Inspector General Comments

The absence of accurate and timely data certainly was a major factor in the corn and soft wheat deliveries exceeding the deficit. We stated this in the report. Nevertheless, the Mission did not reduce the Title I program, even though Somalia's food picture improved greatly between 1980 and 1985. Future decreases in the program's levels will be the best indication of the Mission's willingness to reduce the program.

2. Untimely Title I Food Deliveries Ineffectively Supplemented The Food Supply And Discouraged Domestic Production

Deliveries of food aid are most effective when they occur in the months just prior to the major harvest. At that time the food can best stem hunger resulting from crop shortfalls and least depress the prices farmers get for their production. Nevertheless, 100 percent of the 1985 Title I food grain (53,314 metric tons) and 92 percent of the 1986 grain (47,455 metric tons) arrived in Somalia during the harvest period - the worst possible time. The untimely deliveries were due to poor planning by USAID/Mogadishu and the Government of Somalia. The consequence was that food valued at $16 million in 1985 and $12 million in 1986 was not made available during the critical hungry period. Further, the consensus of the donor community was that the timing of deliveries discouraged farm production because farmers made less profit due to lower prices. In 1985, for example, maize prices dropped from an average June level of $.99 (So. Sns. 40) per kilogram to a September level of $.62 (So. Sns. 25), the period concurrent with the major harvest and the arrival of Title I corn.

Recommendation No. 2

We recommend that the Director, USAID/Mogadishu, in coordination with the Assistant Administrator, Bureau for Food and Voluntary Assistance and appropriate elements of the U.S. Department of Agriculture, take steps to:

obtain early completion of the Title I agreement, or otherwise complete arrangements to ensure commodities arrive during pre-harvest periods, and

b. facilitate the Government of Somalia opening letters of credit in a timely manner.

Discussion - AID Policy Paper, "Food and Agricultural Development," dated May 1982 states that "PL 480 food aid can be a valuable development resource, provided it is made available under conditions that support rather than discourage domestic food and agricultural production." An important aspect of the conditions under which food is provided is the timing of its delivery. Large food deliveries at harvest time necessarily entail the largest adverse price impact, since the harvest is the period of largest supply. Lower prices result in lower profits and discourage the addition of farmed acreage and investment in inputs for existing acreage.

The best times for delivery are the months just prior to the major harvest. An AID consultant, ABT Associates, has characterized these months as the "critical hungry period." Deliveries during the critical hungry period have several advantages. In the event of food shortages, food is made available to stem hunger and malnutrition. Food production is enhanced because crops are not prematurely harvested. And food production is least discouraged because farm prices and profits are least diminished.

Nearly all Title I food deliveries to Somalia in 1985 and 1986 arrived at the worst possible time, the harvest months, and none arrived at the best time, the critical hungry period. In 1985 four ships (Delta Mar, Sea King, Kaliope and Nancy Lykes) delivered 53,314 metric tons of rice, corn, flour and wheat to the Somalia ports of Mogadishu and Berbera. All the food was offloaded during the harvest months: 9,286 metric tons in July and 44,028 metric tons in August.

In 1986 five ships (Spirit of Texas, Maria Glyptis, Vulcan, Thompson Lykes and Flisvos) delivered 51,316 metric tons of rice, flour and wheat. About 92 percent of the food was offloaded during the harvest months: 26,251 metric tons in August and 21,204 in September. The eight percent balance, 3,861 metric tons of flour, was offloaded in October. Thus in the 1985-86 period Somalia received 96 percent of the food during the major harvest months of July, August and September. None was received during the May-June critical hungry period.

The untimely deliveries were primarily caused by two factors. First, USAID/Mogadishu did not complete agreements in 1985 and 1986 early enough to permit arrival of the commodities before harvest. In past years about five months were required from the time the agreement was signed until the commodities arrived. But the agreement was not signed in 1985 until March 24 and in 1986 until February 27. Although the USAID requested pre-harvest delivery, as a practical matter delivery was likely during harvest.

Second, the Government of Somalia did not open letters of credit for freight in a timely manner. The agreements required that the Government of Somalia arrange dollar letters of credit for the estimated cost of freight prior to the presentation of vessels for loading. Thus, any delay in arranging for the letters necessary delayed the commodity shipment.

USAID/Mogadishu officials also mentioned other obstacles to timely delivery. None of the obstacles appeared to be insurmountable provided they were anticipated early and top level attention was given by USAID/Mogadishu and Bureau for Food and Voluntary Assistance in Washington.

The untimely deliveries had significant adverse effects. Foremost was the ineffective utilization of food valued at $16 million in 1985 and $12 million in 1986, since the food was not made available during the critical hungry period. An additional adverse effect was the depression of producer prices and the resulting discouragement of domestic production.

The many factors impacting a commodity's supply and demand prevented ascertaining the precise effect on prices of the Title I food arrivals. However, food grain imports accounted for about half of the average annual food grain available for consumption from 1980 to 1985, and donor and concessional imports were almost two thirds of total imports. An April 1986 USAID report on Somalia food grain supply and demand pointed out that prices fluctuated considerably during 1985. The report further stated that demand for staple foods was inelastic and that small changes in supply have a relatively large effect on prices. Given this perspective, the arrival of Title I food necessarily had a significant impact on food grain prices.

