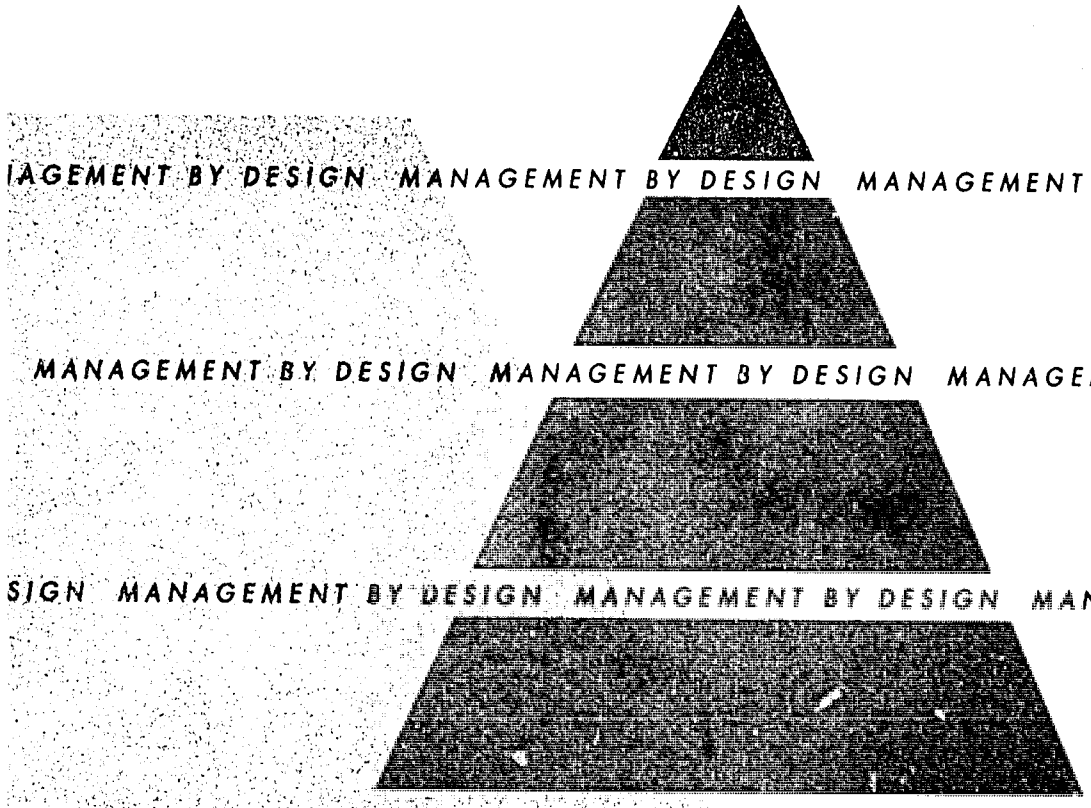
PD/T 677-0060-3-10045
(DATEX)
PN-ABW-103

An Institutional and Financial Analysis

of the

National Cereals Office



Presented to:

USAID/CHAD

April 1, 1992

DATEX INC

FINAL REPORT

An Institutional and Financial Analysis

of the

National Cereals Office

Presented to:

USAID/CHAD
(Under Contract No.: PDC-0800-I-05-1070-00)

April 1, 1992

by:

DATEX INC.

and

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

Prepared by: Reid Whitlock of Datex
Richard Crayne of ISTI

a

Datex Inc
Management by Design

Datex is an international management consulting firm specializing in *Management by Design,* an approach which brings practical solutions to critical management and decision making problems in order to optimize organizational and individual performance. We offer client management expert assistance in strategic planning, organizational development, financial management, automated data processing, management information systems, project design, monitoring and evaluation, human resources development and training.

A certified **8(a)** and **Gray Amendment** organization, Datex provides services to public, private, non-profit, and international organizations, in a range of sector areas including health, agriculture, population, education, communications, natural resources, information systems, and financial management. Some of clients include the U.S. Agency for International Development, the World Bank, the United Nations, NCR, Save the Children Federation, TechnoServe, Salvation Army World Service Office, the International Institute for Rural Reconstruction, Planned Parenthood Federation, CODEL, and the Enterprise of John Snow, Inc.

Datex is headquarted in the metropolitan New York area, with offices in Washington, D.C. and Cairo, Egypt, and affiliate offices in Pakistan and India. Our full-time staff and consultants are especially qualified to manage projects in developing countries, through experiences providing technical services in 3 regions and 30 countries.

CONTENTS

I. Background to the Study and Executive Summary . . . . . -1-

II. Recommendations . . . . . -2-
A. Should AID Continue to Use ONC to Manage Its Title III Food Aid Sales? . . -2-
B. Should AID Continue to Use ONC to Manage "The Security Stock" ? . . . . . -9-

III. Current Organizational Set-Up of ONC . . . . . -11-
A. Chain of Command . . . . . -11-
B. Relationship With The Private Sector . . . . . -13-
C. Relationship With Donors . . . . . -13-
D. Autonomy . . . . . -14-

IV. Current Operations of ONC . . . . . -15-
A. History/Background . . . . . -15-
B. Activities of ONC . . . . . -15-
1. Stabilization Stock . . . . . -16-
2. Security Stock . . . . . -16-
3. Monetization . . . . . -16-
4. Ad Hoc Jobs . . . . . -16-
C. ONC As A "Private Sector Organization" . . . . . -16-
D. ONC's Future Plans as They Relate to Food Security . . . . . -17-

V. Institutional Analysis of ONC's Ability to Manage Title III Sales . . . . . -18-
A. Decision-Making Process . . . . . -18-
B. Degree of Autonomy . . . . . -19-
C. Logistics Capabilities . . . . . -20-
D. Human Resource Capabilities . . . . . -22-
E. Training . . . . . -22-
F. Expatriate Staff . . . . . -23-
G. Staffing . . . . . -23-
H. Grooming for Succession/Promotion . . . . . -24-
I. Turnover . . . . . -25-
1. Management and Accounting Procedures . . . . . -26-
2. Internal Control Mechanisms . . . . . -27-
K. Public Perception of ONC . . . . . -28-

VI. Financial Analysis of ONC . . . . . -29-
A. Financial Management . . . . . -29-
1. Background . . . . . -29-
2. Quality Of Data . . . . . -29-
3. Accounting Principles & Procedures Used . . . . . -30-
a. Operating Losses . . . . . -33-

b. Accounts Receivable . . . . . -33-
c. Security Stock Inventory . . . . . -33-
d. Asset Valuation . . . . . -33-
4. Internal Control Mechanisms . . . . . -34-
5. Ability of Financial Management Systems and Practices to Meet Management Needs . . . . . -34-
6. Ability of Financial Management Systems and Practices to Meet AID Standards . . . . . -34-
7. Cost/Ton Analysis . . . . . -36-
8. Cost vs. Revenue Analysis . . . . . -40-
a. Costs . . . . . -40-
ONC Losses . . . . . -40-
* Cumulative Losses . . . . . -40-
* Operating Losses . . . . . -40-
* December 1990 Losses . . . . . -41-
* Accounts Receivable Losses . . . . . -42-
* Credit Sales . . . . . -44-
* Stabilization Stock Losses . . . . . -44-
b. Revenues . . . . . -44-
i. The 10 % Management Fee Issue . . . . . -44-
ii. Proceeds From Title III Monetization . . . . . -45-
c. Three Year Projections - Cost/Revenues . . . . . -46-
9. Liquidity Situation . . . . . -49-
10. Modifications In Financial Practices and Procedures Required . . . . -50-
a. Cost Accounting System . . . . . -50-
b. Budgets . . . . . -51-
B. Quantification of Donor Inputs To ONC . . . . . -52-
C. Financial Impact on ONC of Withdrawal of Donor Support . . . . . -53-

VII. Management of The Stock de Sécurité Alimentaire (SSA) . . . . . -54-
A. Description of the Operation . . . . . -54-
1. Level (Tonnage) of SSA . . . . . -55-
2. Technical Rotation . . . . . -55-
3. Replenishment . . . . . -56-
4. Use . . . . . -57-
5. Cost Recovery . . . . . -58-
6. Funds Redeposit . . . . . -58-
7. Activity Mixing . . . . . -58-
8. Authority To Operate . . . . . -58-
9. Operating Expenses . . . . . -59-
10. Audits . . . . . -59-
11. Controls . . . . . -59-
12. Dispute Resolution . . . . . -59-
14. Conflict With Bilateral Agreements . . . . . -60-

15. System Storage Capacity . . . . . -60-
16. Funds Management . . . . . -60-
B. Description of Donor Participation . . . . . -61-
1. ONC/Donor Coordination for SSA Purchases . . . . . -62-
2. Donor Enthusiasm For Using The SSA . . . . . -63-
C. Impact Of The Present Security Stock On Food Security . . . . . -63-
D. Costs of Security Stock Management . . . . . -65-
1. Costs To Manage the SSA . . . . . -65-
2. Site Selection Issues . . . . . -66-

Bibliography

Annexes:
A. Methodology
B. People Interviewed
C. Use of Private Traders for Monetization of Title III
D. Alternatives to ONC for a SSA
E. ONC Balance Sheet
F. Scope of Work

Acronyms

AICPA: American Institute of Certified Public Accountants
BET: Borkou-Ennedi-Tibesti Region
CASAU: Comite d'Action pour la Securite Alimentaire et l'Aide d'Urgence
CILSS: Comité Inter-Etat de Lutte contra la Sécheresse dans le Sahel
CSSA: Comite du Stock de Securite Alimentaire
EPIC: Entreprise Publique de character Industriel et Commercial
FASB: Financial Accounting Standards Board
FSSA: Fonds du Stock de Securite Alimentaire
GOC: Government of Chad
ONC: Office Nationale des Céréales
SSA: Stock de Sécurité Alimentaire
USAID/C: United States Agency for International Development: Chad
USAID/W: United States Agency for International Development: Washington
WFP: World Food Program

I. Background to the Study and Executive Summary

AID/Chad has been using the Office Nationale des Céréales (ONC) as the Chadian government partner for its food aid monetization programs for nearly a decade. As the government institution with the most experience and the most developed infrastructure dedicated to the sale, storage and shipment of foodgrains, it has, to date, been the logical choice to be the AID/Chad's "agent".

AID/Chad has commissioned this study to answer the question of whether or not it should continue to use the Office National des Céréales in this "agent" role. The study addresses this question through a combined institutional and financial assessment of ONC's capabilities. The study also explores alternatives to AID/Chad using ONC as its food aid agent.

The alternative of using private sector traders for the monetization of Title III food aid emerged as more beneficial to AID/Chad (AID/C or "the Mission") than continuing to use ONC for this task. The banking system is capable of facilitating the financial elements of these monetization operations. The principle negative element to consider is the possibility of the Mission encouraging over-concentration of private sector economic power (oligopoly), as only a limited number of individuals would meet the strict criteria for participation that would be necessary to protect AID interests.

The Stock de Sécurité Alimentaire (SSA), the main in-country food stock maintained for emergency use, is managed by ONC, and is the best option available to the Mission for storage of such commodities as it might want to preposition in-country in anticipation of eventual deployment. A number of alternatives to ONC management of the SSA and to use of the SSA for emergency food storage were examined, but critical flaws were present in each.

ONC proved to have the capability to adequately manage U.S. food aid sales. This assessment qualifies the organization as a "safe" backup, in the short-run, at least, should the Mission decide to continue to work through *it* rather than monetizing its Title III food through alternative channels.

Factors external to its relationship with USAID --- squeezed budgets, staff downsizings, political instability and bad publicity may make it difficult for ONC to provide quality service to the Mission in the future.

II. Recommendations

A. QUESTION: SHOULD AID CONTINUE TO USE ONC TO MANAGE ITS TITLE III FOOD AID SALES ?

The mission should not continue to use ONC. Instead, Title III food should be monetized by Chadian private sector grain traders. These traders (using cash) or the banks representing them (using documentary letters of credit), will pay AID/C for the incoming grain immediately upon, or prior to, its arrival in N'Djamena. Negotiated prices, based primarily on grain quality will provide lower transaction costs than auctions and will still permit AID/C to generate proceeds in excess of the minima stipulated by Food For Peace legislation. It will be possible for monetized counterpart funds to be deposited, under this approach, even before the arrival of the grain in-country. The U.S. government is relieved of its monitoring responsibility sooner than is now possible and the plan more fully involves elements of the private sector, than does present practice. This is consistent with the Mission's private sector support objectives.

Rationale

We acknowledge at the outset that ONC has performed credibly in its management of U.S. food aid to date. AID/C could continue to use ONC for its Title III monetization operations with a reasonable likelihood of continued satisfactory ONC performance. To its credit, the Mission has taken the initiative to scan the horizon for such better solutions as may exist, ***even though its present solution is satisfactory.***

A convergence of interests has formed between the Mission, which wants to pursue viable, low-risk strategies for encouraging the expansion of a vibrant private sector in Chad, and a select group of private sector grain traders, whose sophistication, experience and liquidity make them fully capable of buying and reselling without incident large quantities of wheat flour.

To further its understanding of the private sector's ability to finance and manage large-volume (more than 1,000 tons at a time) wheat imports, the team spoke with the commercial director of one of Chad's two largest insurance companies. It confirmed that some of these same grain traders purchase insurance from that company to protect against losses while importing wheat flour and other goods. We interpret their taking out insurance policies as an important indication of their level of "formalization". Informal operators virtually never invest in insurance. This,

then was one of several indications of the seriousness and level of sophistication of these economic operators.

In discussions with two of Chad's three banks, the same traders' were mentioned by the directors of operations as important clients who often financed their imports through these banks. They usually financed grain import transactions with trade credits (irrevocable letter of credits payable on sight).

Some of these traders, in addition, have their own truck fleets. Having tangible assets is an indication of participation in the formal business sector. Integration from cereal importation into transport is an intelligent diversification that again signals the financial means of the targeted trader group as well as their willingness to invest in the business.

Additional information concerning the buying power of the targeted trader group came from four of the traders themselves. We asked them individually to estimate total market imports of wheat flour per month. The figure we were given was approximately 5,000 tons per month or 60,000 tons per year from all traders combined. This quantity is two to three times higher than the 20,000 to 25,000 tons per year that documentary sources had led us to believe were presently being imported into Chad.

The team pressed this point in a follow-up meeting with three traders, two of whom stated that every month, they imported every month 500 tons of wheat flour for resale. The discussion confirmed that 40,000 and 60,000 tons of wheat flour is imported into Chad every year, depending on market conditions and on the level of competing imports from donors.

Our conclusion from these findings is that the 15,800 tons of wheat flour that donors have monetized since September 1991 (or intend to monetize), 2,800 tons from Canada, 3,000 tons from France and 10,000 tons from the U.S. could have all been handled directly by private sector traders.

Since the commercial cereal importers are often the same ones who end up selling donor food aid when it is sold on the market (e.g. Ahmat Abderahim and Alhadji Mohamat Said, Source: USAID list of those who bought USAID wheat flour from ONC), the shift to channelling the entire Title III monetization activity through them is not a totally new initiative. AID/C already has a certain experience working with this group successfully.

Table One below lists the most important wheat flour importers.

TABLE ONE

TOP 10 CHADIAN WHEAT FLOUR IMPORTERS

Ahmat Guedi
Oumar Goudja
Ahmat Mahamat Abderahim
Maskhon Guchar
Ahadj Mohamat Said
SETEX (Ali Seitchi)
Ahmat Djalati
Choukou
Thiam Baboye
SODIMEX (Djalal)

Sources: Meetings with Bank managers, and with traders, 1/92

The individual high-volume grain traders we met with impressed us with their professionalism, "transparence" of operations and market awareness. This favorable impression reinforced the argument that this group was capable of performing the same tasks now performed by ONC.

We were not the only ones impressed. The French representation in Chad has decided that it will use Chadian grain traders as its agents to purchase its additions to the SSA rather than use ONC. This change was precipitated by a desire to do something concrete to engage and encourage the private sector (it was also motivated in part by dissatisfaction with ONC's overall historical performance. Source: M. Martin, F.A.C., interview.).

Working more closely with private sector traders will give the Mission a close-up view of the many bureaucratic externalities against which private sector entrepreneurs must struggle to simply "*do business*". This insight will prove useful should the Mission at some point wish to undertake programs of financial assistance in return for policy reforms that will facilitate the activities of these businesspeople.

Though the Mission needs to continually monitor whether its food aid imports displace pre-existing commercial imports, at present there are no problems of this type. The private sector would resell the same quantities of wheat flour annually whether the U.S. imported or not. For them, commercial and food aid transactions are different only in their source of payment and the point at which they assume responsibility for the cargoes. The spirit of the "Usual Marketing Requirement" test is met, in that the same number of traders will continue in the market, and the same amount of money will be offered in payment for wheat flour as would be were there no U.S. wheat flour imports.*

Counter-Argument to the Use of Private Sector Traders

Without looking for the moment at the issues surrounding abandoning ONC, there are several arguments for why one might not want to use traders to monetize Title III imports.

First, traders come and go, whereas a parastatal, at least in principle, is more predictable, more likely to remain on the scene from one day to the next. The team's experience of seeing one of the country's largest grain traders summarily arrested the day after our meetings with him highlights some of the uncertainty that must be accepted when one deals with the private sector. There is however, a critical mass of grain traders in the market, and unless there was a catastrophic change in the political situation, some of these would always be active in the market and ready to work with the Mission.

Secondly, traders might speculate with the grain they purchase, and the artificial shortages that would ensue would possibly be blamed on USAID by uninformed would-be buyers. In part, the possibility of this is happening is inherent in a free market.

What one expects to see is new market entrants undercutting the hoarders to try to reap quick profits. The other equilibrating phenomenon is the cost of holding the grain for any length of time. The stock is perishable, warehouse space is expensive and its availability at a premium. Political uncertainty argues for rapid stock turnover. In such conditions hoarding and speculating are highly unlikely.

The final downside issue worth mentioning is the possibility of increased monitoring costs by the FFPO. Rather than dealing with one monolithic organization (ONC), the FFPO would now have to work closely with a handful of traders. Before the system is put into effect, it is difficult to say how different the workload would be from what it is now.

---

* The one wrinkle in this argument might be that traders who would have otherwise developed experience in international trade and transport, arranging inward delivery of their grain to N'Djamena, would, with food aid, have those arrangements taken care of for them in a certain number of cases, by donors. By having fewer importing experiences, the U.S. food aid could be said to be "to blame" for taking import management experience away from the Chadians.

Arguments For Staying With ONC

ONC has received good marks for the specific activities with which this study is concerned --- the reception, storage, handling, sale and monetization of imported wheat flour. (See Sears Report, June 1991, and Lea & Reed, Chad Food Security Program Case Study: Draft, p.4 [hereafter L&R]). It has been cooperative and service-oriented. It has maintained accurate records. This level of performance is rare among state owned corporations in the Sahel and one can legitimately ask "why switch?".

It is beyond the scope of this study to explore the reason for changing Mission priorities. If the Mission wants to know if a better service provider exists in the market, our judgement is "yes", though a trial period would be necessary to confirm this.

Our discussions with USAID and other donors have left us feeling as if a new phase of policy focus is shaping where countries are being weaned away from dependence on the public and state-owned sectors and directed towards private sector alternatives across a whole range of activities. As much of the body of this report will show, ONC has met Mission expectations where U.S.-provided food aid has been concerned, but has consistently fallen far short of this level of expectations when one surveys all their activities together --- rather than simply those that involve USAID.

This finding creates a dilemma for the Mission. If a service provider, hoping to keep and grow your business, gives ***you*** good service, but does not provide the same quality to other clients, how should this be interpreted? Should you revel in the special treatment you are receiving? Should you be wary that the privileged treatment you now receive may end? More delicate is the question of whether you continue to give your business to an entity which you have reliable information (though not legal proof) concerning fraudulently presented financial statements (we will examine this issue in depth in Chapter six). The fraud does not affect ***your*** operation, but you are aware that it is there.

Part of our rationale for recommending an alternative service provider to ONC is our belief that AID/C should distance itself from any semblance of irregularity when an alternative exists, even if the irregularity does not affect AID/C directly.

Our explanation of the paradox of how an organization, documented to have numerous operational and financial problems, can perform consistently well against AID's demanding standards is linked to these very standards. AID, through its FFPO and controller staff, makes sure that ONC performs for U.S. transactions as required by U.S. law, and by the grant agreements under which the grain is imported. This rigorous (and time-consuming) supervision has been the critical success factor in these operations. AID/C has not given ONC room to fail. Unfortunately, ONC's other clients are not as demanding. In addition, operating in a highly politicized environment, where the government is itself, in a manner of speaking, a client, it is simply not realistic to expect that ONC will have the courage to pursue "sound business

practices" in the face of enormous external pressures --- pressures that often lead to non-economic decisions being made.

The final point to address under this section is sunk cost. If AID/C has worked hard to establish a sound working relationship with ONC, and has gotten ONC to "buy in" to the practices and reporting procedures that AID requires an argument can be made that now is the time to reap the return on this investment --- not to abandon it.

Compared to other donor accounts, AID/C's is not critical to ONC's financial survival. AID/C can pull out of the relationship without feeling that it is precipitating the demise of ONC.

On the other hand, AID, a visible player in food aid in Chad, could create a perceived "domino effect" by its pull-out of its relationship with ONC. The fact that other donors, notably France, the European Community (EC) and the United Nations Food and Agriculture Organization (FAO) are phasing out of some or all their relationships with ONC, will strengthen this perception.

