

PD-ABC-39:
70128

DATE: July 24, 1990

REPLY TO USAID/Malawi
ATTN OF: Project Implementation and Development (PID) Office

SUBJECT: Program Closeout Report: Section 416
Agricultural Commodity Foreign Donation Agreement,
(Sugar Quota Offset) No. G-612-7/923-00, dated May 28, 1987

TO: Distribution

The subject document(s) is forwarded to you for your
information and files.

DISTRIBUTION

USAID/Malawi

AFS Office Project File (original)
AFS Project Officer
PAE Office
CONT. (incl. RFMC)

REDSO/ESA

RFFPO
File Room

AID/W

AFR/SA
AFR/PD/IPS
AFR/PD/SAP
FVA/FFP/AFR (Att: MS. JEANNE MARKUNAS)

**MALAWI
PROGRAM CLOSE-OUT REPORT**

Program Title: Section 416 United States Government
Agricultural Commodity Foreign Donatio
Agreement No. G-612-7/923-00

Date of Agreement: May 28, 1987

Signatories: The Government of the United States

The Government of Malawi

Commodity/Tonnage: U.S. Hard Red Winter Wheat
18,294 Metric Tons (MT)

1

WAK
WAK

I. PROGRAM DESCRIPTION

Purpose

To import 18,294 MT of wheat to offset the adverse effect on Malawi's balance of payments because of the reduction in Malawi's sugar export quota to the U.S.; and to sell wheat to raise local currency for use in Malawi's development process.

Plan

The Grain and Milling Company Ltd. (GMC) had responsibility for accepting the 18,294 MT of wheat provided under the terms of this agreement. GMC would pay to the Government of Malawi (GOM) Malawi Kwacha 620 per MT. This represented the maximum price possible without distorting the domestic price for flour and bread products. GMC milled, packaged and sold the wheat flour through its normal commercial channels to wholesalers for resale by retail outlets as flour and bread products.

The local currency generated by the sale of the wheat by GMC would be deposited into a special interest bearing account through the Ministry of Finance, and would be programmed for three development priority areas which would provide food assistance to the poor in Malawi. These areas included pharmaceutical supplies for use by rural health care facilities in rural areas, maintenance and repair of rural secondary roads, and support for the National Rural Development Program (in the areas of agriculture diversification and improving smallholder crop production).

Implementation and Accomplishments

According to the program plan, two shipments of U.S. wheat arrived Port of Durban, R.S.A.; the first on October 22, 1987, the second on March 22, 1988.

The uplifting, bagging and transport of the wheat by rail and truck to points of entry in Malawi were carried out with losses that are in dispute between Falconhurst International and GMC. GMC reported a total wheat receipt of 17,878 MT. A loss of 104 MT was reported and documented by GMC due to rain damage and unmillable sweepings. From the 17,878 MT received, GMC milled 13,118 MT, sending 4,656 MT to KK Millers for milling and sale due to overload in capacity at GMC.

Together, both milling companies milled and sold 17,774 MT of U.S. wheat. The GOM realized a currency generation of MK11,019,880 ($K620/MT \times 17,774 MT$) from the sale of the wheat by GMC and KK Millers.

To date MK6,868,980 has been received and deposited by the Ministry of Finance into the special account set up for this purpose. The GOM has disbursed MK4,023,319 for two development activities agreed upon by GOM and USAID.

The program has met its primary objectives by providing replacement resources for foreign exchange lost because of Malawi's reduced sugar quota exports. In addition, the sale of the wheat has assisted Malawi in effectively keeping the price of bread from rising too high in the country. The local currency generation, although incomplete to-date, has made a significant impact on two development areas; divestiture of ADMARC estates and the upgrading of the Bunda Agricultural College Road.

II. SHIPPING

Wheat Shipment #1:

Ship Name: "Sea Pioneer"

Loading Information: September 19, 1987; New Orleans; 12,000 MT

Off-loading Information: October 28-November 16, 1987;
Port Allen, Durban, R.S.A.; 11,938 MT

Survey: Sound Cargo: 169,970 bags at 70 kgs = 11,885 MT;
Dry Sweepings: 754 bags at 70 kgs = 53 MT;
Total Railed: 11,938 MT (after bagging);

AR Brink & Associates, Marine Consultants & Surveyors.

B/L Information: No.1; September 19, 1987; Grain and Milling Co., Ltd., Limbe, Malawi; Commodities Credit Corp., Kansas City, MI.

Bulk/Drummed/Bagged: 11,938 MT Hard Red Winter Wheat in bulk; bagged at Port of Durban

Wheat Shipment #2:

Ship Name: "M.V. Larry L"

Loading Information: February 25, 1988; Houston, U.S.A.; 6,294 MT

Off-loading Information: March 26-31, 1988; Maydon Wharf, Durban; RSA; 6,294 MT

B/L Information: January 30, 1988; Grain & Milling Co.,
Ltd., Limbe, Malawi; Commodities Credit Corp.,
Kansas City, MI.

Surveyors: AR Brink & Associates, Marine Consultants &
Surveyors.

Survey: 9,728 MT of wheat discharged; 6,294 MT
for Malawi, 3,434 MT for Zimbabwe; 63 MT in
excess of bill of lading.

Bulk/Drummed/Bagged: 6,294 MT Hard Red Winter Wheat shipped in
bulk; bagged at Port of Durban; Total
railed, 6,252 MT (after bagging)

Total Sound Cargo: U.S. Wheat discharged from both shipments
bagged and railed to Malawi; 18,190 MT

III. Inland Transportation:

First Wheat Shipment: 11,938 MT

Second Wheat Shipment: 6,252 MT

Means: Both shipments railed.

Loading Point: Durban to Johannesburg; containerized.