In 1985, for example, maize prices dropped 38 percent from an average June level of $.99 (So. Shs. 40) per kilogram to a September level of about $.62 (So. Shs. 25), the period concurrent with the major harvest and the arrival of Title I corn. A USAID/Somalia report on the 1985 commodity auction pointed out that sorghum and corn are substitutable, and that sorghum also experienced a "great drop in price" of 30 percent. On the whole supplies were sufficient to limit the 1985 food price index increase to 7.7 percent, even though the general price index increased 25.9 percent.

Representatives from Cooperative for American Relief Everywhere (CARE), European Economic Community, World Food Program, and United Nations Food and Agricultural Organization all expressed concern about the timing of the food deliveries. The CARE representative stated that US food arrivals at harvest time depressed prices. Consequently those refugees who sold part of their rations for needed cash could not get much for them.

The World Food Program representative stated the same view. He pointed out that in October some refugees were selling maize at $.05 to $.07 (So. Shs. 2 or 3) per kilogram even though the Government of Somalia was trying unsuccessfully to support the price at $.37 (So. Shs. 15). The consensus of the donor community was that the timing of deliveries lowered farmer's prices thereby discouraging domestic production.

To achieve future timely deliveries of commodity imports and to avoid disrupting Somalia's agricultural economy, the USAID/Mogadishu should complete Title I agreements early enough to ensure commodities arrive during pre-harvest periods. Further, USAID/Mogadishu should act to facilitate the Government of Somalia opening letters of credit in a timely manner so that timely shipping is not obstructed.

Management Comments

Management essentially agreed with the report's recommendation, but disagreed that the untimely deliveries were due to poor planning by USAID/Mogadishu. Management pointed out that the agreement was signed in March and deliveries were programmed to arrive before the harvest period. The Government of Somalia was responsible for planning shipping and arrival dates and delayed making an order, waiting for prices to drop.

Management also disagreed that the untimely deliveries discouraged local production. Management pointed out that very little of the corn entered the market, and then only at prices much lower than those for Somalia corn. Further, the drop in corn prices between June and September 1985 was due to the bumper crop, and the small amount of PL 480 corn had a minor impact. With respect to the soft wheat, management pointed out that soft wheat is not produced in Somalia and there is little hard evidence that soft wheat is substituted for other grains in the Somalia diet.

Office of Inspector General Comments

We stated in the report that the USAID requested pre-harvest delivery, but as a practical matter delivery was likely during harvest, since past experience indicated delivery took about five months from completion of the agreement. We also stated that the Government of Somalia's poor planning was an important factor in the untimely deliveries.

With respect to whether the untimely deliveries discouraged local production, we think the report handled the matter fairly. The report stated that the many factors impacting a commodity's supply and demand prevented ascertaining the precise effect on prices of the Title I food arrivals. Nevertheless, the Mission stated itself in a Food Grain Supply and Demand Report dated April 28, 1986 that "arrival of the 1985 non-refugee food assistance in Somalia was ill spaced and timed... The huge drop in the price of corn ..., about 36 percent, is due in great part to the arrival of Title I commodities." With respect to the soft wheat, experts we consulted disagreed with the Mission's assertion that soft wheat is not substituted for other grains in the Somalia diet.

3. Interference Imperils Auction Process

A goal of Somalia's Title I program was the enhancement of the private sector food distribution system. To achieve this the agreements required that 40 percent in 1985 and 45 percent in 1986 of the Title I commodities be auctioned to private traders. Results were disappointing in 1985, however, with only 23 percent of the food auctioned. In 1986 similar results were likely to occur, although the final outcome was not known. The poor results were caused in part by interference by elements of the Government of Somalia in the auction process, which discouraged private trader participation. The potential effect of a continuation of the situation is the collapse of the public auction process as a means of food distribution. Auctions generate more local currency for development per metric ton distributed than government distribution. The future effect of a collapse could be an annual reduction in development funds of $3.2 million (So. Shs. 129.6 million), based upon 1985's prices and program levels.

Recommendation No. 3

We recommend that the Director USAID/Mogadishu include in future agreements with the Government of Somalia:

a. a clause excluding the government marketing corporation (Ente Nationale per il Commercio) from handling commodities destined for auction,

b. a clause stating that auction procedures cannot be altered after bids are invited.

Discussion - Section B of the 1985 and 1986 Memorandum of Understandings between the Government of Somalia and the U.S. Government stated that "the intent of the auctions is to encourage the participation of the Somali Private Sector in food distribution". To achieve this, 40 percent of the commodities in 1985 and 45 percent in 1986 were to be sold to private traders at public auctions.

The 1985 auction results were disappointing. Of 8,301 metric tons of corn and soft wheat offered for sale, less than two percent was sold. Overall, 40 percent of the commodities shipped to Somalia in 1985 was allocated to auctions, but only 23 percent was actually sold.

The poor 1985 results were caused in part by elements of the Government of Somalia interfering with the auction process.

For example, when the 1985 Berbera auction was in progress an "order" was received from military authorities to reserve all vegetable oil for the army. Even though the demand for oil was high, traders were unwilling to bid for oil. The traders feared they would lose their deposits and the oil would eventually be confiscated. This resulted in 1,134 drums of unsold oil which were later arbitrarily allocated to traders designated by the auction committee. The resolution of this matter delayed the auction for about two weeks and discouraged private traders.