There is merit to the sunk cost argument. Our answer to it is that the learning that has taken place during the crafting of the USAID-ONC relationship is directly transferable to a new relationship with private traders, and the gestation period should be much shorter than it was with the ONC relationship. Also, as explained later in this chapter, AID/C will not sever all ties with ONC. It will continue to count on ONC for management of the security stock.

Arguments Against Staying With ONC

There are three main arguments against USAID continuing to sell its commodities through ONC:

- ONC does not maintain high standards of warehouse cleanliness;

- Reasonable grounds exist to believe that ONC has been involved in irregular business practices and fraudulent reporting (unrelated to its activities with AID/C). For AID/C to knowingly continue its association with ONC when other seemingly substitutable alternatives exist exposes the Mission to potential embarrassment;

- It risks criticism and loss of credibility in Chad if, in the face of competent private sector service providers, AID/C does not make a commitment to them by giving them its business, supporting its statements of encouragement to the private sector with concrete actions.

Other Options Explored and Rejected

Two other options were evaluated. One involved having private voluntary organizations (PVO's) handling the commodity sales. The upside of this option was their integrity, but the unacceptable downside was their lack of familiarity of the markets. Pricing awareness, contacts with a network of resellers, access to warehouse space on short notice, and other key success factors were lacking.

The other option involved the Mission handling the monetization of imported food aid commodities entirely in-house, from start to finish. This was rejected as a poor use of Mission resources in the face of more specialized market participants who could perform the same job (either ONC or private traders). In addition the Mission suffered from some of the same relative gaps in expertise as the PVO's.

B. QUESTION: SHOULD AID CONTINUE TO USE ONC TO MANAGE "THE SECURITY STOCK" ?

AID/C should continue to use the security stock managed by ONC, the "SSA", for its emergency food aid storage. The Mission should also provide ONC closely monitored funds to be used for the operating expenses of the SSA. Release of these funds should be tied to ONC improving a number of operational aspects of the SSA. These are detailed in Chapter Seven.

We recommend that the Mission's grant agreements contain somewhat more specific language than that which is now written into the 1991 Title III Grant Agreement. Specifically, they should state that adequate funds are earmarked for inland transport (inter-warehouse and warehouse-to-final destination), phytosanitary treatment, warehouse repair and amortization, security, reception and end-use monitoring, ONC management costs, physical aspects of stock rotation (i.e. weighing, handling), scales (purchase or repair as appropriate), jute* sacks and string, communications capability for use during emergency distributions (hand held radios, mobile high frequency radios). If these Grant Agreements are written with "conditions precedent", "self-help measures" or other similar covenants, the Mission might want to consider including the following: adoption of a recognized cost accounting system, development of detailed control procedures (governing signatory authority, verification, cash custody, password, key, lock combination, microfilming and off-site storage of records and other similar controls), appointment of "career" civil servants, or other technically qualified individuals as Director General and closing out of ONC's existing "waiting and adjustment" account.

Rationale For Continuing To Use ONC

If we take as a given that the Mission wishes to maintain in-country security stocks, the rationale for using ONC becomes irrefutable: it is willing, it is able, and it is experienced. No other alternative explored met all three of these criteria. Various permutations of two out of three of these criteria produced possible alternatives to ONC. For instance, two traders were willing and able but not experienced. One PVO was able and experienced, but not willing.

Even with all three criteria met the operation of a security stock is difficult to do well. Security stock managers under ideal conditions, in developed countries, in environments of political

---

* Jute is recommended because of its practicality in the Sahel, compared to polypropelyne. It creates fewer injuries from flesh cutting, shifts less than polypropelene when stacked due to a higher coefficient of friction, and is available in 100 kg. as well as 50 kg. sizes.

stability find the task a daunting one. It is important for the security stock to be managed to the highest standards possible, that sub-optimal solutions not be pursued for reasons of expediency. The optimal solution to the question of how to structure the management of a security stock is to turn it over to ONC, monitor its activities closely with an eye to making marginal improvements on an on-going basis, and provide it with the resources it requires to do the job professionally.

The lynch-pin in any in-country security stock strategy is an adequate warehouses infrastructure. ONC owns outright over 13,000 tons of cereal-specific, improved warehouse space. This capacity is well spaced throughout the country, it is in reasonably good repair, and it permits pre-positioning of up to 1,000 tons at a given up-country location. These are significant points. No trader, PVO or other organization comes close to having this kind of infrastructure. It is true that others could lease space --- perhaps from ONC itself, but lease arrangements are inherently riskier than positions of outright ownership.

Alternatives To A Physical Stock

The Mission wants the capability to act, in-country, in the face of long and variable delivery times for food delivery. AID/W has not respected agreed-to ship schedules leading to a Mission desire to find ways to assure a certain independence from the uncertainties of dealing with AID/W. One way to gain some control over food delivery times is to have some funds available that can be used for spot purchases of grain when needed. As we have been asked to limit our work to discussion of alternatives in the form of physical security stocks, we mention this as a point for further analysis by others.

Problems of Using ONC

Using ONC for security stock management is not without its costs. Annex D. focuses on possible ways to substitute these costs with other alternatives, that may be less costly or more attractive.

III. Current Organizational Set-Up of ONC

This chapter briefly provides the reader with a snapshot of the various parts of ONC and how they fit together. How the organization actually *works* is the subject of Chapter Four.

A. Chain of Command

Though ONC consists of 79 employees, the chain of actual ***command*** is limited in effect to those indicated in the organization chart below. Command --- making decisions and implementing them --- is limited essentially to the Director General, Assistant Director General, Commercial Director and Finance/Administration Director. They each delegate discreet tasks to subordinates, but these subordinates are in no sense decision makers. They are technicians, order-takers and caretakers in the absence of their bosses. They do not assume their superiors' responsibilities.

TABLE TWO

ONC ORGANIZATION CHART

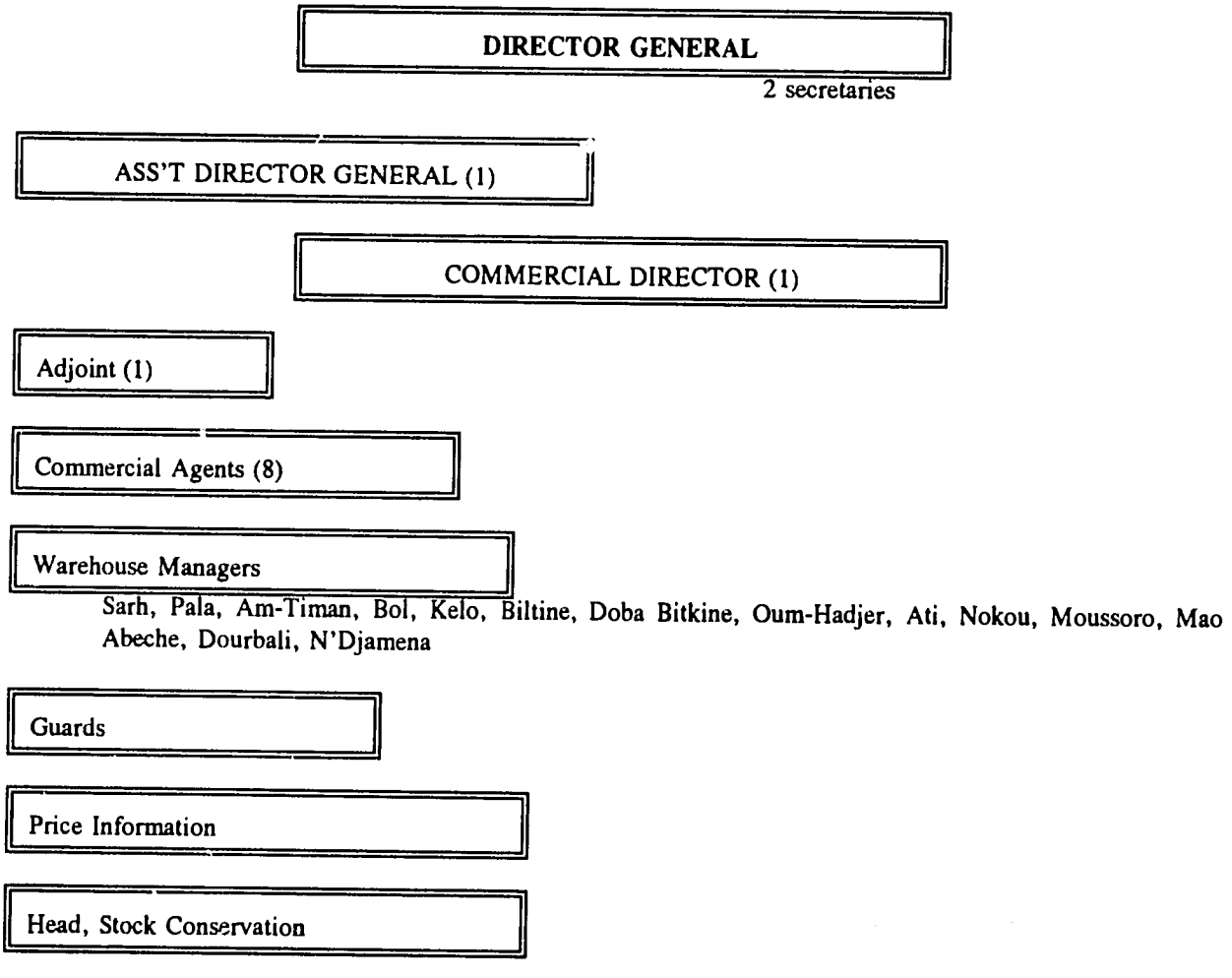


TABLE TWO (CONT'D)

FINANCIAL AND ADMIN. DIRECTOR

Chief, Accounting & Debt Recovery
1 Chief Accountant
1 Cashier

Chief, Personnel
1 Assistant

Chief, Equipment/Logistics
1 Assistant

Note: where the actual number of staff in a given position were not known with 100% confidence, the number was left out. What can be said with certainty is that of the 79 staff, 6 were highly-trained (*cadre supérieur*), 4 were well-trained (*cadre moyens*), 18 were moderately trained (*agents de maitrise*), 26 were somewhat trained (*agents qualifiés*) and 25 were untrained (*agents non-qualifiés*). (Source: Pornaye, Fiche Signaletique, Dec. 1991, p.4)*

B. Relationship With The Private Sector

ONC has long-standing relationships on several levels with the private sector developed primarily through years in the grain stabilization business.

Small producers used to sell to ONC --- when its prices were more attractive than those of other buyers in the market.

Some large urban traders may resent having had their markets upset by poorly-timed ONC sales. In general though, ONC has not "dumped" below-market priced grain on the markets, and even when this has happened, traders speak philosophically about the need for those with low purchasing power to have access to food for their survival. Thus ONC is not seen as "the enemy".

---

* The important role played by internal foreign experts is acknowledged, though it is not apparent from this organization chart. These individuals perform useful jobs as "objective third parties", non-politicized champions of causes, honest brokers of negotiated solutions to problems, and sometimes, subject matter experts. In spite of high status, they are basically outside the chain of command.

Private suppliers have found ONC a reasonable customer. For example, transporters have been paid, in most cases, within 15-20 days after presentation of final bills. This is considered excellent turn-around-time.

Private financial institutions --- banks specifically --- rank ONC among their preferred clients, partly because of the balances it maintains, and partly because of the fees it generates. (ONC does not seem to borrow in the commercial banking system).

ONC is definitely aware of the USG position of commitment to the empowerment of the private sector. The World Bank has long advocated the privatization and/or the dismantling of state owned enterprises in the Sahel. The number of recent shut-downs of parastatals in Chad (five) as well as the dismantling of the two state-owned trucking enterprises has similarly, not gone unnoticed by ONC management. For these reasons, ONC views the private sector in a very adversarial light, as it sees a win-lose scenario, where any gain made by the private sector in the cereal sector is at its expense.

C. Relationship With Donors

The principle donors with whom ONC has dealings, or has had dealings are the United Nations system (WFP and FAO), the U.S., the Netherlands (by virtue of its bilateral financing of the FAO activities within ONC), France and the EC. Several other donors have donated food, but they are not represented diplomatically inside Chad (Belgium, Japan,) or else their donations of food were one-time affairs that did not result in the countries in question developing a longer range interest in food programming and food aid dialogue with ONC (Switzerland, Canada). One donor, Italy directs its food aid through the President's office for use by the military, thereby bypassing contact with ONC (our sources indicate that Saudi Arabia, China and the USSR may also have made donations of food that were not handled by ONC). USAID has been involved with ONC through its contribution to the GOC of both food (that it stipulates should be distributed by NGO's, but that sometimes transits ONC), and of money for ONC equipment purchases and in compensation for services rendered (management fees).

The general attitudes of the donor community toward ONC could be summarized as low satisfaction, frustration and distrust. Numerous reports have suggested these attitudes (see, for example: Lea & Reed, p.2, and p. 15 , Arditi & Hankey, Vol II, p. 44, 90-94, Grasberg & Hassanein, p.18), though often, for political reasons, in language that requires some "reading between the lines" to interpret in their fullness. The negative sentiments about ONC that we found in our interviews (words like "corrupt", "incompetent", "disorganized", "unaware of market realities", "in collusion with traders to make unrecorded profits", and "superfluous" came up) were often formed from donor observation of ONC's regulator stock activities as opposed to its security stock management or donor commodity monetization activities. There were fewer stated complaints with the way in which donor food was handled, except from the EC, than there were general reservations about the institution as a whole.The lack of an alternative government counterpart has kept these donors involved with ONC in spite of their

complaints.

In the past, little effort has been made on the part of the donors to develop non-governmental alternatives to using ONC. This is changing. The EC has confirmed that its contributions to the Government of Chad (GOC) through ONC will cease this year (Interview with Pierre Hennebert, Economic Advisor, EC/Chad). It is apparently "so fed-up with ONC's mismanagement" that it is withdrawing its Fonds d'Actions de Substitution from ONC management. The loss of this account will cost ONC over 10 million interest revenue a year.

The FAO program of financial and technical assistance to ONC will end in mid-1993. France will begin using direct commercial intermediaries (rather than ONC) to purchase grain on its behalf for the security stock beginning this year.

ONC seems able to show just enough promise when needed, to convince donors that it should not be abandoned, but rather *encouraged* (usually with supplemental funding) since "reorganization and efficiency are just around the corner".

D. Autonomy

Though ONC's autonomy of action could be discussed in this chapter, we have chosen to deal with it in Chapter Five, in the context of the actual institutional analysis of ONC and how its autonomy of action (or lack thereof) affects its ability to manage Title III operations.

IV. Current Operations of ONC

A. History/Background

The Office National des Céréales (ONC) was created in September 1977, as a parastatal with full financial autonomy from the state budget. It has fallen under the jurisdiction of several different ministries over the years, but at present it reports to the Ministry of Rural Development. It was created with four principal objectives (Ordonnance No. 19/P.CSM/SGG):

1. To acquire, manage and maintain a security stock that can be mobilized in times of need.

2. To guarantee improved cereal availability throughout the country.

3. To play a role in the distribution of food aid (confirm the exact french wording here, either from Ordonnance 19/PLSM/S66 of 24 Sept 77 or by Decret No. 31/PR/SGG du 16 Oct 1978

4. To provide more stable cereal prices to both producers and consumers.

Though not yet formally acknowledged, informally ONC and the donors that support it have all agreed that the fourth of these objectives is no longer appropriate. In fact no price stabilization transactions have taken place for eighteen months (discussion with FAO technical advisor M. Depres, January 1992.)

B. Activities of ONC

ONC engages in four types of activity:

- Buying and selling of grain under its market price stabilization role,
- Managing of the Stock de Sécurité Alimentaire,
- Selling grain donated by third parties to create cash resources that are invested in food security activities,
- Performing miscellaneous ad hoc jobs such as fumigation of private grain traders' warehouses.

1. Stabilization Stock

The objective of providing stable cereal prices to both producers and consumers in the market is pursued through ONC's stabilization stock activities. As mentioned above, this activity, consistently unprofitable and prone to administrative abuses, is being phased out in a responsible manner. No new purchases under this operation are planned. Those stocks that presently exist are being systematically run down to zero.

2. Security Stock

ONC oversees the management of the country's largest security stock, on behalf of a group of donor nations who contribute money for the purchase of food to be placed in the security stock, or who contribute actual food. The commodities are prepositioned in warehouses throughout the country, for mobilization in times of acute food need. Ferrying grain to up-country locations, rotating grain in and out of the warehouses on a multi-year cycle, to ensure that the grain held is always of good quality and receiving grain shipments from outside Chad for replenishment of the security stock are the principle elements of this activity.

3. Monetization

For reasons of diet, competition with local crops, oversight control and timing of deliveries, grain donated by foreign parties is often sold in the capital by ONC (on behalf of its donors), with the proceeds going into a fund for use in development projects, often in the food security area.

4. Ad Hoc Jobs

These are a small part of ONC's business and are pursued as the opportunities present themselves, rather than being a predictable percentage of ONC's annual receipts.

C. ONC As A "Private Sector Organization"

The question of whether ONC is a private enterprise or a public sector entity has become a sensitive and important one. The Director General of ONC, aware of a general trend on the part of the donor community toward encouragement and support of private sector over public sector and parastatal institutions has attempted to reposition ONC (the government's own policy is to increasingly disengage from all sectors of economic endeavor that can be competently handled by the private sector (L&R, p.1, and Amended "Plan d'Orientation). He has proclaimed that it is now a private entity ("*boite privée*") having begun its restructuring, out of the grain market stabilization business. His argument is that since ONC receives no government funding, it

should be treated as a private firm. General acceptance of this status is important to his long-term strategy, as he wants to avoid being cut out of future grain operations with donor customers. These operations will be his sole source of operating funds in the future, and to the degree that they are channeled to individual grain traders, rather than to ONC, ONC will be driven into insolvency.

We are not convinced of the merit of the arguments articulated in support of this position. Legally, ONC is clearly a public, and not a private entity. The very title of its legal status, ***Entreprise Publique d'Interêt Commercial***, emphasizes the public nature of the organization. It is true that it can, and sometimes does operate in a commercial or private-sector manner, but the fact that its commercial decision-making can be overridden by public sector priorities is what makes it clearly a public entity.

D. ONC's Future Plans as They Relate to Food Security

ONC certainly sees itself as having a role, and an existence, on into the foreseeable future.

Since the replenishment of the SSA is supposed to take place through the purchase of local grains by ONC, one of its continued roles, as long as a security stock is maintained, is marketing. This will not change in the foreseeable future. Therefore, any talk of cutbacks in the size of ONC must allow for a continued, high-quality marketing capability. (See L&R, p.8)

Its only other key activity in the future might be handling of commodities for donors who wish to see these commodities monetized. This too requires a marketing capability, though geared more to a limited number of very large buyers than might be the case with security stock replenishment and rotation operations.

Oversight of an improved and increasingly sophisticated market price information reporting system may become interesting for ONC to pursue. Ownership of this price information will clearly have spillover effects in its other activities.

Some preliminary rethinking of the usefulness and safety of the network of warehouses throughout the country is presently underway. The dominant sentiment within ONC is to collapse the warehouse network in toward N'Djamena. Final decisions on such a change cannot, unfortunately, take place without the approval of regional authorities. They have been unwilling to give up control of what they rightly consider to be "strategic resources" (both the food and the warehouses). This issue thus remains unresolved.

V. Institutional Analysis of ONC's Ability to Manage Title III Sales

The aim of this chapter is to look at a number of important features of ONC's operations and structure and to discuss briefly how these enhance or constrain ONC's ability to deliver a quality service product in the form of management of the Mission's Title III commodity sales.

A. Decision-Making Process

The purpose here is not so much to describe all aspects of the decision-making process, as to assess whether this process is effective for the management of Title III Sales.

Operational decisions are made primarily by the Commercial Director for the issues over which he has responsibility, and by the Financial and Administrative Director for those under *his* purview. Weekly senior management meetings provide a forum where ideas are exchanged, updates of activities underway are shared and plans for upcoming actions are coordinated. The level of detail of information exchange is such that either functional manager can assume the responsibilities of the other when necessary with no apparent degradation in operational capability. This system seems to work better when the financial and administrative (F&A) manager substitutes for the commercial manager, than visa versa. This is due to the more straightforward and decentralized nature of the commercial side of the business. The warehouse managers and commercial agents, for instance, do some things without explicit instructions from their boss. This is less the case with subordinate staff in the F&A activities.

The Board of Directors does meet as stipulated, but its role in decision-making seems to be much less important than that of the Director General and his two principle line managers. It's decision making role is limited in practice to approving the budget, the financial accounts and the activity report for each fiscal year (campagne de commercialisation). [Arditi & Hankey (hereafter A&H), Tome II, p.34]. A more active board might help ONC focus on issues commonly discussed in private sector firms --- long-range planning, public relations/image and excess-cash management. This does not happen now. As a result, ONC will be inadequately prepared for changes in its operating environment (brought about by continued privatization pressure from various donors, pull-out of several donors from food aid activities channeled through ONC, and possibly by new warehouse siting strategies.)

In exceptional circumstances, the normal decision-making processes are circumvented. This can adversely affect ONC's ability to fully and correctly implement AID Title III instructions to execute food movements and sales. Instructions in these cases come from the highest levels of government, outside the ONC structure. Such instructions have been received from the President himself.