Point of Entry: 50% railed Johannesburg to Harare;
trans-shipped by road, Harare to Limbe,
Malawi; 50% trans-shipped by road direct,
Johannesburg to Limbe, Malawi.

Consignee/Agent: Grain and Milling Co. Ltd.; Falconhurst
Int'l Ltd.

Surveys: Grain and Milling Co. Ltd., Limbe;
surveys conducted by Societe Generale de
Surveillance (SGS) who appointed
AMI/Malawi

Contracting Arrangements: CCC responsible for payment of all
transportation costs for delivery
of wheat from Port of Durban to
authorized points of entry in
Malawi. GOM responsible for all
transportation costs within Malawi.

Consignment notes used in all land transportation
transactions; retained by MITCO.

IV. PROCESSING

Milling/Agents

13,118 MT of wheat; Grain & Milling Co. Ltd., Limbe, Malawi;
4,656 MT of wheat: KK Millers, Limbe, Malawi.

Financial Arrangements

GMC paid to GOM Malawi Kwacha 620 per MT; local currency generated by sale of wheat was deposited into Local Currency Counterpart Special Account #0000003569, located at the Reserve Bank of Malawi through the Ministry of Finance.

V. DISTRIBUTION

Who: Grain and Milling Co. Ltd.; KK Millers
What: 17,774 MT milled wheat
Where: Normal commercial channels to wholesalers in Lilongwe and Blantyre
When: November 1987-December 1988
How: Milled, packaged and sold through normal channels to wholesalers for resale by retail outlets as flour and bread products
Reporting: Grain & Milling Co. Ltd.; MOF

VI. LOSSES

There is a discrepancy in the losses; USAID/Malawi is requesting additional information to resolve the discrepancy.

Port/bagging losses: 58 MT (US\$21,092); reported by Falconhurst International as off-loading and bagging losses in Durban.

Overland losses: Falconhurst International reports shipping to GMC 18,236 MT of wheat (an amount exceeding the total tonnage reported discharged).

GMC reports receiving 17,878 MT of wheat.

The discharge surveys from both shipments reveal that 18,190 MT was off-loaded and shipped by rail to Malawi which would account for a loss of 312 MT (US\$113,461). Signed P.O.D.'s and invoices are being requested of Falconhurst International and GMC to substantiate their claims of shipment and receipt.

USAID/Malawi has informed the GOM of the discrepancy in losses ascertained by the close-out report.

VII. LOCAL CURRENCY MANAGEMENT

Commodity: Wheat

L/C Generated: MK11,019,880; Sale of 17,774 MT U.S. wheat @ MK620 per MT

Amount Owed: MK11,019,880

Amount Paid: MK6,868,980

- L/C Program:
1. MK1,500,000 to finance the GOM's contribution to the purchase of ADMARC estates.
 2. MK846,158 to distribute two agricultural assistance packages to victims of drought, floods and mealy-bug infestations in Karonga and Salima districts.
 3. MK8,373,300 to upgrade the Bunda Agricultural College road.

Local Currency Uses: Allocations

	<u>Amount Allocations</u>	<u>Amount Disbursed</u>	<u>Undisbursed Balance</u>
PIL No. 5: GOM Contribution to Purchase of ADMARC Estates Account	1,500,000	1,500,000	-0-
PIL No.6: Assistance to drought, flooding & mealy-bug victims	846,158	-0-	846,158
PIL NO.7: Bunda College Road Upgrade	<u>4,522,822</u> *	<u>2,523,319</u>	<u>1,999,503</u>
Total	6,868,980	4,023,319	2,845,661

* Total authorized allocation is MK8,373,300. Balance of MK3,850,478 to be allocated subject to availability of additional funds in the Special Account.

- Project Reporting:
1. Records and documents to be maintained by GOM for a period of three years reflecting all transactions pertaining to the receipt, storage, distribution and sale of the wheat.
 2. Quarterly logistics report by GOM to Food Peace/AID/W covering receipt of wheat, quantity sold, proceeds generated, proceeds deposited, disbursement from special account.

These reports have not been forthcoming from GOM despite repeated communication from USAID appraising GOM of negligence.

VIII. ISSUES

Programmatic

The delinquency of Grain and Milling Co. and KK Millers to pay proceeds from sale of wheat to Ministry of Finance is an outstanding issue. It is symptomatic, however, of an overall lack of organization and adherence to time frames by the GOM in tracking and utilizing proceeds of the wheat sale. There is an

outstanding amount of MK4,150,900 owed to the special account by the millers. In addition, there is a balance of MK2,845,661 in the special account that has gone undisbursed by the GOM. The GOM, in order to finalize its responsibilities in this agreement, needs to bring earmarked activities on line and finalize the balance of the special account.

Reporting

- Reports Pending:
1. Final report from Grain and Milling Co. Ltd. to USAID accounting for total wheat received, milled, sold, proceeds generated, proceeds deposited.
 2. Final accounting of wheat shipped and received in Malawi by Falconhurst International.
 3. Final report from MOF to USAID accounting for checks received and deposited into special account.
 4. Final report from GOM to USAID accounting for disbursement and utilization of local currency proceeds from the sale of US wheat.

Actions: Inquiries are being made by USAID/Malawi into loss discrepancy; GOM informed.

Recommendation: USAID inform the MOF to begin to charge an interest rate, at the prevailing bank rate, for all unpaid funds owed as of the dates millers show they have milled the wheat. A PIL should be issued to the GOM/MOF.

REFERENCES:

Program Implementation Reports; USAID
Six Month Reports; USAID
Final Reports: Grain & Milling Co.; MOF; GOM
Reserve Bank of Malawi Final Statement
Files FPC 7 to 7.5; USAID