After receiving bids during the 1985 Mogadishu auction, but before the winners were announced, the Ministry of Commerce interfered. The Ministry wanted maximum lot sizes reduced by half from that prearranged in the 1985 Memorandum of Understanding. The Ministry also wanted commodities allocated to winners on a regional basis - an allocation specifically precluded by the Memorandum of Understanding. The two matters unduly delayed completion of the auction process and discouraged private traders.

The initial 1986 auctions held at Baidoa and Mogadishu did not attract enough traders to buy all the commodities offered for sale, perhaps due to the 1985 experience. The auction committee decided to repeat auctions at these locations to sell the remaining commodities. These auctions were being conducted at the time of the audit. AID officials anticipated that only 75 percent of the commodities offered at all auctions in 1986 would be sold.

The initial 1986 auction at Baidoa was held in early September. By early November some traders who had won bids in the auction had not received their commodities because the government marketing corporation (Ente Nationale per il Commercio) had not delivered them to Baidoa. AID officials attributed the delay to internal Government of Somalia bickering. The delay caused traders unnecessary hotel expenses, time away from other business, and inconvenience - some traders lived in their trucks while waiting.

The long delay and troublesome waiting resulting from Government interference in the auction made some private traders express an unwillingness to take part in future auctions. Government intervention of this sort endangered the viability of the public auction process, and could lead to its eventual collapse.

Commodities sold at public auctions generate more local currency than those sold to public institutions. If the auctions fail, the extra amount of local currency generated from public auction sales will be lost. The result would be an annual reduction in development funds of $3.2 million (So. Shs. 129.6 million), based upon 1985 prices and program levels.

To prevent interference in the auction process and the consequent adverse effects, USAID/Mogadishu should include two additional clauses in future agreements with the Government of Somalia. First, the government marketing corporation should be excluded from handling commodities destined for auction. Second, changes in auction procedures should be specifically prohibited after bids are invited.

Management Comments

The Mission generally agreed with this finding, but questioned the practicality of the recommendation to exclude the government marketing corporation from handling commodities destined for the auction. The Mission doubted that the Government of Somalia would agree to have a private sector enterprise handle the Title I commodities, particularly since the Government of Somalia is the owner of the commodities. The mission suggested that the recommendation be reworded to say the Mission should "make every effort" to exclude the government marketing corporation from handling commodities destined for the auction.

Office of Inspector General Comments

We acknowledge the Mission's concern that implementation will be difficult. We agree to take into account the efforts made by the Mission to implement the recommendation when we consider closure. We prefer, however, not to change the recommendation's wording.

AID Should Recover $360,222 In Local Currency for the Special Account

The 1985 PL 480 Title I agreement with the Government of Somalia limits deductions from the proceeds of the food auctions to reasonable expenses associated with the auctions. After deductions the proceeds are deposited to the special account for use in development. USAID/Mogadishu incorrectly included an amount to partially defray the costs of shipping losses - costs not associated with the auctions - when it calculated the total allowable deductions. This occurred because the Government of Somalia disputed the total amount of deductions and USAID/Mogadishu apparently allowed the deduction to resolve the dispute. As a result of the deduction the funds made available for development were reduced by $360,222 of local currency (So. Shs. 14,589,000). The audit disclosed that the Government of Somalia forwarded an insurance claim for $483,348 for the full amount of the shipping losses to Central Gulf Line's underwriters in early 1986 - a fact that underscored the error in allowing the deduction.

Recommendation No. 4

We recommend that the Director, USAID/Mogadishu collect from the Government of Somalia an additional deposit to the special account of So. Shs. 14,589,000.

Discussion - Under the 1985 Memorandum of Understanding between the Government of Somalia and AID, the Government agreed to purchase 70,400 metric tons of food (rice, corn, wheat, flour, vegetable oil). The Government further agreed to sell at public auctions 28,160 metric tons or 40% of the total food purchased. An amount of local currency equal to the auctions' proceeds, less reasonable expenses associated with the auctions, was to be deposited to the special account. Reasonable expenses were set on actual costs and included taxes, port clearance, transportation, storage, and auction committee expenses.

The audit disclosed that USAID/Mogadishu incorrectly allowed shipping losses as an expense - an expense not associated with the auctions - when collecting from the Government of Somalia for the special account. Total auction proceeds were So. Shs. 511,090,696 . USAID/Mogadishu allowed a deduction of So. Shs. 70,804,534 for taxes and So. Shs. 87,403,971 for other reasonable expenses, leaving So. Shs. 352,882,191 for deposit in the special account. The amount for deposit was understated because the So. Shs. 87,403,971 deduction amount included So. Shs. 14,589,000 (one So. Shs. per kilogram of commodity) to partially defray the costs of shipping losses.

Shipping losses occurred during offloading at the Northern port of Berbera when lash barges of the Gulf Line's ship, Delta Mar collided with one another. One barge sank and seven were damaged as a result of 65 knots wind-tossed seas. Water damage occurred to 1,066 metric tons of flour, 479 of rice and 30 of wheat.

The error in allowing this deduction was underscored by the fact that the Government of Somalia forwarded a claim of $483,348 for the full amount of shipping losses to Central Gulf Line's underwriters in early 1986. As a consequence of the claim, and the allowed deduction from the auction proceeds, the Government of Somalia may benefit twice from the commodity loss.