The decision-making style prevailing at ONC can be characterized as highly centralized. This is partly a cultural phenomenon, but is also a practical and logical response to experiences within ONC and elsewhere within Chadian institutions (public sector and private alike). Trusting

subordinates with discretionary responsibility over budgets, materiél and transport assets led to costly and unacceptable results. Abuse by subordinates of the faith placed in them was followed by the backlash of tighter control, achieved at the expense of innovation, flexibility and rapidity of response in a highly fluid environment.

Examples of the kinds of actions that are centralized at high level, that might benefit from being delegated down the hierarchy are: authorizing calibrating of scales, signing the transfer of ownership tickets for sale of grain in stock regulateur, and permitting entry into an up-country warehouse by a donor representative.

Though certainly not conclusive, the list is indicative of a level of centralization and dependence on the top levels of the head office staff for approval of even the smallest of operational decisions. This level of centralization and dependence on the senior head office staff for approval and execution of even the smallest of operational decisions is not without cost. Such centralization is usually a sign of lack of managerial depth. When the top person makes all the decisions, there is no need for bright people at the levels below. Those bright middle and lower level people who *do* join the organization leave or become demoralized when they see that their superiors will not acknowledge or use their talents.

Where the issue is not managerial depth, it is lack of trust at the top for those below. Both are states where initiative is not rewarded, if indeed it is permitted to exist at all; where learning by doing at the hands-on supervisory and middle management levels is discouraged. Senior managers, burdened with responsibility for virtually all decisions, get backlogged. Turnaround time rises. An illness or absence paralyses an entire department.

ONC has competent senior level managers, but below them, particularly on the commercial side, there is little depth. Even when academic credentials are sound, the opportunity to assume increasing levels of responsibility has not been provided. Our enquiries, for instance, into the capability of the assistant to the commercial director to "cover" for his boss should the situation require it revealed that he would be unable to do so.

This means that Title III operations could be disrupted by dismissals, transfers or other unexpected personnel movements, since the second tier staff would not be helpful in maintaining continuity and taking charge.

B. Degree of Autonomy

ONC is totally autonomous by statute, independent operationally of all other government structures. That said, it is in fact governed, as are all EPICs (industrial or commercial parastatals), by legislation that is enforced by the Ministry of Finance. A direct reporting relationship exists between ONC and its "parent ministry", the Ministry of Rural Development. In addition, certain operational decisions are handled by ministries outside its parent ministry. For instance, if ONC wanted to select a particular firm on technical grounds for construction of new warehouses, or locate a new warehouse somewhere, it could not do so without approval of the CSSA (on which the Ministries of Security, Finance etc.. sit).

A comment on the power of regional and prefectural authorities is in order. They have the power to ban inter-zone and inter-regional travel, and to forbid the shifting of stored grain from warehouses in their areas to other areas where greater need exists. They can make it extremely difficult for the GOC to carry out its emergency food programs. Though these individuals will not appear on any ONC organizational chart, their real power and authority is significant, making them major players in shaping food policy. Because of the unpredictability associated with this group of individuals (since they do not participate in planning meetings with ONC and other donors, one never knows their position on issues until they *respond* to some action that they consider being a threat to their jurisdiction) there is a possibility that ONC, to protect stocks destined for prefectures with over-protective administrative authorities would have to hold grain in N'Djamena at just the moment that imports of U.S. Title III food would be arriving. The ensuing storage shortage could lead to a "fire sale" quick-sale response, or to U.S. grain being stored in unacceptable temporary facilities that leads to its being pilfered or infested.

These examples provide a view of the limits placed on ONC's autonomy. They are not unusual in their scope, but they are constraining nonetheless. A donor organization hoping to deal with ONC in a "one-stop shopping" fashion will be confronted with the reality of the need to deal with these various structures.
As important as its lack of total autonomy in the governmental universe in which it operates is its lack of autonomy vis à vis the donor community. In our experience, of all the cereal boards in the Sahel, ONC is the most constrained in its operational autonomy by donor oversight. Decisions about when to move food forward from N'Djamena, and in what quantities, the minimum quantities in which food aid grain can be sold to traders, when to purchase outside Chad to replenish the SSA --- these are all determined primarily by the donors.

This heavy outside hand appears to result from donor desire to avoid having its grain mismanaged as the totally ONC-run operational stocks had been. It has also resulted from ONC being younger, institutionally, than other cereals boards in the Sahel. This has meant less staffing depth, less experience and less confidence. The donors, recognizing this, seem to have filled the vacuum with their own involvement. Some of this involvement was aimed at developing a tradition of "openness" in the way ONC does business. Complaints were aired to the effect that this level of donor intervention saps motivation from the Chadian staff at ONC, who feel little allegiance to the institution they can hardly call their own.

C. Logistics Capabilities

The only relevant logistics infrastructure for the Title III program are warehouses and scales. Loading and unloading are traditionally done manually, so handling equipment is not commonly found in a labor-rich capital-poor country such as Chad.

ONC owns 21 warehouses with a capacity of 13,800 tons [Note: the source of this information A&H, Tome II, pp.38-9 gives a total tonnage figure of 14,200. We have re-totaled their disaggregated data to arrive at 13,800] . They have all been renovated since 1987. 2,600 tons of this total capacity is located in N'Djamena, ONC's logistics center. N'Djamena warehouse

capacity to which ONC could have access if needed totals 8,500 tons. (This number was provided by the Commercial Director and was not verified to determine conditions of storage.) The rest of ONC's warehouse capacity is spread among 18 sites with an average capacity in each of just over 600 tons.

According to the Lea and Reed findings in October 1991, the ONC warehouses in N'Djamena are new and in good condition. The grain in the warehouses is stored on pallets as it should be. Though the structures are solid, differences of opinion exist concerning storage quality. One recent report stated that there is significant infestation throughout the warehouses and floors are dirty, though rodents do not appear to be a problem. (L&R, pp.19-20). These conditions, if accurately described, are not acceptable for the reception of U.S. commodities. Already, infestation problems are routinely experienced by donors importing cereal. These are almost impossible to control at any reasonable cost. If one adds to these problems, poorly maintained warehouses into which the commodities would be stored pending sale, the situation becomes unacceptable. Not only would the real value of the commodity decrease by the level of loss due to infestation, but the reputation of the United States, and ultimately, of its agricultural exports would be compromised by the public criticism of the quality of the commodities sold.

The conditions reported by Lea and Reed may have been "worst case", or, standards may simply be declining. The Sears/REDSO/W evaluation of the Title II Section 206 program in June of 1990, indicated that one site he visited maintained clean facilities. A second was consistent with the Lea and Reed findings. The Mission in a cable numbered N'Djamena 1013 (Source: fax from Carole Palma to Jennifer Stevens, Datex, Inc., 16 March 1992, page 6) took issue with the Lea & Reed findings, claiming that the infestation "was not the fault of ONC; the commodities were arriving in N'Djamena infested." As its overall experience has been "unreservedly positive with respect to the degree of cleanliness and order in ONC warehouses" (Ibid.), we do not wish to imply that our conclusion is definitive, particularly since the brevity of our visit precluded any first-hand confirmation of allegations of sub-standard conditions.

Nonetheless, while acknowledging the infested condition in which grain may be found upon its arrival in N'Djamena, our interviews with the Commercial Director of ONC lent credence to the position that warehouses in the capitol suffered infestation that was not brought in with the grain from its points of origin. As he explained, the ONC grain is often, by necessity, stored near grain of private individuals who are not conscientious about phytosanitary treatment of their stocks. This means that ONC grain is sometimes infested through "proximity infestation".

ONC maintains 19 offices ("agencies") and 23 bare-bones "sales points" . Since Title III commodities would almost definitely be sold in large quantity to commercial users or to resellers, this network of offices would not be part of any foreseeable Title III operation.

ONC does not own, nor have access to, truck scales. This is a major logistics weakness. These industrial scales permit accelerated weighing operations to be undertaken, since one can measure the weight of a truck when empty, then weigh it again when loaded to deduce the weight of its cargo without having to individually weigh each sack loaded.

D. Human Resource Capabilities

Out of 79 permanent staff, ONC has only six who have done post-graduate studies. Four more have standard university-level training and twelve more have completed senior secondary studies. Twenty five have no schooling at all. (Note that the Fiche Signaletique a statistical summary document prepared at the end of December 1991, states that there are 18 in this category, rather than 12. We were unable to confirm which number is correct). The personnel director at ONC admitted that the level of training (as opposed to *schooling*) is very low.

Statistics such as these are not always indicative of performance level, however, and our enquiries left us quite impressed with the matching of the staff to the work that needed to be done. Part of this performance is explained by the presence of very competent people in the senior positions. We have some serious concerns about the capabilities of the layers below them to assume the responsibilities of senior management should that be necessary.

E. Training

A series of annual training seminars for the entire staff below the level of division chief was offered in each of the years 1986-88, focusing on storage methods, infestation control, price monitoring and purchasing practices (A&H, Tome II, p.38). Aside from this, there has been no training provided by ONC itself. There are members of the staff however, who have been trained outside the country. Though our data is incomplete on the full extent of outside training courses attended, it appears that Mr. Pornaye (the F&A Director) has attended several overseas courses, Mr. Mahonté (the Deputy Director) has received advanced training in Burkina Faso, Mr. Nadounabé (the Commercial Director) has attended several regional seminars on the problems facing cereals offices, and one of the accountants has attended a computerization seminar in Dakar. (Source: hand-written table prepared by ONC, 1/92).

One of the recommendations of the tripartite conference (FAO, Netherlands and Government of Chad) of October 1988 was to provide training to the top people at ONC emphasizing exchanges with the other cereals offices of the sub-region. (A&H, Tome II, pp.47-8). This emphasis on the senior level people highlights ONC's strategy, which is clearly to make the top people better, rather than to raise the level of the mass of employees bit by bit. It is difficult to say that this strategy is not the most appropriate for the style of management practiced by ONC, but the Mission needs to be aware, and perhaps concerned, that many of the lower-level people, poorly paid, poorly supervised and poorly trained are the ones actually responsible for the safe handling of U.S. commodities. One can easily imagine problems of mixing sacks belonging to different donors (due to illiterate warehouse personnel not being able to read the writing on the sacks), of incorrect dosages of insecticides being applied and of weights being incorrectly entered in ledgers. These kinds of problems could affect the Mission's Title III program.

The only other training activity of which we are aware is one involving a certain French accounting software package that simplifies cost accounting calculations and entry adjustments.

ONC has yet to receive this accounting package but its staff told the team that it hopes the FAO project will purchase it for ONC. ONC has apparently budgeted money for training its accounting staff in use of this software package. The training will be under CILSS (Comité Inter-Etat de Lutte contre le Sécheresse dans le Sahel) auspices probably in Dakar, Senegal.

F. Expatriate Staff

There are two expatriate staff assigned to ONC, though only one was on the payroll during our visits to ONC. The conditions under which the second expatriate left the country are unclear. Prior to his departure, he worked as the counterpart to the Commercial Director, and was the third such expatriate to hold that position since the beginning of FAO's support to ONC. The other expatriate has the title of Chief Accountant, and is the counterpart to the F&A Director.

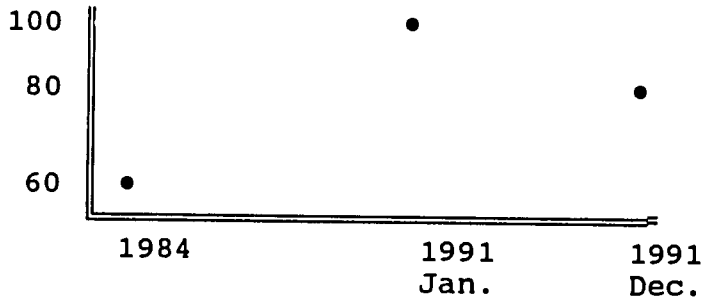
The presence of these expatriates is positive for the Mission. Often, there are delicate issues that are not clear to those outside an institution, but which can be explained by someone with "insider information" and at the same time, the Mission's frame of reference. Technical assistants are often invaluable in this "go-between" role, and would facilitate the smooth operation of a Title III program.

G. Staffing

Prior to a concerted effort to downsize begun in the end of 1991, the ONC staff had grown steadily in size over the years. In 1984 (after having its activities curtailed by political events, the staff numbered 60 [A&H, Tome II, p.35]. By July of 1991 that number had reached 101. It is now (January 1992) at 79.

TABLE THREE

ONC STAFF LEVELS 1984-1991



The areas where staff growth had been most marked at headquarters was at the level of guard (from 6 -> 9) and assistant chauffeur (from 2 -> 5). In the field there has been a significant gain in the number of warehouse managers (from 9 -> 15) and guards (11 -> 17). [A&H, Tome II, pp.37a&b].

Recent staff cutbacks have been most prominent among those with inadequate training for the position they hold. ONC has had to fight both the Ministry of Labor and the labor union on the issue of firing non-qualified personnel. For "cause" it is not difficult to fire someone under Chadian law, but to layoff in the interest of economic efficiency, it is nearly impossible. ONC has been taken to court by individuals, originally hired through "connections" but not possessing proper qualifications, and has lost each case in which it has been charged. Still, it has preferred to pay the fines assessed by the court and remove the people in question from the payroll, rather than capitulate. (Interview with ONC Commercial Director, 1/15/92). This can only improve staff quality in the medium and long term, but in the short term, the unrest generated and the workforce polarization, may in fact create performance problems that could effect clients such as USAID.

Staff quality has been called into question by the press, by donors, by traders, and by the public at large. Many posts are reported to be sinecures and nepotism positions (N'Djamena Hebdo, No. 36, 12/5/91, p. 10) as well as a resting place for government officials removed from their posts elsewhere (Ibid.). There are reports of staff being on payroll but having no precise job. There are allegations of the warehouse staff tampering with sacks (interview with Michelle Karlack and Joetta Miller, CARE/Chad, 1/15/92) to inflate their weight (taking real grain for themselves and replacing the grain with sand or sawdust).

H. Grooming for Succession/Promotion

No effort is made to groom anyone for the Director General position, though it is the key

decision-making position within ONC. This is because the post has always been a political appointment. The high visibility of the post and the importance of cereals in the economy has made the position a volatile one.

The Commercial Director has a deputy but does not groom him for succession.

There is some grooming for promotion being undertaken by the FAO-financed chief accountant. He works closely with middle level financial staffers to inculcate basic minimum standards, and to give them the kind of supervision that will qualify them over time to assume greater levels of responsibility. This practice has led to an improvement in the efficiency of finance operations. Whether promotions through the ranks result remains to be seen.

Lack of commitment to grooming subordinate staff for positions of increasing responsibility suggests a short-term time horizon for planning. It also signals far greater likelihood of disruption in relations between the Mission and ONC should any of the principal contact personnel with whom the Mission now deals, depart for one reason or another.

I. Turnover

Since October 1988 ONC has had six different Directors General (Source: F&A Director, ONC and FAO Chef Computable, ONC) The average tenure since Zakaria Ali Bouye took over in November of that year has been 7.8 months, if one includes the present Director General. Though we were not able to obtain hard data to verify the comments, we have heard comments that the technical qualifications that these Directors General have brought to the job have been inadequate and/or inappropriate for the position. Though we do not have any information on tenure at ONC, we do have some selected information on length of professional experience of ONC staff, and it seems that at least four have over ten years of experience. As our data are quite spotty, this number may in fact be significantly higher. Turnover/tenure data can be interpreted in two ways. People who have done something for a long time know how to anticipate problems, as they have seen all the possible permutations of problems at some point in their careers. They also presumably have developed some competence through repetition. On the other hand, "old timers" are often inbred and ingrown, closed to new ideas and difficult to by-pass, due to the in-house network of alliances they have forged. Thus, the number of people who have long years with ONC could work for or against the Mission. We are not in a position to assess the impact of this particular point with any greater precision.

J. ONC's Financial Management Capability to Handle Title III Transactions

On the question of ONC's ability to handle U.S. Title III food (and funds), the team could find no mismanagement by ONC of Title III food aid grain or of the monetary proceeds to date. This finding refers to the Section 206 storage and sales in 1989/90 and the storage of the current Title III wheat flour.

The principle financial issue brought to our attention that is still outstanding concerns a 15 million FCFA advance from USAID to ONC to cover the costs of USAID Section 206 sale which ONC received in December 1989. This remains as an uncleared advance in January 1992. Our assessment is that this is more of a procedural issue (see section below) than a mismanagement issue. If donor cash advance justification procedures existed, this advance would have been cleared along time ago.

1. Management and Accounting Procedures

ONC has no formal procedures to manage and account for Title III food aid. It has no procedures manuals of any kind. (Information sources are interviews with the A&F Director and Commercial Director and an FAO document entitled Plan Indicatif de Redressement de l'Office National des Céréales, O.N.C. (GCPS/CHD/018/NET August 1991). The latter recommends the creation of procedures to meet the needs of an ONC which would manage food aid sales and SSA.)

The lack of procedures and manuals should not be construed as a lack of documentation. The team confirmed the existence and acceptable quality of accounting documents as they related to ONC's management of and accounting for the Section 206 wheat flour sales. This team, like Mr. Sears in his report (Sears, p.6) was very impressed with the way in which ONC followed the "Recommendations for Implementation and Follow-Up of Accounting Procedures to Control the Receipt, Storage, and Sale of 5,000 MT of Rice", as prepared by Price, Waterhouse and Associates in September 1984.

The team did not have a chance to observe actual Title III wheat flour sales in progress during its visit. Nonetheless, it is our conviction that ONC will follow the same management practices as it did for the Section 206 sales. Furthermore, given the close working relationship between AID/C's Food for Peace Officer (FFPO) and ONC's senior staff (not to mention the number of hours committed to managing that relationship), ONC will continue to meet AID's standards in both management and reporting, as they concern U.S. Title III food aid, even if the abovementioned formal procedures are not instituted. The FFPO and AID/C Controller's staff follow ONC activities so closely that little leeway is permitted for ONC to mismanage or fail to manage, either the food or the money.

ONC knows what it has to do to meet AID standards. The following excerpt from the Sears report (p.6) is indicative:

> *Opening balances were reported for each warehouse location holding PL 480 flour. Dispatches, receipts and balances were made weekly. (...) Individual warehouse balances were being kept on site but were consolidated in their weekly reporting. Total stock balances could be reconciled by comparing these inventory reports and the opening balances of the survey report and the record of daily sales. Report format was in accordance with that called for in the Transfer Authorization. (...) Sales and bank deposits were recorded rigorously. Both are easily reconciled.*

The team therefore concludes, as the Sears report did, that ONC is competent to organize and manage a PL 480 sales program.

One reason why ONC may not presently be using formalized procedures is the rapid turnover in Directors General described above. It is difficult to codify organizational procedures when there is no continuity at the top.

It must nonetheless be acknowledged that the FAO technical assistance team has made numerous proposals for the creation of a manual of standard operating procedures. To date such a manual has never been endorsed by ONC management. Perhaps with greater continuity the Mission (and the FAO) could be more insistent on this issue.

2. *Internal Control Mechanisms*

Formal internal control mechanisms do not exist.

The A&F Director and the Commercial Director told the team that they and others working under them verify and control the field agents' accounts and supporting documents during each visit by the agents to headquarters, or by the Directors to the field. As we were not able to visit up-country storage sites, we cannot confirm the validity of these statements. We can only refer to the recent EC report (A&H, Tome II, Annex 7) which lists the eight internal control procedures which that team controlled. These seemed reasonable, but insufficient in breadth of coverage.

That said, we do not believe that the lack of these internal control procedures would put the Mission's Title III operations at any heightened risk. As long as ONC knows what AID/C rules are it appears willing to try to respect them.

Nonetheless, it is true that better internal controls in areas such as cash management would make ONC as a whole function more efficiently, and would produce financial benefits as well. For example, ONC has traditionally maintained over 100 million FCFA in the form of "cash on hand" at it various depots points. As it phases out of the business of buying and selling grain to stabilize prices, one would hope that all the cash, being held at the depot level, would be brought back to N'Djamena for deposit in ONC's operating bank account. If ONC were to do this, it would earn interest income which could help to cover SSA operating costs.

Having so much liquid cash on hand caused ONC to lose 67 million FCFA of this cash fund during the December 1990 "coup d'Etat". If ONC had instituted cash management practices (cash needs-based budgeting) in line with its forecasts, perhaps some of these cash losses might not have occurred.

K. Public Perception of ONC

There is a public perception, particularly among the more literate and socially aware that there is an "opaque curtain" over ONC's operations, about which no one speaks (N'Djamena Hebdo, 12/5/91, p.10ff). The writers of this article recommend that all commercialization activities should be left to the private sector for reasons of cost and "openness". Poor people, the recipients of free food in times of food stress, have a more positive view of ONC, but even they clamor for more food and more timely deliveries.

There is a perception among the urban working people who pay taxes and support large families, that they should get food aid too --- presently they are not targeted at all. They also feel that their family members in their rural home areas should be better cared for by the GOC. They hear of food arrivals but state that their families get nothing. These "anecdotes" are pertinent. If the public views ONC in a negative or adversarial light, attempts to sell U.S. Title III commodities through it may not be successful. The public will not necessarily disassociate food aid distributions from food sales, or AID/C from the government of Chad (GOC). Given the possibility for confused interpretations, any possibility of public opinion toward ONC turning negative, for whatever reason, could negatively affect AID/C.

VI. Financial Analysis of ONC

A. Financial Management

To set the stage for this chapter we would like to begin with a summary comment: the Team has gone back to ONC's first operating year (84/85) and analyzed revenues and costs from 84/85 through 89/90 --- a six year period. Only in 84/85 did ONC make a profit. The only reason it did so was because USAID and other donors paid ONC over 209 million FCFA in management fees (well above the actual costs incurred) to monetize donor food aid.