The incorrect deduction was probably made to resolve a large difference between the total deductions claimed by the Government of Somalia and the total deduction as calculated by USAID/Mogadishu. The Government of Somalia claimed a total deduction of 37 percent of the auction proceeds, which was So. Shs. 189,103,550 ($4,669,223). The USAID/Mogadishu calculation, however, was based on estimated actual costs. Had USAID/Mogadishu not allowed for the shipping losses, its calculation of the total deductions would have been So. Shs. 143,619,505 ($3,546,160). This was So. Shs. 45,484,045 ($1,123,063) less than the claim by the Government of Somalia. Thus, the deduction of So. Shs. 14,589,000 ($360,222) was probably allowed to relieve the tensions generated by the large difference.

The effect of incorrectly allowing the deduction was to reduce the local currency generation from the auction by So. Shs. 14,589,000, the equivalent of $360,222 at an exchange rate of So. Shs. 40.5 per the dollar. Part II of the 1985 agreement required the Government of Somalia to use the local currency generation for various self-help measures. Thus, development funding was curtailed by the extent of the incorrect deduction for shipping losses.

To obtain additional funds for development, USAID/Mogadishu should collect an additional deposit to the special account in the amount of the improper deduction.

Management Comments

The Mission stated that there was no connection between the So. Shs. 14,589,000 auction expense and the lash barge commodity losses in Berbera for which the Government of Somalia had made an insurance claim. This report section, according to the Mission, was confusing because it was not consistent with actual events as remembered by Mission staff. The Mission stated that the expense was associated with unexpected costs related to the grounding of the vessel, Sea King. Further, the Mission stated that the expense was agreed upon by the Mission and the Government of Somalia before the auction. The Mission concluded that the recommendation was not valid and should be excluded from the report since the Mission had made sure that the Government of Somalia only deducted agreed upon auction expenses.

Office of Inspector General Comments

An April 28, 1986 letter from the Mission Director to the Minister of Finance stated that "the auction costs included an amount to help defray the losses of uninsured commodities." The lash barge collisions caused the only 1985 commodities losses. Hence, we concluded the deduction was related to that event. The Sea King costs referred to by the Mission did not involve commodity losses. During the audit, Mission staff were unable to provide any additional documentation on the deduction, including any pre-auction agreement.

In any event, the Memorandum of Understanding limits deductions to reasonable expenses associated with the auctions, but both events, the Sea King grounding and the lash barge losses, were not associated with the auctions. In the absence of documentary evidence establishing other facts, we continue to make the recommendation.

B. Compliance and Internal Controls

As discussed in finding No. 4 of the report, USAID/Mogadishu did not comply with the requirement in the 1985 Memorandum of Understanding to limit deduction from the auctions' proceeds to the costs associated with the auctions. Other than the conditions stated above, nothing came to the auditors' attention that would indicate untested items were not in compliance with applicable laws and regulations.

During this audit the staff of RIG/A/N was making another audit covering the accountability for and the programming of the local currency proceeds generated from the PL 480 program. To avoid duplication of effort this audit focussed on results and limited compliance testing to the item discussed in finding No. 4. With respect to internal controls, within the scope of this audit nothing came to the auditors' attention that would indicate any significant weakness.

C. Other Pertinent Matters

The U.S. General Accounting Office in a March 1986 report pointed out three areas requiring improvement that were not previously addressed in this report: (1) USAID/Mogadishu monitoring of PL 480 food arrivals, storage and disposition, (2) questionable storage conditions for U.S.-provided food, and (3) the sale of Title I commodities to public institutions at highly subsidized prices.

The audit disclosed that USAID/Mogadishu monitoring in 1985 and 1986 was good and evidently greatly improved over the 1983 - 1984 monitoring that concerned the U.S. General Accounting Office. The Mission Director or Food for Peace Officers regularly attended various donor coordinating sessions and observed ship arrivals, offloading, storage, and distribution or auction of Title I commodities. In addition USAID/Mogadishu hired two food monitors in 1985 and 1986 during the busy periods of August through November. The Food for Peace Office files contained documentation on many actions taken or proposed as a result of the monitoring activity.

The questionable storage conditions observed earlier by the U.S. General Accounting Office were observed by RIG/A/N also. RIG/A/N found bags broken and stacked so poorly that a count was prohibited. The warehouses were badly in need of rehabilitation.

The Food and Agriculture Organization (FAO) of the United Nations addressed these matters in an August 1986 report that recommended that the Government of Somalia ask donors to help with an estimation of warehouse rehabilitation needs. The report also called for greater emphasis on warehouse management practices, including stock management, inventory control, record keeping, and pest management. The FAO Mission recommended that a warehouse operations specialist be hired to develop and introduce improved warehouse management procedures. We also recommend this undertaking if funding can be arranged.

The practice of selling Title I commodities to public institutions at highly subsidized prices had been largely corrected. Sales were being made at the equivalent of the U.S. delivered prices, and a regular program of moving the official exchange rate up to the market rate had largely ended the subsidized aspect of the sales.

AUDIT OF THE P.L. 480 TITLE I PROGRAM
IN SOMALIA

PART III - EXHIBITS AND APPENDICES

21

EXHIBIT 1

SOMALIA'S FOODGRAIN REQUIREMENTS
AND AVAILABILITIES
1980 - 1985
(METRIC TONS)

	1980	1981	1982	1983	1984	1985
AVAILABILITIES	481,300	650,300	583,000	626,000	719,300	756,500
REQUIREMENTS	511,300	525,700	540,900	558,300	587,800	606,400
(DEFICIT)/SURPLUS	(30,000)	124,600	42,100	67,700	131,500	150,100

Source: Food and Agricultural Organization's Report of Food Security Review Mission to Somalia, dated August 1986.

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EXHIBIT 2

PL 480 TITLE I DELIVERIES TO SOMALIA
1978 - 1986
(METRIC TONS)

	1978	1979	1980
RICE	5,000	10,000	12,800
VEGETABLE OIL	2,750	5,300	7,400
CORN	-	-	20,000
WHEAT/WHEAT FLOUR	25,000	17,700	18,900
TOTALS	32,750	33,000	59,100
VALUE($MILLIONS)	7.0	10.7	17.7

	1981	1982	1983
RICE	9,400	22,141	18,261
VEGETABLE OIL	4,400	6,240	9,446
CORN	14,500	-	-
WHEAT	-	4,975	5,089
WHEAT FLOUR	15,500	13,714	12,994
TOTALS	43,800	47,070	45,790
VALUE ($MILLIONS)	15.0	14.5	15.0

	1984	1985	1986
RICE	18,775	16,806	24,728
VEGETABLE OIL	5,816	8,565	13,928
CORN	-	13,118	-
WHEAT	5,882	11,777	9,652
WHEAT FLOUR	16,900	14,538	16,936
TOTALS	47,373	64,804	65,244
VALUE ($ MILLIONS)	16.0	20.0	20.0 1/

1/ Includes $4.1 million ocean freight.

Source: Food For Peace Office files, USAID/Mogadishu

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RR RUEHNR
DE RUEHMG #3023/01 3530514
ZNR UUUUU ZZH
R 190510Z DEC 86
FM AMEMBASSY MOGADISHU
TO RUEHNR/AMEMBASSY NAIROBI 7174
INFO RUEHC/SECSTATE WASHDC 4947
BT
UNCLAS SECTION 01 OF 03 MOGADISHU 13023

AIDAC

NAIROBI FOR REDSO/EAS

E.O. 12356: N/A
SUBJECT: MISSION RESPONSE TO DRAFT AUDIT OF PL 480
PROGRAMS IN SOMALIA

REF: DRAFT AUDIT OF PL 480 PROGRAMS IN SOMALIA

I. USE OF PL 480 AND IMPACT OF DELIVERIES ON DOMESTIC
(RECOMMENDATIONS NOS. 1 AND 2)

A. A MAJOR CONCLUSION OF THE AUDIT IS THAT THE DOLS 80 MILLION PL 480 PROGRAM WAS WASTEFUL, INEFFECTIVELY SUPPLEMENTED FOOD SUPPLY, AND DISCOURAGED LOCAL PRODUCTION. THIS FINDING IS PRIMARILY BASED ON THE CONCLUSION THAT USAID/MOGADISHU PRACTICED POOR PLANNING, ALLOWED DELIVERIES TO ARRIVE DURING THE HARVEST SEASON, AND WAS UNWILLING TO REDUCE THE TITLE I PROGRAM. THE PRIMARY EVIDENCE CITED FOR THIS CONCLUSION IS THAT PL 480 COMMODITIES ARRIVED DURING THE HARVEST SEASON, CORN PRICES IN 1985 DECLINED SIGNIFICANTLY FROM JUNE TO SEPTEMBER, AND THE FACT THAT OF THE 13,016 METRIC TONS OF CORN AND 7,737 METRIC TONS OF SOFT WHEAT IMPORTED UNDER FY 1985 TITLE I, A TOTAL OF 7,007 METRIC TONS OF CORN AND 2,727 METRIC TONS OF SOFT WHEAT REMAINED IN WAREHOUSES UNSOLD AS OF NOVEMBER 1986. USAID DOES NOT DISPUTE THESE FACTS, BUT WE QUESTION WHETHER THE FACTS LEAD TO THE CONCLUSION.
B. AS DISCUSSED IN THE DRAFT AUDIT REPORT (PAGE 12), THE MISSION'S AND GSDR'S ASSESSMENT IN DECEMBER 1984 AND JANUARY 1985 WAS THAT MORE THAN HALF OF THE CORN CROP WOULD BE LOST AS A RESULT OF DROUGHT, LACK OF FUEL FOR IRRIGATION PUMPS, ETC. THE ASSESSMENT WAS BASED ON THE LATEST AVAILABLE DATA AT THE TIME. AS THE AUDIT REPORT CORRECTLY POINTS OUT, ACCURATE AND TIMELY DATA ARE NOT AVAILABLE IN SOMALIA; THIS IS A SERIOUS PROBLEM THAT PLAGUES ALL PLANNING EFFORTS. BASED ON THIS ASSESSMENT AND THE PERCEPTION THAT THERE WOULD BE A SEVERE SHORTFALL OF CORN, THE MISSION WENT AHEAD WITH ITS FY 1985 TITLE I PROGRAM. AT THE TIME, THE MISSION BELIEVED THAT THE IMPORTATION OF CORN WOULD NOT DISCOURAGE DOMESTIC PRODUCTION.