This chapter will explore the reasons why ONC has not been profitable, and will document how it has portrayed in numbers its financial fortunes.

1. Background

The Team's financial analysis and accounting system appraisal of ONC deals with the time period from its reconstitution in 1984 (enabling legislation created ONC as a Chadian EPIC in 1978, but it did not start functioning in its present form until 1984)
through 1991. The December 1990 coup d'Etat could have affected the quality and quantity of financial information available, however ONC's computerized accounting system permitted reconstruction of the data that disappeared during that period.

Financial statements do exist for the six-year period cited above. These statements are the Chadian equivalent of American balance sheets and income statements. Using ONC, EC and other sources, the team has reconstructed and then presented those statements in a form more comfortabel to an American reader. They now have the look and feel of American financial statements. The team presents ONC's Balance Sheets and Income Statements in Annex Three. ONC's fiscal year starts on 1 October of one year and ends on 30 September of the next.

The team has seen and has copies of the accounting documents that ONC staff will use to prepare the financial statement for the 1990/91 operating year. Those documents are not in a form that will permit the team to comment on or analyze their contents.
Nonetheless the cost data that the team needed to estimate SSA management costs *was* available and was used in our work.

2. Quality Of Data

One of the important source documents used by the team was a report by a WFP consultant on the creation of the SSA (Valere-Gille, May 1990). This document states that ONC's financial data, at least as it related to the SSA, was "fragile and incomplete" (P. 1/1) due to a statistics

gathering capability that is in its "rebuilding phase". The author complains of being forced to use "scattered, and often contradictory" sources for his analysis (Ibid. pp/ 1/1-1/2)

We have not been able to obtain complete financial statements for the 90/91 operating year. We will sometimes comment on 1990/91 activity, but our comments are on the basis of uncertified financial data. ONC will present 90/91 financial statements to its Board of Directors in Spring 1992, as generally accepted accounting principles allow for a six month period between closure of accounts and final presentation of financial statements.

The December 1990 coup does not appear to have significantly degraded the quality of data that references that period. We know that ONC will report extraordinary losses associated with the coup but we have a good estimation of those losses from ONC accounting data and the A&H report.

3. Accounting Principles & Procedures Used

The Chadian government uses an Oganisation de la Comptabilité des etats Africian et de l'ile Maurice (OCAM) based accounting system, which is derived from French accounting principals as these were applied during the late 1950's and early 1960's. Although the French have up-dated and changed their "Plan National Comtpable", Chad is one of many African countries that has not modified its accounting principals since it adopted the OCAM system in 1962.

The OCAM system is somewhat arcane and is not easily understood by the uninitiated. It can provide management with accurate financial data but not in a form that is easily usable. As the OCAM system is accepted for use by all agencies and ministries of the GOC, we do not feel that it is appropriate here to recommend its replacement.

If the OCAM system is followed and is used as it is laid out, it does provide accurate financial data, that, to those who use and understand the OCAM system, make sense. It is important for American readers to note that the OCAM accounting system allows for presentations of capital accounts that would not be accepted by the American Institute for Certified Public Accountants (AICPA). This body is governed by rules promulgated by the U.S. Federal Accounting Standards Board (FASB).

The FASB has issued rules that directly address the following capital account presentations which the OCAM system allows (contradicting FASB regulations):

(1) Reserve accounts (capital contingencies) are disallowed under FASB Ruling No.5, "Accounting for Contingencies" issued in March 1975 which repealed Accounting Research Board (ARB) regulation 43, chapter 6, which had allowed for the creation of contingency or reserve accounts. (ABR 43 had originally been announced in 1958).

(2) Retained earnings (previous years' profits or losses or modifications in the same from prior years' adjustments) are addressed as well, in FASB 5, again in contradiction to practices that OCAM permits. Furthermore, FASB 16 "Prior Period Adjustments" issued in June 1977 indicates clearly that all prior year losses or profits, or modifications in capital accounts (retained earnings) from prior years must be reflected on the balance sheet in that account. The modifications, if any, to that account, from prior years must be explained in footnotes to the financial statements. The cumulative retained earnings, or losses (in the case of ONC) must be presented on the balance sheet to meet AICPA generally accepted accounting principles. The OCAM system does not require cumulative presentation of losses or explanations covering prior years' modifications to the retained earnings account.

Cost accounting analysis can only be performed by manipulating the initially processed accounting information collected using this OCAM system, by various adjusting entries, combined with the application of additional analytical techniques. Given the inordinately large number of accounting adjustments we found in ONC's accounts, and their importance as a percentage of ONC asset value (approximately 20%) it appears that generally accepted accounting principals were not applied in a consistent manner.

The further back we went chronologically, the more prominent was this phenomenon of excessive adjusting entries. The number of adjustments on the statements decreased with time, due perhaps to the influence of the FAO "expert comptable" (CPA or Chartered Accountant) who arrived at ONC October 1988 and will be with ONC until December 1992. The statements prepared since his arrival show more consistency and accuracy than did their predecessor statements. These adjusted accounts are presented in Table Four on the next page.

Financial statements are, by definition, created from accounts. If many adjustments are made in the accounts, this indicates that the financial statements are constantly being recalculated, reformulated and re configured. Such on-going changes, after the accounts should, in theory, be "closed" is akin to taking random bricks out of the wall of a house, then replacing them, and repeating this procedure over and over. The process itself, as well as the holes temporarily created, makes the wall inherently unstable and prone to collapse. Building on this analogy, financial accounts, too-often adjusted and altered, lose credibility. This is true in spite of the fact that generally accepted accounting principles are applied in the presentation of the actual accounts.

Inventories were never consistently valued by ONC. This is made manifest by the number of changes in valuation entries over the years in ONC's books. It is impossible for us to discern the exact methods of valuation used due to the frequent and inconsistent changes. We can only remark that ONC valued its inventories at average purchase cost for its 1990/91 financial statements.

Fixed assets were and are depreciated using OCAM standards. These assets depreciate over a

fixed number of years according to the type of asset. Straight-line depreciation is used in all cases.

TABLE FOUR

EC ACCOUNTING ADJUSTMENTS TABLE

(In millions of FCFA)

	84/85	85/86	86/87	87/88	88/89
Beginning ONC Profit or (Loss)	50,431	(75,471)	(75,261)	(123,514)	(88,365)
Accounts adjusted + or (-)					
Mgt Fee	58,089				
Adjustment in Inven. plus/(minus Write-Offs	(11,835)	(26,285)	(380,934)	206,174	(123,307)
1. Reserve Acct.	(87,455)				
2. Accts Receivable	(115,297)	(57,548)			
Increase in Depreciation	(1,645)				
Donor Contributions Mis-allocated	(38,611)	(4,857)			
GOC Contributions Mis-allocated	50,400	5,000	2,000		
Revised Profit or (Loss)	7,585	(89,967)	(456,195)	(32,494)	(267,220)
Net Change	(42,846)	(14,496)	(380,934)	91,020	(178,855)

The 1989/90 financial statement did not apply the OCAM accounting principles in a consistent manner, notwithstanding our comment that ***in general*** the financial statements are better prepared after his arrival than before. Trying to understand the 1989/90 anomaly we discovered that ONC had prepared these financial statements while the FAO Financial Advisor was out of Chad on vacation. When the team queried the advisor about these statements, he stated that he had never seen them.

The balance sheet presentation for the 1989/90 period shows several contradictions to generally accepted OCAM principles. There are three areas that merit mention here. They are (1) operating losses, current and previous years losses, (2) write-off of accounts receivable and (3) Security Stock Inventory. The manner, in which these three balance sheet items are presented, falsely increases the asset valuation of ONC.

a. Operating Losses

The operating loss for 1989/90, which amounts to 203 million FCFA, is presented as an asset on the balance sheet. Accumulated losses, whomever's numbers are used, the EC's or ONC's, do not appear any where on the 1989/90 balance sheet. If one accepts the EC numbers, those losses are more than 828 million FCFA. If one accepts ONC's numbers, the losses are more than 88 million FCFA. These losses have disappeared.

In presenting the 203 million FCFA loss as an asset, ONC has increased the asset valuation by 406 million FCFA, as the 203 loss is added to assets instead of being subtracted from capital.

b. Accounts Receivable

Accounts receivable are written-off as liabilities rather than deducted from gross accounts receivables on the asset side of the balance sheet. In presenting the write-down of bad debts in this manner, asset valuation is increased by 32 million FCFA as liabilities are increased and gross accounts receivable are not decreased.

c. Security Stock Inventory

The SSA inventory is presented both as an asset as well as a liability. The security stock inventory does not belong to ONC. It belongs to the donors and the GOC. ONC is managing this inventory for these third parties. ONC is liable for losses in accounting terms for this inventory in the same way a bank is liable to its depositors for the money that they have put in the bank for it to manage their funds.

The valuation of the security stock inventory should be presented as a liability, not as an asset in the inventory belonging to ONC. In presenting the security stock as both an asset and a liability, ONC has increased its valuation by over 338 million FCFA.

d. Asset Valuation

The total of false asset valuation is over 773 million FCFA. The *real* valuation of ONC, only dealing with these changes, is 1.903 billion FCFA. The percentage overvaluation of assets is 40.6%.

The ONC Board of Directors' approval of these financial statements makes them "official". They do not comply with OCAM accounting principles.

4. Internal Control Mechanisms

Internal control procedures are neither acceptable nor sufficiently comprehensive for a "full-service" organization. If ONC's role is going to become more limited in the future, it is possible (though not necessarily desirable) that the present informal system could meet ONC's needs.

The internal relations and contacts between ONC personnel are oral in nature. This is understandable given the small size of ONC and given that the key decision makers are all in N'Djamena. Only rarely are written documents and memos exchanged between divisions heads. The limited number of buy/sell transactions for which ONC has been responsible over the last two years has also reinforced this oral "shorthand," since operations are not difficult to trace, even without a sophisticated control system.

Though written procedures do not exist, each senior official seems to have an innate sense of when it is important to provide written documentation or when ONC business can be handled verbally. When the money or the grain in question belong to international donor organizations, with the FAOs' advisors assistance and sometimes direction, the relevant documents are rapidly created.

5. Ability of Financial Management Systems and Practices to Meet Management Needs

It is difficult to comment on whether existing systems respond to management's needs or not. The difficulty arises from the difference between management's *perception* of what it needs and what *we* or other outsiders, might contend it needs. The OCAM system, if followed, would meet all management needs for accounts information. Control, on the other hand, cannot be adequately assured merely by the presence of accurate accounts information. Control procedures (cost controls among them) must be reinforced, to ensure that signatory, verification, cash custody, password, key, combination and other controls are properly managed.

6. Ability of Financial Management Systems and Practices to Meet AID Standards

The present systems and procedures do not fully meet AID standards.

ONC operates at least one of it bank accounts in a manner that is in direct contradiction with AID financial management practices. The account is the one into which ONC dumps all sales receipts and accounts receivable collections --- irrespective of the donor or the source. This co-mingling of funds made it impossible for the team to ascertain the present status of the SSA credit sales recoveries and the accounts receivable recoveries.

ONC calls this, on its balance sheet a "compte d'attente et à régulariser" or "waiting and adjustment account". It is not acceptable in any accounting sense. With co-mingled funds, money can be shifted around to satisfy different needs without ONC having to justify what it owes to

whom. This account needs to be closed after it is balanced off.

ONC does not have systems formalized by procedure manuals.

Some of ONC's actions, taken for political reasons (i.e.the sale of SSAs on credit terms) would not be allowed under AID rules.

All the donors, with whom the team spoke about ONC's management systems and procedures stated that ONC needed to have non-politically appointed Director General. They conceded that ONC would most likely remain a political football, but they all believed that professional managers would be less willing to give into political pressure than political appointées. Though the presence of a professionally qualified Director General is not an AID-mandated requirement, it is our sense that informally there would be much more enthusiastic support for the organization if its Director General were a professional with cereals-related experience.

Because of the time that AID/C staff spends (up to 100 hours a month for the FFPO) monitoring ONC-related activities, ONC can meet Project Officer informational and document needs by using the data that the existing systems can provide. This level of control would not be adequate for either AID Controllers or Auditors.

Capital budgeting (for asset purchase, expansion, and upkeep) is presently done on an ad hoc basis, partly explained by the uncertain environment in which ONC must operate. If one ignores the *reasons* for this deficiency, it would be possible to say that capital budgeting practice was inadequate, according to AID standards. Other elements of budgeting are discussed on page 50.

Cash management should, strictly speaking, be viewed as an element of control. It is in this light that we have mentioned cash handling above. An additional element is *cash flow* management in which ONC's performance is acceptable.

ONC is virtually debt-free, aside from classified "bad debts" that can be considered aged receivables. ONC is making an energetic effort to collect on these bad debts.

We have discussed the merits of an audit in an earlier draft and understand that an audit will take place in the spring of 1992. This audit will, if well done, critique existing audit-relevant procedures and practices, and recommend measures that should be undertaken to improve audit performance in the future.

Electronic data processing systems are consistent with the level of sophistication of ONC's other activities. We could recommend improvements and enhancements, but depth of the trained personnel pool, the possibilities for maintenance and safeguard of the equipment, and the actual information needs of management do not argue for greater computer sophistication at this time.

To summarize the findings on ONC's financial management systems, OCAM is an adequate *financial* accounting system for ONC to be using. ONC has begun to increasingly use the system

in an acceptable manner (this has especially been the case over the last two years). ONC's performance in accounts management ***in general***, has fallen short of AID standards on numerous occasions over the past five years. The description of ONC's excellent performance in its accounts management and reconciliation, described in Chapter Five above, applied *only to ONC's handling of U.S. Title III operations*. The new system that we are recommending is not a replacement for OCAM, it is in augmentation of OCAM. The new system will capture cost information that OCAM is not designed to capture.

7. Cost/Ton Analysis

A number of parties have used different methods to try to calculate ONC's costs/ton handled, a critical productivity metric. Each has its strengths and weaknesses but all are consistent in their logical construction.

The FAO run, Dutch funded project, has made several attempts to estimate what it costs ONC to manage one ton of food aid. This number has changed over the last 18 months as various FAO consultants, with differing mandates, have tried to address this issue. After several attempts, the number the FAO now uses 6.300 FCFA per ton. AID/C used this number as its cost per ton figure when it submitted its most recent Title III program proposal (March 1991). The number ONC uses is FCFA 7,600/ton. (Source: ONC accounting documents) In the V-G report (June 1990), the initial cost per ton figure used was 18,000 FCFA. The L&R report of October 1991 estimates total costs to be $ 504,000 for 20,000 tons. At an exchange rate of CFA 260: $1, this comes to CFA 6,552/ton. (L&R p.4)

Table Five below compares three estimations of what it costs to manage a ton of grain in the SSA. Some of the line item cost estimates were made identical across estimates, as no cost accounting data exists to refine these numbers. Replacement sacks is an example. The actual cost would depend on whether the sack in which the cereal was first shipped was jute or polypropelene, 50 or 100 kg. capacity, new or used, and shipped by truck and train or truck exclusively.

The team has averaged, over ONC's 7 years of operations, what certain other line items cost. These averages are sometimes much lower than the FAO and ONC estimations. The three line items which show the most variance are repairs & maintenance, utilities and office supplies. The differences are four times greater than what the team calculated in the first case, and twice as great in the utilities and office supplies categories. (These variances again point out the need for a cost accounting system to determine the real costs to manage the SSA.)

Because fixed costs are spread over total tonnage, the more tons managed, the lower the total cost per ton. ONC has rarely managed an average stock level of 16,500 tons per month, and its own estimations of SSA fees for 91/92 year use an average of only 15,000 tons managed.

As stated above, Table Five below compares FAO, ONC and this team's estimates of costs/ton. Table Six, which immediately follows it, contrasts our cost calculation of FCFA 6,691/ ton @ a 16,500 ton level to the higher cost of FCFA 9,220/ton when the level of tonnage managed is decreased to 8,250 tons. We believe that our estimates, given the cost data available, best approximate the reasonable and necessary costs for managing the SSA.

TABLE FIVE

COMPARATIVE COSTS PER TON
(in '000 of FCFA for 16,500 Tons)

Costs Categories	FAO	ONC	Adjusted
1. Personnel Costs			
a. General Staff	1220	1725	3563
b. Pest Treat. Personnel	550	500	0
c. Guards	300		0
d. Temporary Labor	600		0
2. Travel Costs	655	675	660
3. Repairs & Maintenance	400	1000	245
4. Communication (PTT)	150	200	202
5. Utilities	525	600	317
6. Office Supplies	500		261
7. Pest & Supplies	625		434
8. Sack Replacement	450	500	450
9. Miscellaneous	325	375	559
TOTAL	6300	7600	6691

Notes: The adjusted data assumes 79 employees and an average quantity managed of 16,500 tons. It does not include 150 (thousand) in the "travel" heading for pest control. The pesticides & supplies number is a weighted average of the FAO and ONC numbers.

TABLE SIX

COMPARATIVE COSTS PER TON
(in '000 of FCFA, for 8,250 tons)

Costs Categories	Adjusted
1. Personnel Costs	
a. General Staff	5344
b. Pest Treatment	0
c. Guards	0
d. Temp Labor	0
2. Travel Costs	820
3. Reps & Maint	344
4. Commun (PTT)	283
5. Utilities	444
6. Office Supplies	365
7. Pest & Supps	388
8. Sack Repl	450
9. Miscellaneous	782
10. Depreciation	N/A
Total	9220

Note that this Table assumes that 8,250 tons are managed --- or half the amount assumed in Table Five above. We assume that 75% of the original staff (of 79) are still employed, and that travel costs are 70% of their previous level.

The team calculated ONC's cost per ton numbers from cost data contained in ONC's books. The Team, therefore, shows the range of the management cost per ton as being 6,691 FCFA per ton for an operation designed to handle 20,000 tons at any given time (which represents, using actual data a monthly average level of 16,500 tons). To manage 10,000 ton or a monthly average of 8,250 tons
we show that it would cost 9,220 FCFA per ton.

Note that neither of the tables above include the cost of grain purchase to replenish the security stock in its calculations. This is not an oversight, but rather an acknowledgement of the complexity involved in allocating these costs. Determining the cost per ton to manage food aid turns out to be intimately intertwined in the estimate of revenues likely to be generated from the sale of security stock grain during technical rotation, as it is these sales that provide the funds for repurchase of new replenishment stocks.

Every possible set of assumptions for forecasting revenues hits up against the problem of variability of the price numbers that must be used to estimate prices at which to buy and sell grain. If an average of the 8 year period from 83/84 through 90/91 is used, the average spread between the buy price and sell price is 31 FCFA/Kg. If this number is used to make a three year projection of profit and loss, ONC makes a profit and buys back enough grain to reconstitute the security stock each year. If the highest and lowest prices are removed from the average, ONC still breaks-even which means that it cover all the security stock operating costs and buys back enough grain to reconstitute the security stock.

These findings fly in the face of the fact that we know ONC only made a profit one time on its operations. It has *never* exhibited the skill at buying and selling grain that would allow it to cover its costs and reconstitute its stocks.

If we take the only two years where the amount of grain distributed from what might have been called a SSA was less than the rotation level of 7,000 tons, 87/88 and 88/89, they show a negative spread for the former and a 6 FCFA/Kg spread on the latter. These numbers will show that ONC would have covered its operating costs but not been able to re-purchase enough grain to fully re-stock the SSA to 20,000 tons.

The team believes that the forward forecasting of cost and revenues is an interesting and important exercise but has decided against pushing its analysis any further than what we have explained here, since supplemental donor contributions, which we cannot predict, but which we know to play a role, often obviate the need for ONC to finance its replenishment from rotation sales.

Cost per ton of food aid managed is not an easy number to determine. Managers (Donor and PVO) must account for the time they spend to supervise and control various aspects of food aid. Other inputs (indirect costs) must also be calculated. This information can be plugged into accounting systems and these systems, having receive accurate data, will then be able to determine real food aid per ton costs. The gathering of accurate cost data then analyzing it via cost accounting systems remains a major weakness in food aid management data.

8. Cost vs. Revenue Analysis

This analysis will be broken down into two main parts, one dealing with costs and a second dealing with revenues. Under costs we will focus our attention on losses, as these drop directly down to the "bottom line" of a profit and loss statement and have a direct negative impact on ONC's profitability. That will be followed by a series of comments on noteworthy aspects of ONC's revenue stream.

a. Costs

ONC Losses

The ONC experienced physical losses in its security stocks of about 3,340 tons of its stocks (L&R p.9 and ONC records) in the transfer of power in December 1990. Grain was looted by military and civilians alike, in virtually all ONC warehouses in the Sahelian zone (19 sites). (Source: discussion with Dir. Commercial, ONC 1/14/92).

1,493 tons of grain from ONC's regulator stocks were stolen during the same period.

* *Cumulative Losses*

Total losses incurred by ONC, through its operations and as a result of the December 1990 coup d'etat are over 1.552 billion FCFA for the period 1984/85 through 1990/91. If one includes arrears owed ONC from the sale of grain on credit to GOC civil servants which will probably eventually be written off, losses rise even higher. (Source: discussions with Mr. Depres FAO Financial Advisor to ONC and ONC's Financial Director, M. Pornaye).

* *Operating Losses*

The Team used the loss figures as presented by the EC report, and except for the math error made in calculating the 84/85 income statement, those numbers determined the real operating losses incurred by ONC. Annex Three details how the EC Financial Analyst derived the

financial statement adjustments he made to ONC's financial statements. The team discussed these numbers with the FAO "expert comptable" who provided additional documentation as to the accuracy of those adjustments.