C. IN DETERMINING THE MIX OF FOOD IN THE PROGRAM,

[illegible]
[illegible] IMPORTING FOOD [illegible]
DOMESTICALLY. THE DISADVANTAGE OF IMPORTING FOOD GROWN DOMESTICALLY IS THE POSSIBILITY OF DISCOURAGING LOCAL PRODUCTION. THE DISADVANTAGE OF IMPORTING FOOD NOT GROWN DOMESTICALLY IS THAT IT CAN AFFECT CONSUMER TASTE PREFERENCES AND THUS CREATE A PERMANENT DEMAND FOR IMPORTS. THE BEST AVAILABLE INFORMATION AT THE TIME INDICATED THAT THERE WOULD BE A SERIOUS CORN SHORTAGE BEFORE THE NEXT HARVEST; THUS CORN WAS PROGRAMMED UNDER THE FY 1985 PROGRAM FOR ARRIVAL BEFORE THE HARVEST PERIOD. THE AGREEMENT WAS SIGNED IN MARCH 1985. WHILE EFFORT WAS MADE TO INSURE THAT THE PL 480 COMMODITIES ARRIVED BEFORE THE HARVEST PERIOD, THE MISSION HAS RELATIVELY LITTLE CONTROL OVER THE ACTUAL SHIPPING DATES AND EVEN LESS CONTROL OVER THE ARRIVAL DATES. UNDER TITLE I THE IMPORTING COUNTRY IS RESPONSIBLE FOR PLANNING SHIPPING AND ARRIVAL DATES. THEY OFTEN DELAY MAKING THEIR ORDER, WAITING FOR COMMODITY PRICES TO DROP. THIS WAS THE CASE IN SOMALIA. SHIPMENTS THUS WERE DELAYED AND ARRIVED DURING THE HARVEST PERIOD.

D. THE FOOD PRODUCTION ASSESSMENT OF THE MISSION AND GSDR IN DECEMBER 1984 AND JANUARY 1985 PROVED TO BE INCORRECT. THERE WAS A BUMPER CROP OF CORN THAT YEAR (AS STATED IN THE REPORT, PAGE 12, THE CROP IN 1985 WAS 42 PERCENT HIGHER THAN THE 1984 CROP). THIS CROP, RATHER THAN THE MISSION'S UNWILLINGNESS TO REDUCE TITLE I, IS THE PRIMARY REASON WHY THE TITLE I CORN EXCEEDED THE DEFICIT. FURTHERMORE, BETWEEN MARCH AND JULY 1985, OTHER DONORS IMPORTED ALMOST 11,000 METRIC TONS OF CORN (CHINA - 6,015 MT AND EEC - 4943 MT).

E. DESPITE THE FACT THAT THE PL 480 CORN ARRIVED DURING THE HARVEST, THE CORN HAD VERY LITTLE IMPACT ON THE DOMESTIC CORN MARKET SINCE: A) IT AMOUNTED TO LESS THAN 5 PERCENT OF THE SEPTEMBER 1985 DOMESTIC CORN HARVEST; B) VERY LITTLE THE PL 480 CORN ENTERED THE MARKET DURING THE HARVEST SEASON, LESS THAN HALF OF IT ENTERED THE MARKET AS LATE AS EIGHT MONTHS AFTER THE HARVEST SEASON, MORE THAN HALF NEVER ENTERED THE MARKET; AND C) US YELLOW CORN IS CONSIDERED INFERIOR TO DOMESTIC CORN BY SOMALIS, WILL ONLY SELL AT PRICES CONSIDERABLY LOWER

THAN SOMALI CORN, AND IN MANY RESPECTS IS NOT A VIABLE SUBSTITUTE. THE DROP IN CORN PRICES BETWEEN JUNE AND SEPTEMBER 1985 IS AN ANNUAL OCCURANCE; IT WAS A SIGNIFICANT DROP GIVEN THE BUMPER CROP. THE SMALL AMOUNT OF PL 480 CORN ENTERING THE MARKET HAD A MINOR IMPACT ON THE PRICE DROP. FURTHERMORE, THE PL 480 CORN APPARENTLY DID NOT DISCOURAGE DOMESTIC PRODUCTION SINCE THE AREA PLANTED IN CORN FOR THE 1986 GU SEASON (APRIL - JULY) WAS HIGHER THAN THE 1985 GU SEASON. IN ADDITION, THERE WAS A RECORD CORN HARVEST IN 1985.

F. THE FACT THAT ADC HAD NOT DISTRIBUTED ROUGHLY ONE THIRD OF THE SOFT WHEAT BY NOVEMBER 1986 HAS LITTLE BEARING ON THE CONCLUSION THAT THE TITLE I PROGRAM DISCOURAGED PRODUCTION. SOFT WHEAT IS NOT PRODUCED IN SOMALIA AND THERE IS LITTLE HARD EVIDENCE THAT SOFT WHEAT IS SUBSTITUTED FOR OTHER GRAINS IN THE SOMALIA DIET.