Therefore, the total losses incurred by ONC, from its grain stabilizations operations, are over 1.019 billion FCFA for the period 1984/85 through 1989/90. An adjusting entry to correctly present the 89/90 balance, adds another 10 million FCFA to that total loss figure. The team shows ONC as having lost a total of 1.029 Billion in six years of operations. The table below details those losses by year.

TABLE SEVEN

ONC CUMULATIVE LOSSES BY YEAR
(expressed in '000 of FCFA)

	84/85	/86	/86	87/88	/89	/90
Net Profit/(Loss)	30,335	(89,967)	(456,195)	(32,494)	(267,220)	(203,550)

(Source: discussions with Mr. Depres FAO Financial Advisor to ONC and ONC's Financial Director, M. Pornaye and ref (A&H) [Annex 9])

* *December 1990 Losses*

ONC has provided great detail about its 12/90 coup-related losses. The following table summarizes those by major account categories. The total is 977 million FCFA.

TABLE EIGHT

1990 COUP-RELATED LOSSES

(expressed in '000 of FCFA)

. Cash	67,776
. Account Receivable	415,569
. Operational Inventory at Cost	171,496
. SSA Inventory at Cost	269,827
. Fixed Assets	26,000
Total Losses	976,658

Source: ONC internal records

* *Accounts Receivable Losses*

As Table Eight above shows, ONC has taken into account losses on its credit sales (accounts receivable A/R) because of the 12/90 coup. The new "Directeur General Adjoint" (Director General), Mr. Daguina Mahontéin, appointed in July 1991, undertook to recover the money due from credit sales to GOC functionaries, military and others.

He proceeded in a very logical fashion to create the necessary documentation required to actively pursue the repayment of these credit sales. The first steps he undertook were to go through the existing old files to cull out the documentation needed to prove the amounts due. He then computerized the list of individuals owning money to ONC because of their past credit purchases, coding the data entry. Using the coded data base, he created individual lists by ministry or other GOC agency, and by region.

With this computerized listing, he then created 4 groups which he would use to collect the amounts due ONC. Those 4 groups were:

- GOC functionaries (150 million FCFA)
- Habré military and Presidency (296 million FCFA)
- ONC Regional depot centers (33 million FCFA)
- Private sector clients (3 million FCFA)

When he completed the computerization of these 4 groups, they owed ONC as of 30 September 1991, a total of 483 million. (Source documents: Draft accounting documents, dated 6 December 1991, pp. 42-45)

He first requested that the Director General write the Minister of Rural Development. The Minister then wrote to all the other GOC Ministries, Offices or Agencies, stating that ONC would be proceeding to recover its outstanding debts. Each GOC agency, receiving a copy of the Minister's letter had attached to that letter the list of each government agent owing money to ONC, either because of credit purchases or theft.

With that step accomplished, the Director General wrote each debtor a letter, stating how much they owed ONC. In that letter the Director General informed the debtors that they had 2 months to make their initial debt repayment. ONC startng mailing those letters October 1991 and it started receiving its first payments soon after. The Director General allowed for 10 additional days for the banks to process these payments. He then verified who had made payments before he proceeded to his second step. ONC addresses a letter to those who had made no effort to pay ONC. The letter indicates that ONC will undertake other actions to obtain its money.

The third step concerns direct salary deduction from functionaries owning ONC money. ONC had never used this recovery method, which is used every where in Francophone Africa, to recover its money. The Director General sent the Ministry of Finance the documentary proof

of debts due GOC agents from those who did not respond to the first letter. The Director General negotiated a direct payment ("ordre de recette") to ONC's operating account. The first of such payments will be made by the Ministry of Finance in January 1992. Therefore, the Ministry of Finance would transfer each month a certain sum due to ONC to repay the Functionaries' debts. A limit of 1/3 of the net monthly salary is the most the ONC can receive in any month from those owing it money.

The fourth step will be to seize assets of those who owe ONC money. Those assets will be sold, if the individual debtors make no effort to negotiate a repayment schedule with ONC.

It should be noted that part of this sum has already been written off by ONC (100% of military debt [296 million FCFA] and 50% of the functionaries debt [75 million FCFA] as well. To the degree that the aggressive recovery efforts of the new Deputy Director General produce results, ONC will enjoy "windfall profits".

The Director General has visited President Debe about the Habré army and presidency debt of 296 million. He obtained presidential approval and authorization to pursue these debts. Because of his efforts, ONC has received a 50 million FCFA first payment of a total due of 242 million FCFA from the Army. The Director General believes that ONC will receive the rest of this amount as well as the amounts due from the former Presidency during this current GOC budget year.

Through these aggressive loan recovery efforts, the team estimates that ONC has generated about 86 million since October 1991. This breaks down into 36 million from GOC functionaries and others and 50 million from the Army. We had access to ending bank account balances from September through mid-January, and the increase of ONC operating funds could have only come from the above injection of accounts receivable recoveries.

Mr. Mahonté stated that another 96 million will be coming from the Army in the next two months. If so, he will have already collected over 180 million FCFA of what ONC accounts show as losses.

The Director General expects to collect about 70 to 80% of these debts. If he does that well, he will have generated between 350 and 400 million FCFA of cash flow. Whether he does or not will depend only partly on his or his agents' efforts. It will depend mostly on political will and decisions over which he has no control.

If he is successful, he would like to have a "table ronde" with the two key ONC donors (FAO and EC) to discuss how this money should be spent. He envisaged that these donors could ask that they receive their prorated share of capital back. He believes, if he can obtain repayment on this much debt, that all donors thought lost, he can convince them to allow ONC to keep these funds. He would expect that donors would work with ONC to co-jointly reprogram how ONC would use these funds.

* *Credit Sales*

ONC reached such a point in its inability to sell the grain that it had purchased for its stabilization stock that it had to sell its inventory, on credit, to government civil servants get rid of its stocks. Credit sales increase the amount of grain sold (and revenue generated) in an accounting sense, but in reality, ONC may never collect these debts. The write-offs, if they come, will mean revenue losses in latter years.

* *Stabilization Stock Losses*

Because of consensus from all sides (ONC, GOC and donor) that ONC will no longer try to stabilize grain prices, the team has not made any financial cost projections as they would relate to ONC continuing that activity. This assertion is supported by ONC's selling off its remaining operating stock, which consists almost exclusively of rice (98%) and is almost all held (78%) in N'Djamena. ONC has no plans to resume stabilizing type purchases and sales. It only buys and sells grains after having received instructions to do so, from donors who want to monetize food aid, or for the rotation of the SSA.

b. Revenues

i. The 10 % Management Fee Issue

One of ONC's principle sources of revenues in the future will be the management fees it receives for the handling of food aid for various donors. A running argument of some acrimony concerns the percentage of the value of a shipment that this management fee should represent. The Programme d'Appui Regional aux Offices Céréaliers (PAROC) one of CILSS's specialized agencies has disseminated guidance to its members that the management fee for handling of food aid operations should be 10% (our sources for this are all oral. They include the Director General of ONC and Dr. Abdoulaye Sall, the former Director General of the national cereals office in Mali and now a PAROC/CILSS consultant). Clearly, donors have an interest in matching this fee as closely as possible to actual costs, preferably without having to go through actual matching exercises with each shipment. This is why all parties concerned agree that a simple percentage is the simplest and easiest way to administer the payments. The only point of contention is what the percentage should be.

It is interesting to note that during the Team's meeting with ONC Senior staff, ONC's Commercial Director stated that ONC's cost of managing the monetization of Section 206 wheat had been about 20 million FCFA. If this were true, and we did not press the case at that moment, then the real management costs to ONC were less than 3% of the total sales price of 692 million FCFA. This percentage is clearly a far cry from the 10% that ONC has demanded in compensation. (Note: subsequent meetings with ONC's A&F Director have revealed that

ONC will probably submit a bill for services for the 206 sale in the amount of 24 to 25 million FCFA, or 3.6 % . Our sense is that this amount was determined in light of the team's announced intent to calculate how realistic the 10% level actually was.)

The following assumptions are used to analysis the 10% of revenues "rule of thumb":

1. That the last sack of grain leaves ONC's warehouse at the end of month three;

2. That 30% of ONC personnel costs are devoted to the sale of AID food aid, while the remaining 70% of personnel costs are spent on managing food security, administration tasks etc;

3. That all other budgeted cost categories have 25% of those costs attributed to the sale.

The approach is that the last sack of grain leaves ONC warehouses at the end of the third month. In the cost per ton estimation that the team has created, personnel costs are 53% of total costs with all other costs constituting the remaining 47%. The mathematical representation of these assumptions is as follows: (.25) of year * [(.30)*(.53) + (.25)*(.47)] of the budgeted cost = management = .069 or 6.9 % . As ONC has never used its cost accounting system to do such an analysis, any other set of assumptions are probably equally valid.

If we use a fifteen week period, as happened for the 206 sale during 1989/90, the fee when recalculated, becomes 7.98 % . If that management fee is multiplied by the 692 million in sales, ONC's fee would be almost 55 million FCFA.

The team does not believe that the PAROC/CILSS members 10% Management Fee Guideline should be paid, eyes closed, to national cereal offices such as ONC, until cost accounting and financial analysis can be performed. The team supports AID/C in its demand that ONC be required to justify its management costs to monetize food aid before AID pays ONC for it services or agrees to any generally applicable percentage.

ii. Proceeds From Title III Monetization

We have tried to calculate the net impact on ONC of U.S. Title III food aid being monetized through it. If ONC were to receive management fees in return for its monetization of food aid, what ever it would be paid would be additional revenue over its present revenue stream. This revenue would partly be applied against its incremental costs, and partly against its fixed costs. The net result of any monetization on the scale of those that have taken place here over the past few years, would cover a significant part of ONC's total annual costs. For example, if AID paid a 10% management fee on the value of the total sale, and if the value of the sale was 650 million FCFA, ONC would receive 65 million FCFA, for that one operation. Based on the FAO cost structure of FCFA 6,300/ ton to manage 20.000 tons of security stock grain, over half of ONC's projected costs to manage an SSA (i.e., operating costs) would have been covered by

that one monetization operation. This result demonstrates that the impact of the Title III program being channeled through ONC is quite significant to its solvency.

c. Three Year Projections - Cost/Revenues

We will present several scenarios for forward projections of costs and revenues for ONC. In case one we will use revenues from management fees resulting from the handling of 5,000 tons of grain and no other revenues, with costs calculated for a 20,000 ton SSA which will be at a 16,500 tone level on average over the course of a year. In case two ONC handles U.S. Title III besides its other SSA operations.

We have tried to calculate revenues and costs for ONC under the following assumptions:

1. In case one, that revenues only come from management fees of 5,000 tons of monetized food aid from other than AID donors;

2. No SSA is rotated because distributions exceed rotational needs;

3. An entire 20,000 ton stock of Millet/Sorgo is constituted at the very beginning of the first year of operations but only 16,500 ton are managed per month (on average).

4. Costs are fixed using ONC accounting data to establish those costs at 16,500 per ton cost averaged managed by ONC;

5. All transport costs have been excluded from the calculations based on the assumptions that FSSA would pay for these costs;

6. AID uses ONC to monetize Title III food aid;

7. A 5% management fee is paid to ONC;

8. Inflation increases at 5% per year.

TABLE NINE

THREE YEAR FORECASTS: CASE ONE

20,000 tons - 16,500 Avg. Managed
No Title III Revenues

	Yr. One	Yr. Two	Yr. Three
Revenues			
. Management Fees	65000	65000	65000
Total Revenues	65000	65000	65000
Expenses			
. Personnel Costs	58786	61725	64811
. Travel Costs	10898	11443	12015
. Whses, Reps & Mtance	4049	4251	4464
. Comm - (PTT)	3335	3502	3677
. Utilities	5234	5496	5770
. Office Sppls	4304	4519	4745
. Pesticides	7155	7513	7889
. Sacks, Cords etc.	7425	7796	8186
. Misc Chgs	9222	9683	10167
. Depreciation			
Total Costs	110407	115928	121724
Net Profit or (Loss)	-45407	-50928	-56724

ONC loses over 153 million FCFA under this scenario. This amount of losses is at the low end of its losses over the last six years.

The only changes in the team's assumptions for Case Two have to do with ONC receiving management fees from its monetization of AID Title III food aid. The team has chosen, for presentation purposes only 5,000 tons Title III food and only allows ONC management fees of 5%.

TABLE TEN

THREE YEAR FORECASTS: CASE TWO

20,000 tons - 16,500 Avg. Managed
With Title III Revenues

	Yr. One	Yr. Two	Yr. Three
Revenues			
. Title III Mgt Fees	32500	32500	32500
. Management Fees	65000	65000	65000
Total Revenues	97500	97500	97500
Expenses			
. Personnel Costs	58786	61725	64811
. Travel Costs	10898	11443	12015
. Whses, Reps & Mtance	4049	4251	4464
. Comm - (PTT)	3335	3502	3677
. Utilities	5234	5496	5770
. Office Sppls	4304	4519	4745
. Pesticides	7155	7513	7889
. Sacks, Cords etc.	7425	7796	8186
. Misc Chgs	9222	9683	10167
. Depreciation			
Total Costs	110407	115928	121724
Net Profit or (Loss)	-12907	-18428	-24224

ONC losses still amount to over 55 million FCFA. However, with the inclusion of AID Title III management fees, ONC total losses decrease by 64% when compared to what ONC losses without Title III management fees revenues.

If ONC were to receive management fees to monetize food U.S. food aid, what ever it would be paid would be marginal or additional revenue over and above its present revenue stream. This revenue would partly cover its incremental costs, and partly cover its fixed costs. The team further postulates that ONC underutilizes its assets. Therefore, this Title III additional revenue will flow through to profit as no new costs are incurred to produce this marginal food aid monetization income.

The revenues, generated from monetizations, on the scale which will take place this year (AID and French wheat flour), will cover a significant part of ONC's total annual costs. The team has stated above that ONC could receive about 80 million FCFA in management fees which will cover about 38% of ONC SSA operating costs for the year. This demonstrates the impact of the Title III program and its effect through the management fee on ONC's solvency.

9. Liquidity Situation

ONC will liquidate the remainder of its operational stocks in the next three to four months. The amount that it will receive from these sales is around 25 million FCFA. When these stocks are gone, ONC will have only three sources of funds (unless one or more donors make cash infusion grants to ONC --- a possibility which we are not figuring into our calculations):

1. Cash and Bank account funds;
2. Account receivable turned into cash through collections; and
3. Revenues from which would come from SSA management fees and food aid management fees.

Interest income is not listed as a source. The reason why is that the EC will withdraw its Fonds d'Action de Substitution monies from ONC management. The amount of money involved is over 300 million FCFA and therefore, ONC will lose most of its interest revenues. The team has therefore allowed for no income from interest in this analysis.

We estimate that ONC presently has 120 FCFA million in its operating bank account. From collections on accounts receivable, perhaps ONC could generate another 200 to 300 million. These latter funds might not remain with ONC, as they represent donor-provided money for the purchase of cereals which ONC sold on credit.

Concerning the third source of funds, ONC has two management fee contracts in the process of negotiation. They are for AID/C wheat flour and French wheat flour.

These contracts would generate 80 plus million FCFA at 5% of total sale value. The 5% in either case is not guaranteed, as ONC must provide the two donors with justification of its expenses.

The FSSA pays ONC 7,600 FCFA per ton of SSA managed. Knowing that the SSA will not contain 20,000 tons for the entire year, we can estimate a total tonnage managed of 12,000 for the entire year representing about 91 million FCFA in management fees. The team believes that ONC has already received 18 plus million of that amount.

Therefore, ONC could have a comfortable liquidity position during next 12 months. The team, using ONC documents, estimates that it will spend about 17 million FCFA in operating costs per month or 204 million per year to manage the SSA.

If we take a "worst case" scenario and attribute none of the recovered accounts receivable to ONC, it would still have a positive cash balance of about 94 million in January 1993, without any donor cash injections other than SSA and food aid sales management fees. We have calculated this number as follows:

a. Current cash position of	120 million
b. Plus food aid mgt fees of	80 million
c. Plus SSA mgt fee net	73 million
d. Rice sales - OPS	25 million
Total resources of	298 million
e. Minus SSA operating exps of	204 million
f. Net Resulting Cash Position	94 million

If ONC were to make capital expenditures as estimated in its 91/92 budget, of 62 million FCFA, it would only have 32 million of cash in January 1993.

The team has presented this liquidity analysis to show what a *reasonable* ONC cash position might look like. There are many variables which could change the cash analysis. One of which is the amount and final disposition of the credit sales recoveries. Another is that it has budgeted to purchase food stocks. The team does not know for whose account (SSA or ONC operational Stocks).

10. Modifications In Financial Practices and Procedures Required

The modifications required, to improve ONC's financial management, assume that ONC will only have two missions to perform:

- Monetizing food aid for any donors interested except AID/C; and
- SSA management for all major donors

a. Cost Accounting System

The most important modification has to do with the creation of a cost accounting system. From a financial point of view, everything that ONC might or should do in the future is based on this one financial management principle. If ONC cannot cost out its interventions for the donors or the CSSA, it cannot even project its break-even level of effort on any operation. The team defines break even to mean that ONC would cover all costs, direct and indirect, of any given operation it might undertake.

As we have stated, the use of *some* cost accounting system would be immensely useful to ONC as it begins to try to capture the costs of the activities it performs. What we are unable to do is recommend in detail what a particular system would capture, or what such a system is called by name. Someone with a profile different from that requested in the team members responsible for the preparation of this report --- probably a certified public accountant --- would have to make this type of recommendation. Whoever is selected to look into this issue in depth, we would suggest that the system selected be capable of aggregating costs by profit (or loss) center, and by activity, and that it specifically allocate management time to various functions. The individual selected would want to enquire into the system developed by the CILSS for the benefit of the PAROC-member state grain organizations, to see if it could be successfully adopted in Chad.

b. Budgets

ONC has never respected its budgets. It must be able to create real estimations of what its operations cost. This capability is directly linked to a cost accounting system. However, with the historical costs, concerning various operations that ONC has undertaken for different donors, it can at least start to prepare real cost budgets. This effort may be of a trial and error nature, while ONC is putting in place a formal cost accounting system. In making this effort before the cost accounting system is installed, the cost accounting system can address itself to ONC's real cost accounting informational needs.

B. Quantification of Donor Inputs To ONC

External donor support, from 1984-90, (ref. A&H) amounted to 2.162 billion FCFA. GOC support to ONC during the same period totaled 122 million FCFA net (Ibid.). Given the fact that ONC sold to civil servants on credit, grain totaling more than FCFA 493 million in value, during the 87/88 and 88/89 operating years, and given that FCFA 296 millions is listed in ONC's books as "bad debt write-offs", the GOC net support was a **negative** 174 million FCFA. The Team cannot assume at this point that ONC will collect the bad credit sales even with the Director General's efforts. If ONC does accomplish that task, the GOC will have made a positive cash contribution to ONC.

The details of donor and GOC contributions to ONC appear in the table below:

TABLE ELEVEN

DONOR CONTRIBUTIONS
(in '000 of FCFA)

DONOR	Cash	Grain Purchases	Equipment	Management Fees
GOC	234,140			
FAO		239,732	148,569	
EC		1,389,364	27,854	
AID/C			14,202	200,000
France				11,200
Other			3,462	58,089
TOTALS	234,140	1,629,096	194,087	269,289

It is important to note the significance of management fees from food monetization sales. As stated earlier in the report, the only year that ONC made a profit was in 84/85, when it received 209.3 million of those fees.

ONC owes its continued existence totally to donor support. ONC's founding statutes state that it should be financially autonomous from the GOC. It was never intended at the time of its creation that ONC would respect this edict by financing its activities from donor contributions. The original plan was that its market intervention activities and fee based services would prove

profitable, making ONC self-financing. Dependence on unpredictable donor infusions of cash is not over the long term a financially sustainable option.

C. Financial Impact on ONC of Withdrawal of Donor Support

The donors involved with ONC consistently provided just enough financial and technical support of keep ONC alive. If the donors had stopped supporting ONC, it might have died a natural death. ONC management knew that the donors would always cover its losses, or at least worked under that assumption, and therefore, ONC management had little incentive to be efficient. It could perhaps even be argued that ONC management had an incentive to be less efficient than it was capable of being to ensure that donor support would continue.

ONC cannot survive without donor support, no matter what its mandate might become. If it is to have responsibility for food aid monetization or SSA management or both, it will always be dependent on donor financial support to survive. It will never be able to generate enough revenues *from these activities* to cover its costs. It has not been able to do so in the past and no matter what set of assumptions we make, we do not see how it will be able to do so in the future.

Whether or not the donors continue this support is uncertain. We can only state that from a financial point-of-view, ONC will never recover the funds injected into it.

VII. Management of The Stock de Sécurité Alimentaire (SSA)

A. Description of the Operation

Prior to 1989 there was no national security stock in Chad, though one had been authorized as early as 1977 (at the creation of ONC). Its creation was recommended at the tripartite meeting of the FAO, the Dutch and the GOC in October 1988. The idea was for it to contain only local cereals. It was formally created by government edict on 7 November 1989. The enabling legislation specified that it would contain only millet, corn and sorghum. These are low value coarse grains that store well (in the case of millet and sorghum) and are part of the basic diet of most Chadians. (ref: Arreté No. 429/MSAPS/Director General du 07 Novembre 1989).

The document which details the various obligations of the involved parties (government and donor) is called the "Accord Cadre (AC). It was drafted with the participation of Chad's food aid donors and the GOC, under FAO supervision (Valere-Gilles, p. 2/2) It has been signed by USAID only, among the donors. This makes the United States the only foreign government that has "official" status in the CSSA, though other donors, as L&R state in their report, "continue to be invited to the meetings of the CSSA and (to) participate in the decision-making process. (page 6). The reason given by other donors for not signing is inability to commit on behalf of their governments or head offices to multi-year obligations.

The SSA works as follows: the Comité d'Action pour la Sécurité Alimentaire et des Actions d'Urgence (CASAU) receives information that an area deserves consideration for emergency food distributions (this information can come from the Système d'Alerte Precoce, the Famine Early Warning System, the Regional Action Committees, mobile nutritional surveillance teams, PVO's and "government sources"). The CASAU presents its information to the Comité du Stock de Sécurité Alimentaire (CSSA). This group is made up of the signatories to the Accord Cadre ("Working Agreement") which governs the operational modalities of the security stock. Some, but not all, of the members of the CASAU are members of the CSSA. On the basis of the CASAU information and its own inquiries, the CSSA pronounces an "emergency situation" to exist in a particular locality. This pronouncement is officialized by the Minister of Food Security. The CSSA determines what kind of distribution will be made (subsidized, free, general, targeted, etc..). Instructions are transmitted to ONC to assure that quantity "x" of cereal "y" arrives at destination "z". Timing, cooperating monitors and final-destination distributors are named as well. ONC moves grain from wherever it is the least costly, and the fastest to move it from, taking into consideration restocking constraints, and positions it at the agency closest to where it is needed. After the distribution, the signatory donors (only USAID at present) are supposed to agree to a replenishment plan. This puts grain back in the system for future eventualities. Money is replenished by injections of cash from donors, usually through the monetization of imported food. Some of this money may be used for the purchase of replenishment stocks, and part is earmarked to the operating expenses of the SSA itself (phytosanitary treatment, accounting, security, shipping and transport, etc..)

1. Level (Tonnage) of SSA

The AC states that the minimum "target" level will be 20,000 tons (Art.1, also see Valere-Gilles, p.2/1, Item 2.3). (Target level means that the holdings of the SSA can drop below this in the course of technical rotations and emergency distributions, but that the amount to which replenishment is planned is 20,000 tons). This 20,000 ton level was arrived at through consensus between the GOC and the donors, rather than through any scientific calculation. Factors considered appear to have been: the storage capacity of ONC, the level of emergency distributions in the years immediately preceding the establishment of the stock the delivery rate of food aid flowing into the country and the levels of food aid and money equivalents projected for call-forward by the various donors. (L&R, p.3)

The 1989 FAO report advocates decreasing the size of the security stock to 10,000 tons. (L&R, p.5 citing FAO 1989). This recommendation is part of a rethinking of Chad's food security philosophy, whereby food and money components would both play a role in the country's emergency readiness.

The Valere-Gilles report recommends that a physical stock of only 7,000 tons should be maintained, of which 2-3,000 tons would be destined for deficit zones not served by private traders, and the rest would be for emergency needs in specific "poverty pockets".(pp.2/5-2/6). As he does not make explicit his "extension of assistance criteria", it is difficult to comment on his recommended security stock level. Presumably, areas not served by traders, but possessing a certain purchasing power, would buy grain made available to them through a security stock, permitting the stock to recover some or all of its costs for the deliveries. A stock of approximately 4,000 tons to cover all the areas with emergency needs (defined as SAP/FEWS designated "problem areas") in the country seems small, particularly when one considers the precarious food security position urban households in N'Djamena are placed in due to in-migrations from troubled or environmentally and agriculturally disadvantaged areas. To provide to this group as well as to those remaining in rural regions would probably require more grain on hand if one wanted to assure them access to three months of food at half the established daily average ration in an "average bad" year.

2. Technical Rotation

We anticipate that emergency food aid (Title II) will be a feature of the mission's program in approximately three years out of five. If one uses a production level of 66% of need as the cutoff level that determines when emergency food aid is mobilized (this is *not* the calculation used by the decision makers in Chad, this is a "back-of-envelope" calculation designed to produce rough working numbers), FEWS data going back to 1983/4 shows that the norm is for production to be at or below the 66% threshold in two years out of five, on average, for any sequential five year period examined. By adding a "buffer" we arrive at three years out of five. (Source: FEWS/Chad: Table II of January 1992 Monthly Report: "Annual Cereal Production Since 1983/84")

Full stock rotation will take place over a three year period ---at the rate of 1/3 of the total per year --- (unless emergency distributions liquidate the stock before the three year point), and will be performed by ONC, (AC, Art.1). The reasons for this rotation are: (1) to make sure that the stock is fit for human consumption, and (2) to generate revenue to cover the management costs and repurchase of new SSA.

Several rotation-related issues have are not explicitly addressed in the AC. First, the rationale for a three year rotation is absent. Costs of management could be decreased significantly by increasing the rotation cycle to four or even five years. In Chad's basically dry, low-humidity environment, storage for these time periods is not unreasonable, especially with proper phytosanitary compliment. The cost of extending phytosanitary treatment would be much less than the sale, transport and transfer costs of rotation. Second, the mechanics of SSA rotational stock sales need to be made explicit.

3. Replenishment

The language of the AC is very interesting. It states that the donors (the GOC is specifically not mentioned) will choose to make their replenishment in either money or in kind according to their possibilities (AC, Art. 2.1). This language provides an "escape hatch" to donors, whereby, upon declaration of their impossibility (valid reasons for "impossibility" are not specified) of reconstituting the SSA, the SSA will simply not be replenished.

If replenishment is monetary, the funds will be used for the purchase of local cereals. If they are in millet/maize or sorghum, they are placed directly in the SSA. If they are in some other commodity, the commodity is sold first then the proceeds are used to purchase local cereals.

Article 6.1 of the AC goes into additional detail about how the SSA will be reconstituted after its drawdown. Three items in the wording attract our attention:

- The AC states that reconstitutions subsequent to free or reduced price distributions will be done by the donors and the government. (Art. 6.1)
- The AC says that the donors are in agreement on the principle of reconstituting the SSA after a given distribution, to its initial level of 20,000 tons. (Ibid.)

We have seen no other references to reconstitution being undertaken by the GOC. The fact that it is mentioned here may have little impact in the actual implementation of reconstitution operations, but it does create a possible area for misunderstandings, should the donors be anticipating a GOC contribution (or visa versa) that is not forthcoming or not sufficiently generous to satisfy the other party.

We would have expected donor consensus on the principle of always "topping off" the SSA at 20,000 tons after a distribution operation, to manifest itself in the signature of the AC by all the donors. In fact, only one donor, USAID, has signed the document. In practice, other donors continue to contribute to the reconstitution of the SSA, but from outside the framework of the AC.

4. Use

This section elaborates on the description of SSA operations provided above.

The Minister of Food Security, after unanimous approval of the members of the security stock committee (CSSA)--- an organization whose membership is defined in Arrete No. 429/MSAPS/Director General/89 of 7 November 1989 (Art.6.3.2) --- sets a distribution in motion through the drawing up of an official "emergency situation decision" which apparently identifies the location and population affected by a particular situation that puts them in a situation of food insecurity. The AC does not elaborate the level of detail that will be applied in this "decision" (AC, Art. 3.5). It is unfortunate that the "decision" is not required to use precise targeting language, because this targeting is usually one of the most difficult and sensitive aspects of food aid distribution.

Though the CSSA is tasked with defining, by consensus who should receive food aid and how it should be distributed (AC, Art.4), the fact that their determinations are not necessarily copied verbatim into the ministerial "decision" means that one additional opportunity for interpretative differences arises.

Once a "decision" exists orders are transmitted to the ONC warehouse manager of the warehouse serving the targeted area. The food is generally released to NGO's who actually distribute the food. (L&R, p.1).

Because of the lag time between when a food emergency is declared and when U.S. food aid can arrive in-country, immediate distributions are often made out of the security stock which is subsequently replenished with the late-arriving U.S. food. This is the principle point of contact between USAID and ONC as concerns the security stock. (This was done in 1991 for example, when USAID responded to an appeal by the GOC for additional emergency food aid. USAID called-forward 15,000 tons of sorghum to be distributed by CARE and WFP. In order to meet the emergency in a timely manner, CARE and WFP withdrew 10,000 tons of cereal from the SSA and distributed it in the spring of 1991. The grain USAID had called-forward arrived in the fall of 1991. 10,000 tons of it were used to replenish the borrowings from the SSA. (L&R, p.5)).

The "Accord-cadre" could not foresee all possible eventualities related to use of the security stock, so it is important that the document be periodically revisited with an eye to updating and amending where necessary. For example certain use issues were not dealt with explicitly in the

text. The use of 179 tons of millet as seed stock comes to mind. Though it can be argued that this is a *reasonable* use of the SSA, it is not an *authorized* use. It is from such precedents that abuses often arise, as the definition of "reasonable" is tested and expanded.

5. Cost Recovery

The AC permits distributions from the SSA to be free, at reduced price or at full market price, depending on the unanimous decision of the CSSA . When free distributions are performed, the costs of transport, monitoring and handling are covered by a special fund earmarked in advance for use in the coverage of these costs. The fund is created from monetization of some pre-agreed percentage of each donor's monetary contribution or monetized food contribution (AC, Art 5.1.1-2). This approach does not address the problems of either over or under estimating associated costs. In the former case, a source of supplemental funds needs to be identified, and in the latter, a programming plan should be in place before the funds exist. Recycled proceeds from food sales back into the SSA are not discussed in the AC. If we assume that all such funds get returned to a SSA account, they too can presumably used to defray operating and monitoring costs or for the purchase of additional grain.

6. Funds Redeposit

The AC does not clearly stipulate how funds generated from SSA rotational sales should be transferred from ONC to the FSSA account. Knowing that ONC co-mingles its sales receipts and accounts receivables into one transit account, the AC should be amended to directly stipulate how funds must be transferred, after sales receipts are received. It should further stipulate the time delay that will govern those transfers.

7. Activity Mixing

ONC is not permitted to transfer grain destined for use in its stabilization activities from the SSA (or visa versa), without the written prior approval of the CSSA. (AC, Art. 7.3)

8. Authority To Operate

The AC names ONC the institution responsible for the management of the SSA, reporting to the CSSA. (AC, Art. 8). No mention is made of other security stocks that may exist in the country, and who might be responsible for <u>them</u>. Various PVO stocks and even village stocks might be acknowledged, as a way of forcing the CSSA to focus on the national food security situation, of which the major donors and ONC are important players, to be sure, but not the only players.

9. Operating Expenses

ONC is supposed to submit an annual budget to the CSSA. Once this, or a modified budget is approved, the CSSA will disburse an agreed amount of money from the FSSA to ONC. (AC, Art. 9.3) Note that post-exercise reconciliation (to see whether the amounts requested reflected the amounts actually used/needed) is not mentioned as a condition precedent for follow-on budget disbursements.

10. Audits

ONC's SSA activity is supposed to be audited annually. We did not confirm whether this has actually happened. (AC,Art 10.1)

11. Controls

ONC depends on funds provided by the CSSA to execute SSA operations, be they distributions, record-keeping, technical rotations or stock protection/reconditioning. The basis for control over the use of the SSA is the release of funds to ONC. Even if all approvals are present, if funds are not released to ONC, in theory, no emergency goods move. In *practice* we know that in at least one instance the President has agreed to pay for food mobilization out of his own funds. We can also imagine a scenario where the GOC could order ONC to dip into its cash reserves to prefinance an urgent or politically sensitive operation.

Note that given an annual budgeting cycle, ONC has the funds in advance ("an annual budget submitted to the CSSA for approval will be provided to ONC. The funds represented in the approved budget will be transferred from the FSSA to a special ONC account at the beginning of the fiscal year..." [AC, Art.9.3]) to permit it to execute, in theory, non-approved distributions. Alternatives to this type of funds disbursement are often unwieldy (and subject to their own forms of abuse) but they do generally restrain undesired distribution actions better than the system now in place.

A semi-annual activity report gives the CSSA some feedback on the use by ONC of its approved budget (AC, Art 10.4), but this is still less desirable than pre-spending review at the CSSA level.

12. Dispute Resolution

Dispute resolution is delegated to "arbitration" if amicable discussion does not result in the breaking of a deadlock. The issues of a single arbitrator or a panel, international or domestic arbitration, and arbitration under the laws of which country, are left dangerously ambiguous. (AC, Art. 11)

13. Duration of Accord Cadre

The wording of the AC makes it unclear whether the accord will be in force for a period of five years from the point when all the donors and the GOC jointly sign the AC, or whether it enters for force for those who sign at the moment that those who agree to sign do so, even if this is a subset of the entire donor group (whose composition is never defined in the AC document). (A, Art. 12).

14. Conflict With Bilateral Agreements

The AC states that notwithstanding its existence, bilateral agreements may be negotiated, the conditions and provisions of which will be binding, even in those cases where they contradict the terms of the AC.

15. System Storage Capacity

Valere-Gilles (p.2/2) states that a total of 37,058 tons of warehouse space is available to ONC at this time. Part of this is allocated to the SSA already (16,127 tons), a small part is earmarked for ONC's regulator stock (2,792 tons), and 12,500 tons are being used by the WFP. This leaves 5,158 tons available for expansion of the SSA if that proved desirable. He makes some allowances for donor food aid that would be "in the pipeline" at any given point in time and concludes that the present target size of the security stock (20,000 tons) is a ceiling rather than a floor level, as stated in the AC. If we assume that the continuation of WFP's School Feeding and Food For Work (FFW) programs will continue, and that it is in the GOC's interest that warehouse space be made available to WFP for these programs, then we concur with the conclusion that 20,000 tons seem to us the most that ONC will be able to put at the disposal of a security stock, without resorting to rental of additional space. Renting space is possible but lacks the control of ownership and is best pursued only in temporary capacity shortage or real emergency situations (i.e. destruction of an ONC-owned warehouse prior to the arrival of a large shipment of food aid).

16. Funds Management

The "Accord-cadre" states that the "Ministère de Developpement Rural" (MDR) will co-manage FSSA money, but no donor, as yet, has been designated to co-sign checks to move these funds. A World Food Program (WFP) letter, dated 31 October 1991, raises this issue.

There appears to be a communication breakdown between ONC, the donors and the CSSA concerning payment to ONC of its management fee for handling of the technical rotation of the SSA. Payments to ONC have been made without knowledge of the donors in both October and December 1990 (see MSAPS letter # 316 dated 11 July 1990 and MDR letter # 140/MDR/SE/SAPS/Director General/90, dated 30 April 1991). Part of this may be explained

by the fact that no donors, except USAID are members of the CSSA, and are therefore not necessarily "in the loop" for such information. Another possibility though, is that certain operations are taking place through a by-passing of agreed procedures.

Another example of this that directly affects funds management is
ONC's sale of SSA grain on credit. The team was able to procure a photo-copy of an ONC document detailing this transaction. The "Accord-cadre" does not authorize credit sales. In questioning ONC staff on this point, they responded that the head of Interpol ordered ONC to sell SSA on credit.

This example demonstrates how ONC has earned its reputation for lack of "transparence" and for over-politicization. It also calls into question how the best-intentioned program can avoid external political interventions like the one described.

We see in the management of the security stock by ONC, many of the conditions that characterized the stabilization stock, in contrast to the more controllable contexts of Title II Section 206 and Title III sales. These conditions are complicated procedures, long audit trails, numerous intermediaries, and significant time lags between the start and the completion of operations.

In the same way that ONC has not been able to perform to expectations in the grain price stabilization business, largely due to political pressure and poor oversight, it may prove unable to manage the SSA.

In the case of these credit sales, it is clear that the donors' intent for the use of the grain was not respected.

In similar fashion, ONC has withheld funds, collected in cash from these sales or collected from its credit customers, and diverted them for its own purposes, with no CSSA authorization. These are dangerous trends.

B. Description of Donor Participation

The SSA was originally constituted (4/26/90) with contributions from Belgium (3000 tons), Japan (6900 tons) and Holland (6226 tons) totaling 16,126 tons.(Valere-Gilles, p.2/1). The U.S. and France subsequently committed to adding grain permitting the total stocked to rise to nearly 21,000 tons (Ibid.).

U.S. will buy 4000 T of local grain with its wheat proceeds. France will give 50% of 190 million CFA programmed from the sale of 2000 T of its wheat flour, to the SSA. (Source: Valery-Gilles, p. 6/5)

Belgium and Japan do not have multi-year programs, thus it is difficult to predict their level of future participation. (Valere-Gilles, p. 6/6).

1. ONC/Donor Coordination for SSA Purchases

The team believes that is useful to analyze how the various donors work/worked with ONC to constitute their contributions to the SSA. This analysis will show that each has its own operating style.

- Switzerland - WFP

The Swiss provided WFP with funding to cover all cost to purchase local cereals and preposition 1,500 tons SSA. Of this original total, 304.7 tons remains in the SSA. ONC made the purchases, using its own funds, and then billed WFP its direct costs only. ONC received no fee for its services and billed none of its overhead costs. It probably lost money on this operation.

- Canada Wheat Flour - WFP

The flour (2,800 tons) was placed in WFP's warehouses in N'Djamena. The Canadians originally wanted to give this flour to Schools, Hospitals etc. free through WFP. The problem with this plan was that there were no funds to cover distribution costs. Therefore, WFP contracted with ONC to monetize 600 tons of this flour to cover the distribution costs. ONC received a 8% management fee of total sale or approximately 6.3 million FCFA. It probably made a profit on this transaction.

- France - ONC

The French provided ONC with 120 million FCFA to purchase 1,000 tons of local cereal and a total of 514.1 tons of that amount remains in the SSA. Included in this amount were funds to cover the transport of the cereal purchased to their respective prepositioning locations. ONC received a 2% management fee to undertake this operation. It may or may not have made money on this operation. It would depend on what the indirect costs were (i.e., overhead).

- EC - ONC

The EC provided 9,880 tons of asian sorgo to the GOC as food aid. ONC had the responsibility to manage that food aid from two angles. Distribute or stock a certain quantity for eventual distribution and monetize a certain quantity to cover the costs of that distribution. The EC intended to distribute a total of 5,308 tons, and 939.85 tons of that amount remain in

prepositioned warehouses for additional distribution. The difference of 4,572 tons will be monetized. At present, ONC has only monetized about a 100. M. Hennenbert of the EC stated, in regards to the loan with the WFP, that WFP would pay for these stocks and the funds, when paid, would go into the EC MDR development project counterpart fund accounts. These funds would not be used for SSA purchases or management fees.

- France - ONC

ONC will monetize a total of 2,906 tons of wheat flour. However, ONC has only monetized a little over 800 tons. The proceeds from this sale are destined for counterpart fund development projects, including SSA purchases, if required and agreed upon by both GOC and French officials, as well as a 5% management fee of the value of the sales for ONC. Given the time it has taken to move the flour in question, ONC's indirect costs are going up with time, it may not make money receiving a 5% fee of the sale value.

- AID/C - ONC

AID provided counterpart funds to purchase 662 tons of corn flour as emergency food aid. It allowed ONC a management fee of 3 FCFA per Kg. All of this corn flour was distributed.

- Germany - ONC

The Germans provided ONC the funds required to purchase and move locally purchased millet/sorghum (1000 tons) for emergency food aid. If likewise paid ONC and management fee of 3 FCFA per Kg. None of this emergency fund aid remains in the SSA.

2. *Donor Enthusiasm For Using The SSA*

We did not speak with a single donor who appeared to have a thorough grasp of the intricacies of the system to which it had "bought into" by agreeing to contribute to a security stock in Chad. The more teams like ours point out irregularities, inconsistencies, unauthorized transactions and other problems, the more enthusiasm for the use of the SSA wanes.

As long as the question "under what conditions and up to what point is this worth doing?" is relegated to the back burner in favor of easier, but more superficial ones, the donor support and enthusiasm for the SSA will continue to deteriorate. The use of the SSA by the donors is a classic example of selection of the least evil among evils.

C. Impact Of The Present Security Stock On Food Security

According to the L&R study, if 7,000 tons of grain were rotated at a price 20% above a market price of 50 CFA/kg, increased income to producers would be FCFA 70,000,000 or $ 280,000 (at an exchange rate of CFA 250: $ 1) If producers sell 300 kg each, each producer's 'share of this surplus would be 0.3/7000 *($280,000) = $ 12. Thus about 14,000 producers, or 0.3 % of the population would experience an increase in income which represents 7.5% of the average per capita GDP of $ 160/year. (L&R, p. 6)

According to the same study, if the same 7,000 tons were resold to consumers at a price 20% below a market price of 80 CFA/kg, increased savings to consumers would be 560,000,000 CFA - 448,000,000 CFA or CFA 112,000,000 ($ 448,000). Assuming individual consumers purchased 75 kg each at this reduced price, each of them would realize a savings equal to .075 tons/7000 tons *($ 448,000) = $ 4.80. Thus, 93,000 consumers, or 2% of the population would experience an increase in savings representing 3% of the average per capita GDP.

Under these assumptions, producers and consumers together would share a total of $ 728,000.

The question that must be asked is whether for this level of "benefit", the effort is warranted.

D. Costs of Security Stock Management

1. Costs To Manage the SSA

AID/C has made no contributions to pay SSA management costs. Only ONC has incurred direct costs tied to the management of the SSA. Meetings with various donors confirmed that they had not made any direct SSA operating expense contributions either.