G. THE MISSION AGREES THAT ITS ASSESSMENT IN DECEMBER 1984 AND JANUARY 1985 TURNED OUT TO BE INACCURATE, BUT QUESTIONS WHETHER IT IS FAIR TO REPORT THAT THE MISSION PRACTICED QUOTE POOR PLANNING UNQUOTE. THE MISSION LEARNED FROM THE FY 1985 EXPERIENCE AND DID NOT INCLUDE ANY CORN IN THE FY 1986 REQUEST. FURTHERMORE, THE FY 1986 PL 480 PROGRAM WAS DOLS 4 MILLION LESS THAN THE FY 1985 PL 480 PROGRAM. THIS FACT DOES NOT SUPPORT THE DRAFT AUDIT REPORT CONCLUSION THAT USAID/MOGADISHU WAS UNWILLING TO REDUCE THE TITLE I PROGRAM. ADDITIONALLY, IT WAS THE MIX OF COMMODITIES MORE THAN THE TOTAL QUANTITY THAT RESULTED IN EXCESS COMMODITIES BEING STORED IN WAREHOUSES A YEAR AFTER THEY ARRIVED. THE PROBLEMS ENCOUNTERED WITH THE DISTRIBUTION OF CORN AND SOFT WHEAT WERE NOT EXPERIENCED WITH OTHER COMMODITIES SUCH AS VEGOIL.

H. WHILE THE MISSION QUESTIONS THE ARGUMENTS SUPPORTING RECOMMENDATION NOS. 1 AND 2, THE RECOMMENDATIONS THEMSELVES ARE CLEARLY STATED AND WORTHY OF SERIOUS CONSIDERATION FOR IMPLEMENTATION IN FUTURE PL 480 TITLE I PROGRAMS. HOWEVER, EXPERIENCE IN SOMALIA INDICATES THAT IT IS EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE, TO ENSURE THAT PL 480 COMMODITIES ARRIVE BEFORE THE AUGUST - SEPTEMBER HARVEST. IT IS MUCH EASIER TO DELAY SIGNING THE AGREEMENT SO THAT THE COMMODITIES ARE LOADED IN THE U.S. VERY LATE IN THE FISCAL YEAR (SEPTEMBER) AND THUS DO NOT REACH CONSUMERS IN SOMALIA UNTIL THE DER SEASON PRE-HARVEST PERIOD (DECEMBER - JANUARY).

I. MISSION SUGGESTIONS:
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1. THAT RIG/A/N CONSIDER REVISING OR QUALIFYING SECTIONS OF THE AUDIT REPORT (PP. I, 5,) WHICH STATE EXPLICITLY THAT THE PL 480 PROGRAM QUOTE DISCOURAGED LOCAL PRODUCTION. UNQUOTE

2. THAT RIG/A/N CONSIDER REVISING OR QUALIFYING SECTIONS OF THE AUDIT REPORT (PP. II, 5, 7,) WHICH STATE

[illegible] USAID HAS GOOD [illegible]
TITLE I PROGRAM. UNQUOTE
3. THAT RIG/A/N CONSIDER REVISING OR QUALIFYING SECTIONS OF THE AUDIT REPORT (PP. III, 15,) QUOTE UNTIMELY DELIVERIES WERE DUE TO POOR PLANNING BY USAID/MOGADISHU. UNQUOTE

II. AUCTION OF PL 480 FOOD TO THE PRIVATE SECTOR

(RECOMMENDATION NO. 3)

A. THE DRAFT AUDIT REPORT INDICATES THAT THE RESULTS OF PAST AUCTIONS HAVE BEEN DISAPPOINTING AND THAT GOVERNMENT INTERVENTION COULD LEAD TO THE EVENTUAL COLLAPSE OF THE AUCTION PROCESS. THE MISSION GENERALLY AGREES WITH THESE AUDIT FINDINGS, DESPITE VERY CONSIDERABLE MISSION EFFORT (OVER TWELVE PERSON MONTHS) TO MAKE THE 1986 FOOD AUCTION A SUCCESS. THE AUCTION APPROACH TO DISTRIBUTING PL 480 COMMODITIES TO THE PRIVATE SECTOR IS A VERY GOOD CONCEPT AND WE WERE ENCOURAGED BY THE RESULTS OF THE 1985 FOOD AUCTION. HOWEVER, THE MISSION REGRETS THAT IT WAS NOT SUCCESSFUL IN PRACTICE THIS YEAR.

B. THE MISSION AGREES FULLY WITH RECOMMENDATION 3B (NO ALTERATION OF AUCTION PROCEDURES AFTER BIDS ARE INVITED), BUT QUESTIONS THE PRACTICALITY OF RECOMMENDATION 3F (EXCLUSION OF ENC FROM HANDLING COMMODITIES DESTINED FOR THE AUCTION). ASSUMING THAT THE MISSION ATTEMPTS ANOTHER FOOD AUCTION, IT IS VERY DOUBTFUL THAT THE GSDR WOULD AGREE TO HAVE A PRIVATE SECTOR ENTERPRISE HANDLE THE PL 480 COMMODITIES DESTINED FOR THE AUCTION. WE SHOULD REMEMBER THAT THE COMMODITIES ARE OWNED BY THE GSDR AND MUST BE PAID FOR BY THEM USING THEIR OWN SCARCE FOREIGN EXCHANGE.

C. MISSION SUGGESTION:

THAT RIG/A/N CONSIDER REVISING RECOMMENDATION 3B SO THAT IT STATES THAT THE MISSION SHOULD MAKE EVERY EFFORT TO EXCLUDE ENC FROM HANDLING COMMODITIES DESTINED FOR THE AUCTION.