To determine what costs ONC has incurred to manage the SSA, the team pro-rated ONC's costs to allocate costs to SSA management and operation stock management. Therefore, from the 89/90 operating year to the present, ONC has undertaken very few commercial activities (4% of its purchases in 89/90 and 32% of its purchases in 90/91) were for it own account.

All other commercial activities were mandated by donors and consisted of buying or selling to provide funds for management of the SSA or to generate counterpart funds. The team will use this prorated base to determine the SSA costs. The only ONC costs that the team will use to estimate the costs of SSA management will be those as outlined and used to determine cost per ton line items. The team will exclude all other costs that ONC may have incurred to manage the SSA.

The actual costs that ONC incurred to manage the SSA and conduct stabilization activities can be estimated on the basis of these assumptions. The total cost of each years' operations were 136

million FCFA and 124 million FCFA respectively for 89/90 and 90/91. To prorate those costs, the team multiplies .96 times 136 million for 89/90 SSA management costs and .68 times 124 million to obtain the SSA management costs for 90/91.

TABLE TWELVE

TOTAL ONC OPERATING COSTS
(in '000 of FCFA)

	89/90	90/91
. Personnel Costs	81,744	70,071
. Travel Costs	12,862	5,887
. Whses, Reps & Mtance	4,068	4,435
. Comm - (PTT)	6,464	4,220
. Utilities	6,620	4,308
. Office Supplies	8,306	5,393
. Pesticides	1,506	16,193
. Sacks, Cords etc.	527	227
. Misc Chgs	13,862	13,231
Total Costs	135,959	123,965

Source: Team calculations

We obtain 131 million FCFA in the first case and 79 million FCFA the second as the cost of SSA management. The total that SSA management might have cost, for the first two years, is thus FCFA 210 million. ONC has received 128 million in SSA management fee payments to date. The team admits that this is an inexact measurement of SSA management costs, but ONC has no cost accounting system to allow the team a more precise method to calculate what those real costs might be.

We had hoped to calculate what SSA operations have actually cost in the last two years, breaking out the handling of U.S. contributions specifically where possible. Unfortunately, we cannot calculate this until donors make contributions directly to the SSA for coverage of operating expenses. To date, ONC has covered these costs without turning to the donors.

2. Site Selection Issues

As explained earlier in this report, ONC is quite interested in the idea of collapsing its network down to some structure with a shorter logistics "tail", possibly involving N'Djamena-only operations. The main obstacles to serious discussion and action on these ideas are political, and

show no evidence of disappearing. For this reason, we are not at all optimistic about the possibility of short-term network configuration changes.

The "pre-positioning" argument has, as positive points, that the food is stored nearest to where it will be ultimately needed, diminishing response time. In addition, politically, it gives the population a sense of security (and confidence in its government) to know that the grain, destined for their zone or prefecture, is in a local warehouse, and not far away in the capital. Finally, infestation is less of a problem than when large quantities of grain are stored in centralized facilities, and infestations from small portions of the overall holdings can rapidly infest the holdings at large.

The negatives are that the outlying warehouses are relatively unsupervised. Warehouse staff have the time and the opportunity to tamper with grain stored, so that when it is actually *needed*, it has shrunk to some percentage of its "book weight", throwing off distribution allocation plans. In an environment of instability, an undefended warehouse, where one unarmed person holds the key is a prime target of opportunity for a group intent on gaining access to easy food supplies. It is much more costly to have a guard and a warehouse manager for a network of small sites than for one or several centralized sites. Finally, local political authorities can claim "ownership based on possession" and basically confiscate stocks for uses that they, with a parochial, provincial perspective (rather than a national one) see as most appropriate.

The arguments for centralization are basically the mirror images of those articulated above.

The points raised, both pro and con, show that the merits of one strategy over another involve more than simple cost considerations. From a strict cost point of view, however, we feel that a centralized security stock would be uncontestably cheaper to manage than a decentralized one. The logic behind this conclusion is found in observation of rainfall patterns. The rainy season covers the spring/summer months --- May to September. Food stress following a bad fall harvest begins to set in by the following February, if we ignore complicating factors such as the year in question being the second or third in a row of low rainfall. Harvests were bad because rain was scarce, thus roads remain passable in the late summer and fall, and are practically throughout the entire winter and spring when food needs to be delivered to those suffering from food stress (Interview with Felix Lee, FEWS/Chad, 1/16/92). When the roads are passable, it is easy --- and cheap --- to source emergency food deliveries from the capital.

When rain is abundant, food deliveries are not required, except to a few very remote or rain-denied population pockets. It is true that to reach such areas by truck might be difficult after a season of good rains but delivery to the road head of all-weather roads is an acceptable solution in this case. Only Abeche and Oum Hadjek cannot be reached by road during the rainy season. (Interview with Commercial Director, ONC, 1/14/92).

We admit that this is perhaps an over-simplified analysis, but it signals the importance that should be played by the high quality early warning now available to food aid planners in Chad.

Inputs from these sources must be part of any analysis of warehouse siting options.

In thinking about this issue of siting the stocks that would constitute a national security stock the following options should be evaluated:

TABLE THIRTEEN

SITING STRATEGIES FOR CHAD'S NATIONAL SECURITY STOCK

- All in neighboring countries
- All in the U.S.
- All prepositioned in ONC's existing warehouses
- Pre-positioned in new warehouses owned by PVO's or private managers
- All in N'Djamena
- In N'Djamena plus a few key all-weather access towns
- All in a U.S.- run/leased warehouse in N'Djamena
- All in a U.S. run/leased warehouse in a neighboring country

The final element of cost that we have tried to examine is the optimal quantity of cereal that should be maintained in the security stock. These calculations are quite complex, and involve taking a position on a number of sensitive issues that we felt the Mission would want to decide on its own.

- Acceptable "response time" to get food to target populations after need is confirmed;
- Maximum premium over market price one is willing to pay to purchase grain for emergency distributions on the "spot market";
- Degree to which one commits to furnish cereals of the grade, type and quality suitable to the target populations;

- Transport mode limitations on final destination delivery (i.e. is air transport an option?);

- Level of tolerable pilferage, seizure and/or "tampering" to which pre-positioned grain may be subjected;

- Level of confidence one feels in supplying parties that contracts will be respected (this applies to Nigeria and Cameroon as well as to the U.S. and European suppliers).

Bibliography

1. Arditi, C. & Hankey, C.P., Evaluation Socio-economique et Financiere de l'Office National des Cereales - Tchad : Rapport Definitif, Tome I & II, Agrar Consulting GMBH, Einbeck, FRG (Report financed by the Commission of the European Community, Project No. BERL 6/107), July 1991

2. Beleloum Pornaye, Fiche Signaletique de l'Office National des Cereales (O.N.C.) du Tchad, O.N.C., Ndjamena, December 1991

3. Conseil d'Administration du 06 Aout 1991, Document Approuve, O.N.C., N'Djamena

4. Conseil d'Administration du 1er Decembre 1990, O.N.C., N'Djamena

5. Accord-Cadre Sur les Principes Generaux d'Utilisation et de Gestion d'un Stock de Securité Alimentaire d'Urgence en Republique du Tchad, Min. de la Securite Alimentaire et des Populations Sinsitrees, date?

6. Arrete No. 429/MSAPD/Director General/89 du 07 Nov 1989. This is the document which defines the composition of the CSSA and the CASAU (amending Arrete No. 369/MSAPS/DG/87 of 26 December 1987)

7. Francis Valere-Gille, Rapport de Mission Sur la Creation d'Un Stock de Securité Alimentaire au Tchad, May 1990

8. Propositions Pour Ameliorer Le Fonctionnement de la Filiere Cerealiers, Bureau Interministeriel d'Etudes et de Programmmation (BIEP), N'Djamena, n.d (1986?)

9. Etude de la Filiere Blé: Annex Agronomie, B.I.E.P. N'Djamena, Avril 1990

10. "ONC: L'Echec" in N'Djamena Hebdo No. 36, 5 December 1991

11. J.D. Lea & Carl Reed, Chad Food Security Program Case Study: Draft, Food and Feed Grains Institute, Kansas State University, October 1991

12. Portant Creation de l'Office National des Céréales (Ordonnance No. 19/P.CSM/SGG) N'djamena, dated 24 September 1977

13. Memo From L. McBride, Jr. To R. Whitlock, Datex, January 15, 1992 "ONC Institutional And Financial Analysis"

14. Article III, PIOT No. 677-0060-X-XXXX "Statement of Work"

15. L. McBride: "Time Utilization"., handwritten memo, n/d/

16. PAM TCHAD, Document No. 001/WFP/CHD, October 1989

17. Plan Indicatif de Redressement de L'Office National Des Céréales, O.N.C., Projet FAO/GCPS/CHD/018/NET, Aout 1991

18. Réflexions Sur Une Réorganisation du Marché Céréalier du Tchad (RMCT), PAROC/GTZ, Ouagadougou, June 1991

19. "Transmission d'un Rapport de Mission", Letter No. 075/DIC/90 from ROT-Ngue Mally Nguetog, 26 Mars 1990

20. Letter No. 175(?) 3 April (?) 1990 from ROT-Ngue Mally Nguetog, Inspection Generale et Controle de l'Etat

21. "Rapport de Mission de Controle de l'Office National des Céréales", 24 Mai 1990, from Amane Yemi, Kodio Luaderim and Moussanadji Roingam, Direction de l'Inspection et du Controle

22. "Rapport de Mission de Récouvrement des Créances de l'Office National des Céréales", 27 Février 1990, from Mahamat Cherif, Mbatkabal Mayo and Dahino (?) Majita letter of the Inspection Generale de Controle de l'Etat

23. "Rapport de Mission", 28 (?) Février 1990, from Amane Yemi, Direction du l'Inspection et du Controle

24. "Rapport de Mission de Controle d Gestion de l'O.N.C.", 19 Septembre 1989 from Amane Yemi, Sibgue Gueltir and Tchouin Baidi. Direction de l'Inspection et du Controle de l'Etat

25. "Entreprises Publiques", Lettre No. 0118/PR/SGP/C/AEF/91 dated 22 OCtobre 1991. Sécretariat Générale de la Présidence, Affaires Economiques et Financieres

26. 1992 Monthly FEWS Bulletin, FEWS/Chad, January 1992

27. Propositions de Cadre Pour l'Elaboration d'Une Politique Céréaliere au Tchad, CILSS, Secretariat Executif, Direction des Etudes et de la Planification. Version Révisée au 21 Juin 1991. Authors: P. Ginies, D. Coulibaly

28. Print-out of Merchants who purchased monetized food aid grain from ONC. n.d. provided by USAID/Chad

29. Assistance pour L'Elaboration d'Un Programme National de Sécurité Alimentaire, Première Phase, Evaluation de Niveau Actuel de Sécurité Alimentaire --- Problèmes A Résoudre, FAO, Rome, April 1990

30. Country Development Strategy Statement, FY 1986 Chad, May 1984 USAID, Washington, D.C.

31. "Africa Bureau PL 480 Title III Supplemental Guidance", Cable to all Africa Missions dated 8/26/91 from P. Rader and E. Simmons, USAID/Washington

32. Plan d'Orientation: Options de Développement, République du Tchad, Décembre 1989

33. Plan d'Orientation: Options de Développement (Document Additif), Unofficial Translation, République du Tchad, Avril 1990

34. Program Rationale: Chad, FY 1989 to FY 1994, USAID n.d., n.p.

35. R. Sears/RFFPO: PL 480 Title II 206 Evaluation (Intermediate),REDSO/WCO, USAID, Abidjan , June 14, 1990

36. Eugene Grasberg and Adly Hassanein, An Analysis of the Grain Marketing System in Chad, DAI, Washington, D.C. February 1988

37. Tchad: Programme National de Sécurité Alimentaire, Première Phase, Evaluation de Niveau Actuel de Sécurité Alimentaire --- Problèmes A Résoudre, FAO, Rome, September 1989

38. Transfer Authorization No. 677-X-X-000-9615, Signed 9 June 1989 Between USAID/Chad, and Chadian Minister of Plan and Cooperation

39. Ron Daniel, Chad Program Rationale and ABS Review Issues Paper, USAID/Washington, 8/31/88

40. Agreement Between The Government of the United States of America and the Government of Chad for the Donation of Agricultural Commodities, draft of 4/22/91

41. Chad: FY 1991 Title III Agreement, USAID document No. U:\CWEISKIRCH\DOCS\FY91CHAD.CEW

42. Agreement Between The Government of the United States of America and the Government of Chad for the Donation of Agricultural Commodities, signed 29 June 1991

43. Title XV --Agricultural Trade, Subtitle A -- Agricultural Trade Development and Assistance Act of 1954, U.S. Code (Food for Peace Legislation, Revised)

44. Republic of Chad: Food for Development Proposal, Title III, USAID/Chad, March 1991

Annex A: Methodology

The institutional aspects of this study, basically the responsibility of the team leader, were approached using a five-phase methodology. The first phase involved studying documents provided to him prior to his departure for Chad.

Phase two involved applying what he knew from his experience with similar problems elsewhere, and combining this with the insights gleaned from his pre-departure readings to develop some preliminary hypotheses which he would test upon arrival.

Phase three involved interviewing key players inside ONC, donors, traders and others (such as bankers). He would usually ask them one simple, yet pertinent question. This approach is designed to put interviewees at ease. They see that the meeting won't last long, that there is no questionnaire to fill out, and they perceive that the visitor is already well informed on the subject matter and only needs to complete one element of information. With that idea in mind, the interviewee usually moves quickly to meaty technical issues, skipping over more general background issues. The interviewer backtracks to fill in details as a function of the interviewee's receptiveness and interest in the questions.

Phase four involved generating a list of details to check on inside ONC. This list, though not at all comprehensive, offered a "feel" for the institution's health and capabilities and provided information on what areas to dig deeper into at a later time. Included on the list were items such as : "could the warehouse manager explain the pros and cons of jute versus polypropelene sacks", "at 0730 hours, when the workday was supposed to begin, did anyone pick up the phone when the main number was dialed from the outside?", "could the commercial director put his hands on a copy of the telephone number of his counterpart in Niger?", "when was a particular truck's oil last changed?", "how does the Director General get an urgent message to a particular warehouse manager when the latter's radio is not working?".

The final step involved follow-up and identifying inconsistencies and trying to clear them up, either by approaching third parties (often the FFPO), or by going back to the original sources. As time would permit, information gaps were filled. With this process completed, writing began in earnest.

The financial specialist used similar steps at the outset, but interviewed with a more structured agenda as required by his terms of reference. Working inside ONC his approach was to trace a single financial transaction from start to finish. As with the team leader's approach, this introduction led the interviewee to believe that this was not going to be an adversarial audit, where all the books had to be thrown open to an outsider, but something quick and focused --- after all, how long could it take to produce the paper for a single transaction? Invariably, there would be more to the transaction than first appearances would have suggested, and it was the uncovering of these details that provided the key insights into ONC's operations.

Both methodological approaches incorporated frequent "reality checks" between the team members and with the Mission FPPO, where we would take stock and assess whether we were on the "right track" or not.

We have exchanged drafts and editorial comments several times during the writing phase to try to marry our individual approaches, styles, viewpoints and findings into one cohesive document.

Annex B: People Interviewed

Bernard Wilder, USAID/C USAID Representative
Carole Palma, USAID/C USAID Deputy Director
Leslie Mc Bride, USAID/C FFPO
Khalil Djalal, Director, SODIMEX (Grain Trader)
Seïd Bauche, Director General, ONC
Yamadjita Nadoumabé, Commercial Director, ONC
Beleloum Pornaye , Administrative & Financial Director, ONC
Daguina Mahonté, Assistant Director General, ONC
Lisa Nichols-Diakité, Deputy Director, CARE International
Ali Abbas Seitchy, Owner, SETEX (trader)
Felix F. Lee, FEWS Representative USAID/Chad
Bambe Dansala, Minister of Rural Development
Alpha Bocar Nafo, Director General Provisoire, Banque d Développement du Tchad
Evariste Wouado Kebba, Chief of Operations, Banque Tchadienne du Credit et de Dépôts.
Alfa Bocar Nafo, Acting Head, Banque du Developpement du Tchad
Mahamet Tidiani, dispatcher AID/C
Michelle Karlack, CARE/Chad
Joetta Miller, CARE/Chad
Abbey Fessenden, USAID/Washington, Program Officer
Patricia Rader, USAID/Washington, Africa Food for Peace Policy Officer
Jeffrey Taft-Dick, World Food Program, Resident Representative
Pierre Hennebert, Economic Advisor, EC
Ali Adoum Djaya, Chief, Commercial Dep't, Société Tchadienne d'Assurance et de Reassurance (STAR)
Maurice Deprez, Financial M'gt. Expert,FAO, Projet GCPS/CHD/018/NET
Markhous Ouchar Markhous, Director of Transport Firm
André Martin, Senior Advisor, Fond d'Aide et de Coopération
Chemi Kogrimi, Director, Controle d'Etat
Mally Rot N'gue, Assistant Director, Controle d'Etat

Annex C: Use of Private Traders for Monetization of Title III

The use of private traders provides an exciting new initiative for the Mission. This Annex deals with some of the specific issues that will arise doing this new kind of business. Using private traders will possibly require greater time commitment from the FFPO than selling Title III commodities through ONC, but this is outweighed by the increased Mission control over the entire sale process.

Title To The Merchandise

Using the 29 June 1991 Grant Agreement as a model, an important modification should be made to facilitate using traders as the sales agents, rather than ONC.

Section 1.4 of the Grant Agreement would be re-drafted in such a way as to keep title of the imported grain in the hands of the USG until the moment the grain is sold to local traders (Title III of the Food for Peace Legislation, Sec.305(b) permits the USG to retain ownership of funds). At the moment of title transfer (which would take place in N'Djamena) the proceeds of the just-completed sale (which occurs simultaneously with the title transfer), still the property of the USG, would be placed into the required jointly managed interest bearing special account. At this point ownership could pass to the GOC.

Payment Instruments

One of two payment mechanisms should be used for account settlements in Title III grain sales, cash or documentary credit guaranteed by a bank. In the first case currency or certified bank checks change hands. In the second case, traders with good reputations and relationships with a local bank, ask their bank to vouch for their creditworthiness by agreeing to pay USAID ***with their money***, upon exchange of shipping document title from USAID to the trader. The bank is confident that the trader will reimburse it in a timely manner. This confidence is based on the trader's past performance, guarantees and first claims on the trader's assets that the bank might hold, and, most importantly, on the fact that the trader now owns a bill of lading that represents a large quantity of grain that will be sold for cash upon arrival. The trader and the bank are willing to pay USAID before arrival of the merchandise because of USAID's good name, and because the existence of original copies of shipping documents indicating that the cargo is already on the African mainland, en route to Chad, is sufficient assurance for the banker and the buyer.

Our discussions with bankers and large grain traders have repeatedly confirmed that this is the way the large traders who would be the likely buyers of U.S. grain in quantities of 1,000 tons or more would pay.

If any other payment modalities were used, they would be cash transactions. The details of

actual payment could be handled in several ways. Most beneficial to the Mission would be to demand payment from the buyer before the trucks or trains with a given buyer's grain leave the port of Douala.

This could be done by a signing over of title as described above. The only difference is that there would be no bank intermediary. The transaction would be between a trader and USAID. This option might be used by a trader with high liquidity, who was confident that his funds would not be tied up for long --- that is, who was confident that the grain was en route, in good condition and scheduled to arrive without delays.

A slightly less attractive option (for the Mission) is insistence upon payment of a percentage (the higher the better --- a buyer might accept up to 50%) when the shipment leaves the coast for Chad, with the remainder payable once confirmation is received that the last train or truck has left the debarkation port on the African coast. The reason the Mission should not accept the wording "final payment due upon arrival of last truck" is that buyers have been known to hold up the last truck in a convoy and "make it disappear" in order to buy time before having to come up with the 50% final payment. They have 99% of the grain but have only paid 50% of the money. To avoid this, final payment should be made when the last truck leaves the port city. If one truck literally, disappears en route, special arrangements can be made for payment of the value of the missing truck alone to be withheld pending its discovery. Meanwhile, the rest of the money due is paid.

The key point to remember regarding payment is that the Mission wants to use all measures at its disposal to avoid being "stuck" with the grain upon its arrival in Chad. Part of the Mission's sales strategy should be to insist explicitly that all sales be completed on a pre-payment basis, even if it is necessary to pay a premium to guarantee this. The reason for this precaution is that the Mission does not want to be stuck with several thousand tons of wheat flour that it must now store, treat, guard, and ultimately sell. Once word circulates that USAID is desperately trying to find buyers for its shipment of grain that it wants to sell off as quickly as possible, prices will plummet and the Mission will ultimately be forced to sell at a deep discount. The sooner the physical management of the stock is a trader's problem and not the Mission's, the better.

Trader Selection

The traders will self-select. The Mission will advertise in the newspaper that it is seeking statements of interest in the purchase of "x" tons of U.S. wheat flour, of quality "x", presently being loaded onto trucks/trains in, say, Douala. The Mission will have obtained samples in advance from the survey agent who would have been supervising the offloading from the ship in Douala. These samples would have been sent by DHL to the FFPO in N'Djamena. Interested traders will be instructed in the advertisement to come to the Mission (or other designated location) to examine the samples and to sign contracts. The traders will be aware of the going market price for wheat flour of that quality. They will factor in such things as loss of use of their money, temporary storage costs, loading and off loading costs and will make an offer. USAID's negotiator should be aware of market prices as well. (S)he

will also be aware of the U.S. F.A.S. (free alongside) gulfport price for the commodity which is the statutory lowest price that can be accepted. Depending on whether the Mission's goal is rapid sale with least hassle or highest possible dollar value outcome, negotiations will be quick and easy or long and tiring. At the end of these negotiations, some number of traders, selected on the basis of the quality of their offers, and to some degree their positioning (if the first person to negotiate offers a good price for 5,000 tons for a load that contains *only* 5,000 tons, being first in the door was clearly an advantage) will sign contracts.