III. RECOVERY OF SOSH 14,589,000 FOR PL 480 ACCOUNT

(RECOMMENDATION NO. 4)

A. THE DRAFT AUDIT REPORT INDICATES THAT IN 1985 THE MISSION INCORRECTLY ALLOWED AN AUCTION EXPENSE DEDUCTION OF ONE SOSH PER KILOGRAM OF FOOD SOLD AT THE AUCTION. IT ALSO INDICATES THAT THE DEDUCTION WAS ASSOCIATED WITH SHIPPING LOSES WHICH OCCURRED DURING OFFLOADING IN BERBERA WHEN LASH BARGES OF THE GULF LINE'S SHIP DELTA MAR COLLIDED WITH ONE ANOTHER. THE DRAFT AUDIT REPORT FURTHER STATES THAT THIS DEDUCTION WAS PROBABLY ALLOWED BY THE MISSION TO RESOLVE A LARGE DIFFERENCE BETWEEN THE TOTAL DEDUCTIONS CLAIMED BY THE GSDR (37 PERCENT OF AUCTION PROCEEDS) AND THE TOTAL DEDUCTIONS AS CALCULATED BY THE MISSION.

B. THIS SECTION OF THE DRAFT AUDIT REPORT IS CONFUSING TO THE MISSION AND DOES NOT APPEAR TO BE CONSISTENT WITH ACTUAL EVENTS AS REMEMBERED BY MISSION STAFF. THE ADDED EXPENSE OF ONE SOSH PER KILOGRAM OF FOOD SOLD AT AUCTION (SOSH 14,589,000) WAS AGREED UPON THE MISSION AND GSDR BEFORE THE AUCTION AND WAS ASSOCIATED WITH UNEXPECTED SHIPPING COSTS RELATED TO GROUNDING OF THE SEA KING DESTINED FOR MOGADISHU. THERE WAS NO CONNECTION BETWEEN THE SOSH 14,589,000 AUCTION EXPENSE AND THE LASH BARGE LOSSES IN BERBERA. AS THE DRAFT AUDIT INDICATES, THE GSDR'S CLAIM OF DOLS 493,347.70 TO THE CENTRAL GULF LINE'S UNDERWRITERS WAS FOR LASH BARGE LOSSES IN BERBERA. FURTHERMORE, THE ONE SOSH PER KILOGRAM EXPENSE WAS AGREED UPON BEFORE THE AUCTION, WHILE THE DISAGREEMENT BETWEEN THE GSDR'S CLAIM FOR 37 PERCENT DEDUCTION OF AUCTION PROCEEDS AND THE MISSIONS CALCULATED DEDUCTIONS OCCURRED AFTER THE FOOD AUCTIONS. THIS DISAGREEMENT LASTED ONLY ABOUT THREE DAYS AND WAS RESOLVED WHEN THE GSDR AGREED TO USE THE CALCULATION OF ACTUAL AUCTION EXPENSES JOINTLY DETERMINED BY THE GSDR AND USAID PRIOR TO THE AUCTIONS.

[illegible]
USAID/MOGADISHU MISSION [illegible] AN ADDITIONAL
COST 14,[illegible], [illegible] DEPOSIT [illegible].
THE MISSION AGREED TO THE ONE [illegible]
DEDUCTION BEFORE THE FOOD AUCTION AND MADE SURE THAT THE
GSDR DEDUCTED ONLY ACT[illegible] UPON AUCTION EXPENSES. THE
RECOMMENDATION DOES NOT APPEAR TO BE APPROPRIATE OR
WITHIN THE TERMS OF THE SIGNED FY 19[illegible] PL 480 TITLE I
AGREEMENT AND SUBSEQUENT AGREEMENTS BETWEEN THE GSDR AND
USG CONCERNING IMPLEMENTATION OF THE FOOD AUCTION.

D. MISSION SUGGESTION

THAT THE RIG/A/N CONSIDER EXCLUDING RECOMMENDATION NO. 4
FROM THE FINAL AUCTION REPORT. RAWSON
BT
#3828

NNNN

UNCLAS SECTION 03 OF 03 MOGADISHU 13828

List of Report Recommendations

Page

Recommendation No. 1

We recommend that the Director, USAID/Mogadishu:

a. reduce the annual Title I program by at least half ($10 million), and

b. review the adequacy of the analysis supporting future proposed commodities to verify that those selected will provide the minimum disincentive to local food production. 4

Recommendation No. 2

We recommend that the Director, USAID/Mogadishu, in coordination with the Assistant Administrator, Bureau for Food and Voluntary Assistance and appropriate elements of the U.S. Department of Agriculture, take steps to: 9

a. obtain early completion of the Title I agreement, or otherwise complete arrangements to ensure commodities arrive during pre-harvest periods, and

b. facilitate the Government of Somalia opening letters of credit in a timely manner.

Recommendation No. 3

We recommend that the Director USAID/Mogadishu include in future agreements with the Government of Somalia: 13

a. a clause excluding the government marketing corporation (Ente Nationale per il Commercio) from handling commodities destined for auction,

b. a clause stating that auction procedures cannot be altered after bids are invited.

Recommendation No. 4

We recommend that the Director, USAID/Mogadishu collect from the Government of Somalia an additional deposit to the special account of So. Shs. 14,589,000. 16

List of Report Recipients

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