The Trader-USAID Contract

Traders whose offers are attractive to the Mission will be invited to sign contracts. The contracts will stipulate the amount of money to be paid, the form of payment and the timing of payment. The Mission can elect to be flexible in its negotiations to maximize the likelihood of its placing the entire shipment quickly. In this case, every contract may look different. The important point to insist upon is payment within some very brief period after the contract signing. Three days should probably be the maximum. A sense of urgency is in order at this stage, because the Mission needs the maximum amount of time possible to approach new, or formerly rejected traders, if early selectionées do not honor their contract and return within three days with their money.

Delays

Language could be written into contracts between traders and USAID stipulating that AID/C would agree to pay interest or penalties if the trucks/trains did not arrive within 48 hours of the date expected. This is only fair. Clearly, the Mission would want to negotiate a 1 week window if it could -- the longer the better.

Maximum Quantities

Traders could be bound to both maxima and minima in their purchase quantities. For example the mission could state in its advertisement that offers between 250 and 2500 tons will be accepted.

Pricing

The grain offered for sale could be priced at the same level as current N'djamena wholesale prices. This would guarantee rapid sale since U.S. wheat flour is considered to be premium quality. By pricing it on par with inferior grades, the Mission would, in effect, be offering a discount. The FFPO would have to carefully monitor en route dispositions of the grain to ensure that quality is not compromised. The grant agreement or Transfer Authorization should insist on the maximum assurances in the interest of quality --- particularly since Transfer Authorization

terms and conditions are paid by the Commodity Credit Corporation, and not by the Mission. Examples would be phytosanitary inspection at port of arrival as well as port of departure, cargo bagged in the U.S., rather than being shipped bulk and bagged on the African coast. We have even seen Transfer Authorizations that have specifically stipulated enclosed trucks (rather than open topped).

A flexible attitude toward price is probably advised, but only a trial sale will provide information on how "serious" the traders themselves are in their pricing.

France (FAC) will be calling for statements of interest from traders in 1992 for the provision of up to 1,000 tons of locally produced cereals. M. Martin of the F.A.C. stated in an interview with the team, that if this initial purchase goes well, that the French have enough funds available to purchase an additional 6,000 in the next few months and another 3,000 tons for the SSA in the October-December 1992 time period.

AID/C should observe closely how France's use of the private sector works out, particularly in the area of pricing. If the experience is positive, that would be an indication of what the Mission could expect in its grain sales.

Insurance

We originally felt that AID/C should take out a local insurance policy covering defaulted trader contracts (and paid for out of residual 1991 counterpart funds). No one with whom we spoke felt that this was necessary. In addition, it is not a common practice, though traders do routinely insure their inbound cargos against *damage*. We are now ambivalent. We still feel that anything the Mission can do to avoid being stuck with physical possession of the stocks once they arrive in-country is worth pursuing. If this type of insurance is not normally written, perhaps pioneering this effort would be a major undertaking. On the other hand, perhaps it could be viewed as the Mission's contribution to increasing the level of sophistication of the local insurance industry.

Delivery

For simplicity's sake, all deliveries would be to ONC's N'Djamena warehouse facility. It is easy to find, discharge and reloading can take place in security, and should it be necessary, grain can be stored at the facility through private arrangement between the trader (or insurance company) and ONC.

Annex D: Alternatives to ONC for a SSA

It was our desire to search aggressively for alternatives to ONC, to be USAID's partner in management of a security stock, rather than resigning ourselves to working through ONC without having explored alternatives.

Four possible alternatives to contributing to the present SSA were considered.

CARE/Chad

The first alternative involves contracting with CARE to run a U.S.- only security stock. Our enquiries indicate that CARE management had mixed views on this idea. From one director to another the views change on how involved CARE ought to be in structured, permanent food aid programs such as security stock management. Its real distinctive competence is in emergency operations and it sees that expertise being diluted by diversification into security stock management. There are also concerns about being so visibly linked to USAID. (Discussions with Lisa Nichols-Diakité and Joetta Miller, 1/14/92)

This is too bad, as we found a CARE option appealing for its level of control. One is not held hostage to ONC, one is not obliged to use government-owned facilities for the storage, and the commodity at no time belongs to the GOC facilitating need-based (vs. politics-based) targeting and programming.

For CARE to do the job of managing a security stock appreciably better than ONC, a level of funding must be guaranteed every year that AID, with the uncertainties inherent in its congressional, agency and mission level budgeting processes, may not be able to guarantee.

We have been impressed with CARE's financial control systems elsewhere in the region (Mali and Niger) and their conscientious management of food distributions and stock management and find them an ideal associate for the Mission in a security stock operation should their interest in such a proposition develop over time.

World Food Program

The second option is to donate all U.S. emergency food aid to the World Food Program, for it to manage.

Though an unorthodox recommendation, WFP is trusted by AID/Chad as an "executing agency" in its own right for food aid distributions. It is already present in-country and has itself, long-standing relations with ONC. The aims of the USG are that food be distributed in a timely basis and that there be rigorous accountability for all movements, whether of food or money. If the U.S. cedes this responsibility to WFP, it removes itself from dealing directly with ONC, leaving this to the WFP. Similarly, the reporting and monitoring that would be furnished to the Mission

would be WFP products and not ONC products. This allows for the possibility of the U.S.to be more demanding in terms of rigorous accountability than it has been able to be so far with ONC, and thus, being more pleased with the results. The problems with this option are that ONC is still, in effect, the Mission's executing agency, even if the Mission succeeds in delegating its liaison role to WFP. Thus many of the same problems that exist now will persist, and in some ways, be exacerbated, since WFP does not have the experience in institution-building that USAID does. What problems it finds are likely to persist. Secondly, cooperating organizations according to U.S. food aid legislation are PVO's or host country agencies --- not international organizations. A waiver may be possible, but the approval of such a request is not assured..

Discussions with the WFP Country Director brought up other issues that served to eliminate WFP from consideration. WFP's new directions will be in the direction of joint efforts with local PVO's and with village cereal banks. In addition, a WFP consultant recently concluded that the present SSA level (20,000 tons at capacity) is "too much for a good year and far too little in a bad year". His findings have been well-received both in-country and in Rome. This means that the entire philosophy of a security stock such as USAID might envision, would probably not be enthusiastically received by WFP. WFP views ONC as "the only alternative" for large scale interventions, and is not pursuing other options at this time.

The Private Sector

The third option considered would have let the private sector manage a security stock.

In environments of political and military instability such as exist in Chad, private and non-governmental entities try to minimize their losses by having as few tangible (seizeable) assets as possible. Their warehouses and their inventories are small. Their holding periods are short. These are exactly the **opposite** characteristics to those one seeks in a security stock manager. Leasing of ONC warehouses to the private sector to facilitate private management of the SSA has been suggested. It is not clear that the GOC would permit these warehouses, often considered as part of a country's strategic resources, to be leased to private parties. If such a deal were possible, it is not clear that there would be any takers, for the reasons mentioned above. If the management fees paid to private parties were high enough to be interesting to these parties, they would be high enough, as well to possibly encourage abuse.

We interviewed several traders to gauge interest in security stock management among them. Two large traders expressed interest. A follow-on study could research whether interest was more widespread. Our assessment based on our interviews is that traders definitely do not have any experience in this kind of activity --- it has never existed as a private sector endeavor before. They are attracted by the entrée to USAID, which they see as a prestigious customer. They are attracted by control of a large grain stock. Even if it is not theirs, we sensed their being anxious to lay claim to it. We can only speculate how they might want to use the stock for their personal ends. They are also attracted by the idea of being paid on a fee basis. For them this means guaranteed cash flow --- an uncommon luxury in their line of work. They do not necessarily expect the job to be very profitable, but they say there are "other compensating benefits". It is

precisely the attitude that profits are not important that makes us uneasy, as such an attitude, in our experience, usually masks unsavory or illegal "alternative compensation practices". We did not discuss payment on an incentive plan --- as a percentage of profits generated in stock rotation --- rather than as a fixed fee. This might be an interesting way for both parties to benefit.

Additional downside issues are training, maintenance and stock treatment, where a private firm might skimp in order to enhance profits, and where the Mission would have much less leverage to enforce good security stock management practice than it would within a governmental institution. Finally, the Mission has little or no recourse should a trader simply "disappear", whereas this is less likely to occur with a parastatal.

On the basis of what we saw as potential high risk and low reward for the Mission, we eliminated this possibility. It is interesting to note how the same group that can be quite attractive for one type of transaction (Title III grain sales) might be totally inappropriate for another.

Money Option

The fourth and final option involved maintenance of a money fund that could be used in times of need for the purchase of foodgrains in quantity, and for transport from the point of sale of this grain to sites as close as possible to the needy populations within Chad.

We understand that the Mission has already been visited by a consulting team that examined the issue of whether the Mission should participate in a security stock program at all, and if not what it might do as an alternative. It is in such a context that the money option presents itself. We understand that the Mission made it clear that it was committed to *some* kind of security stock option. For this reason, we are not pursuing the money alternative.

Annex E: ONC Balance Sheet

Adjusted by EC And AID Financial Analysts

	84/85	85/86	86/87	87/88	88/89	89/90
Assets						
. Cash	1088	2070	33295	166552	110884	194072
. In Float			51694	51694	51694	
. Bank Deposits	345627	50221	217739	267656	193038	444608
Total Cash	346715	52291	302728	485902	355616	638680
. Account Rec.	5760	150773	112655	442074	606498	599838
. - Bad Debts			-8373	-123670	-181218	-16383
Net A/R	29995	150773	104282	318404	425280	583455
. Inv. at Cost	41900	453468	384013	226296	428916	186521
. Fixed Assets	607558	632154	807713	811423	832977	843011
. - Dep.	-121834	-163026	-218233	-252686	-300106	-348212
Net F. Assets	485724	469128	589480	558737	532871	494799
Total Assets	904334	1125660	1380503	1589339	1742683	1903455
Liabilities & Capital						
Liabilities						
. Act Payable	16758	106467	18072	106467	13948	6870
. S/T Loans					49703	93536
. SSA Inventory						338188
Total Liabilities	16758	106467	18072	45299	63651	438594
Capital						
. Donor Capital						
a. Cash	399190	348790	241140	236140	234140	234140
b. Grain Pur		252527	1005781	1224884	1629096	1629096
c. Equip Pur	20801	40258	194087	194087	194087	194087
Total Donor Cap	419991	641575	1441008	1655111	2057323	2057323
. Reserves						-10640
. Retained Pro	7585					
or (Loss)		-82382	-538577	-571071	-838291	-1041822
. FDAR Capital	460000	460000	460000	460000	460000	460000
Total Capital	887576	1019193	1362431	1544040	1679032	1464861
Total Liabilities and Capital	904334	1125660	1380503	1589339	1742683	1903455

ONC Income Statements - Adjusted by EC and AID Financial Analysts

	84/85	85/86	86/86	87/88
Revenues				
. Grain Sales	119060	69974	280075	1420098
. Management Fees	209289	65598		
Total Op Revenues	328349	135572	280075	1420098
Inventory Costs				
. Grain - COGS	92690	16280	260712	951733
. Inven Adj, + or (-)	11835	26285	380934	-206174
. Sacks, Cords etc.	6056	5142	28495	46938
Total Inventory Costs	110581	47707	670141	792497
Gross Margin	217768	87865	-390066	627601
Operating Costs				
. Transport	732	31487	34399	272809
. Fret & Storage	5981	9802	1717	38961
. Gas, oil Etc.	4294	28508	7707	16912
. Pesticides	1250	191	102	8490
. Vehicle maintenance	2575	6926	4365	16403
. Other (rent Etc.)	8705	4957	5519	19581
Total Operating Costs	23537	81871	53809	373156
Operating Margin	194231	5994	-443875	254445
General & Admin Costs				
. Personnel Costs	29241	35329	37912	74780
. Travel Costs	2075	3102	6979	8775
. Whses, Reps & Mtance	1701	1404	3204	12232
. Comm - (PTT)	1052	1194	1957	4636
. Utilities	2007	4451	2731	10764
. Office Sppls	825	2508	2743	7498
. Fees	64	5108	1546	1100
. Misc Chgs	3236	4297	5027	16288
. Depreciation	36025	41194	55207	34455
Total G & A Costs	76226	98587	117306	170528
Net Op Profit or (Loss)	118005	-92593	-561181	83917
Non-operating Revenues				
. Financial		9149	5636	4536
. Other		12327	9744	12247
Total Non-op Revenues	0	21476	15380	16783
Non-operating Costs				
Total Non-op Costs	-87670	-18850	89606	-133194
Net Non-operations	-87670	2626	104986	-116411
Net Profit or (Loss)	30335	-89967	-456195	-32494

ONC Income Statements - Adjusted by EC and AID Financial Analysts

	88/89	89/90	90/91
Revenues			
. Grain Sales	602137	1078850	
. Mgt Fees - SSA			85163
Total Op Revenues	602137	1078850	85163
Inventory Costs			
. Grain - COGS	488753	752443	
. Inv Adj	123307	0	
. Sacks, Cords etc.	20323	527	227
Total Inventory Costs	632383	752970	227
Gross Margin	-30246	325880	84936
Operating Costs			
. Transport	55256	262061	2781
. Fret & Storage	10805	49874	0
. Gas, oil Etc.	7127	30585	13145
. Pesticides	252	1506	16193
. Vehicle maintenance	5343	20551	7278
. Other (rent Etc.)	5100	8804	3977
Total Operating Costs	83883	373381	43374
Operating Margin	-114129	-47501	41563
General & Admin Costs			
. Personnel Costs	66797	79093	56555
. Incentives - Pers		1018	12469
. Layoff Costs		1633	1047
. Travel Costs	2434	12862	5887
. Whses, Reps & Mtance	1297	4068	4435
. Comm - (PTT)	3128	6464	4220
. Utilities	5757	6620	4308
. Office Sppls	3852	8306	5393
. Fees	1800	1800	3849
. Misc Chgs	8612	13862	13231
. Depreciation	45416	48106	48106
Total G & A Costs	139093	183832	159500
Net Op Profit or (Loss)	-253222	-231333	-117937
Non-operating Revenues			
. Financial	2420	6412	18820
. Other	41130	21371	2018
Total Non-op Revenues	43550	27783	20838
Total Non-op Costs	-57548	0	-1527
Net Non-operations	-13998	27783	19311
Net Profit or (Loss)	-267220	-203550	-98626

Balance Sheet Comments

As indicated in the body of the report, the team comments on various aspects of the financial statements in this Annex. ONC balance sheet follows OCAM presentation standards. This means that the Capital accounts are located in the top right side of the balance sheet while the assets, having the longest life are located in the top left side. American balance sheets are presented with the most liquid assets in the top left side and the most current liabilities in the top right side of the balance. The American logic is that analysts want to know what the liquidity position of the firm is first and how it can pay, if it can, its short term debts first.

The other difference in how balance sheets are presented under the OCAM system versus the American method has to do with how retained earnings or losses are dealt with. Normally, the previous year's earning or losses are shown on the OCAM balance sheet as an individual line item. The Losses or profits from years prior to that period are directly deducted from or added to the capital account. The American system treats earnings and/or losses as a separate line item. The OCAM presentation make it very difficult to know what the accumulated profits or losses are, as reconciling the capital account requires knowledge of all movements in and out of that account since the firm's creation.

Income Statement Comments

The team would like to note that it included the inventory adjustments in the inventory cost section, rather than present it as an extraordinary charge and therefore, part of the non-operating losses. The inventories were overvalued because normal operating costs to purchase and transport operating stocks were added to the inventory. Thus the inventories were overvalued because other cost were understated. Not knowing which accounts were undervalued, the team wanted to show that ONC was not making profits on its taking trading accounts because its was misallocating its operating costs.

ONC has stopped its previous practice of overvaluing inventories. This is one reason why the 89/90 loss was of the order of magnitude that the EC's Financial Analyst's restating of profit and loss reflected.

The only other comments the team would like to make about the income statements have to do with the variability of the costs from one year to the next and the Non-operating revenues and expenses effect net profit or loss in a material way. The team cannot explain why this has occurred in either case.

Annex F: Scope of Work

c) Describe how the security stock is managed, the level of donor support it has received, the role it has played in providing food security and ONC's plans for the future in relation to food security in Chad.

d) Determine reasonable and necessary costs for managing a security stock from existing frinancial reports or cost accounting data. If such accounting reports cannot be used for this purpose, determine the minimum requirements and recommend a specific system that will generate such information. Estimate the annual cost of maintaining a security stock of 10,000 MT and 20,000 MT resepctively in different locations. Provide different scenarios for the management of a security stock, using ONC as one option and the privat sector or other alternatives as another.

e) Evaluate accounting, record keeping, internal and external reporting, and overall financial management systems of each operating unit within the ONC in relation to management needs and to AId standards. The contractor will also determine the degree to which the system should be modified to produce the required information most efficiently.

f) Recommend whether it is appropriate for AID to continue utilizing ONC to manage Title III commodity sales and/or the security stock, or whether there are other, more viable options.

If it is recommended that AID stay with ONC as the implementing agency for either or both of these functions, describe the appropriste conditionality/covenants concerning the operations of ONC which would encourage streamlining of its role (e.g. auctioning, use of bids and tenders, elimination of commercial stocks, etc.), improve accoutability and reduce overhead costs vis-a-vis ONC's management of the security stock.

If it is recommended that AID utilize an alternative mechanism for either or both of these functions, describe in detail the new procedures to be followed.

ARTICLE IV - REPORTS

A draft version of the final report will be provided to USAID/Chad at least five working days before the team's departure. The report will be finalized at Datex's headquarters by the team, incorporating Mission input. The English version will be shipped to the ADI Representative in Chad by courier within 15 days of the team's departure from Chad, and the French version within 30 days of departure.

ARTICLE V - TECHNICAL DIRECTIONS

Technical directions during the performance of this delivery order will be provided by Les McBride pursuant to Section F. 3 of the IQC contract.

TASK II

The team will:

a) Review existing reports and documentation related, but not limited to:

the new Title II legislation
prior Title II and Title III monetization grants to Chad
previous evaluations of the ONC
Chad grain marketing and security stock studies
AID Policy Determinations and Accounting Guidelines for Local Currency
AID Regulation 11
Price Waterhouse and Associates' "Recommendations for the Implementationa and Follow-up of Accounting Procedures to Control the Receipt/Storage and Sale of 5,000MT Rice
GOC development priorities
USAID/Chad Development Strategies

b) Contact appropriate host country and other donor agencies, as well as provate sector operators in the grain marketing sector, for background information.

TASK 3

The team will draft a report which addresses the following issues:

a) Describe the current organizational set-up and operation of ONC and provide an institutional analysis of its capacity to manage commodity sales under Title III. Special attention should be paid to the decision-making process within ONC and the chain of command, the degree of autonomy it has from other GOC insitutions, its financial management and accounting procedures, its internal control mechanisms, its logistic and human resource capabilities, and its relationship with the private sector and other donors. Note: There is a strong probability that ONC will soon undergo a restructuration. The team will therefore describe, using available information, the form this restructuration will take and how it will affect ONC's ability to manage commodity sales.

b) Provide a financial analysis of ONC. Determine what kind of financial statements exist, the kind of accounting principles used, and whether such principles are applied consistently from year to year. Compare annual costs with revenues for the past five years and make projections for the next three. Quantify donor inputs and assess the impact the withdrawal of such inputs might have on ONC's financial health.

BACKGROUND

The 1990 Mickey Leland Food for Peace Act included amendments, now incorporated as Title III of Public Law 480, that, inter alia, encourage the use of local currencies generated from the sale of agricultural commodities to less developed courtries for private sector development activities and the promotion of increased access to food supplies. In Chad, however, the monetization of donor food aid is managed by a parastatal organization, the National cereals Office (ONC). Although previous A.I.D. grants have resulted in wide-scale private sector participation as wholesale grain merchants have availed themselves of commodities marketed through ONC, it is incumbent upon A.I.D. to determine whether there exist other programming options which would further enhance private sector capacities. This search for alternatives has become all the more critical in light of ONC's current financial difficulties, its reduced level of activity, donor reluctance to continue supporting its recurrent costs and skepticism with respect to its long-term financial viability.

For these reasons, a thorough institutional analysis of the ONC is required to evaluate its efficiency, assess its impact on the private sector, gauge the prospects for its continued operation and to determine whether there are alternative programming options for future Title III Program grants.

ARTICLE I - TITLE

P.L. 480 Title III, Institutional Analysis of ONC

(PROJECT NUMBER: 677-0060)

ARTICLE II - OBJECTIVE

To provide a teo-member team which will conduct an analysis of ONC's institutional capacity, project its long-term financial viability, and determine if there are alternative programming options for food aid grants under Title III.

ARTICLE III - STATEMENT OF WORK

TASK I

The team will consult with appropriate offices in AID/W to obrain the most recent Agency and Africa Bureau guidance on Title III Programs in general, and USAID/Chad's multi-year proposal in particular. This task is not to exceed two work days per person.