EVALUATION REPORT

Mauritania PL 480 Title II

Section 206 Program

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EXECUTIVE SUMMARY

A. Summary of Program

Under the Section 206 food assistance program, the U.S. has delivered 40,000 metric tons (MT) of wheat and sorghum to the Government of Mauritania over the past two years. Of the 40,000 MT, about half has been sold, generating about $3.9 million. Of this local currency, about 77 percent has been deposited into a special account, and about 50 percent of the local currency in the special account has been allocated to activities agreed upon by Mauritania and the U.S., primarily roads construction and operating costs of the Food Security Commission (CSA).

B. Conclusions

1. Marketed domestic grain production has not increased during the past two years, in spite of a price policy initiative designed to improve producer incentives and in spite of the availability of increased budgetary resources to allocate to food production. This was due in large part to the severe drought which was unanticipated when the program was designed in 1982.

2. The CSA has been strengthened in its ability to handle, transport, store and distribute grain -- both to those able and unable to pay for it. It is impossible, however, to identify these two groups with any degree of certainty.

C. Recommendations: Current Program

1. In view of the progress in implementing the price policy initiative and in developing an improved food security system, the third year of the three-year program should be implemented. It should be carried out in conjunction with an upward wholesale price adjustment of 2 ouguiyas (UM) per kilogram (kg.) for wheat (an increase of about 14 percent) and maintenance of the existing wholesale price for imported sorghum.

   The upward price adjustment may have only a marginal impact on increasing marketed domestic grain production (in the absence of rain or irrigation development), but it will have other important benefits:

- It will help put CSA on a sound economic, as well as financial, base.

- It will augment the revenue available to the Treasury to allocate to activities needed to decrease Mauritania's need for food assistance.

- It will discourage transport of grain from Mauritania to Mali by private traders seeking a higher price.

- It will reflect the inflation occurring in Mauritania over the past year.

Maintaining the price of imported sorghum at its current level recognizes the fact that U.S. sorghum is not considered a preferred grain, which, due to its high price relative to European wheat, would probably not be imported commercially by Mauritania. In addition, it enables those who may be adversely affected by the proposed price increase for wheat to purchase sorghum at the existing price.

2. Possibly with AID or other external assistance, a food consumption and income distribution survey should be carried out, as stipulated under the current Section 206 Transfer Authorization (TA). This would help the government identify the number of people who might be adversely affected by a price increase, including where they live and how their food consumption patterns (and preferences) vary with income levels.

3. The local currency proceeds already in the special account, and those that will be deposited as a result of the third year of the program, should be allocated as follows:

   - CSA should continue to be reimbursed for appropriate operating costs associated with distributing Section 206 food.

   - Activities should be supported that will contribute to increased food production and/or increased foreign exchange for purchasing food on the international market. These might include:

     a. activities that are supported with dollar assistance by AID, including training; and

b. the rehabilitation of existing agriculture infrastructure, such as water development structures and rural roads.

4. The process of depositing local currency proceeds into the special account could be accelerated if proceeds from the Nouakchott center were transferred to a commercial bank (or directly into the special account) rather than into the Treasury. This is the system that is followed by the other regional centers where there is a commercial bank.

D. Recommendations: Future Program

If the AID Mission and the government of Mauritania should propose a future Section 206 program, it should incorporate the following elements:

1. It should take into consideration all grain staples in the process of developing an appropriate food price policy, including rice and maize as well as wheat and sorghum. This will reflect the fact that these commodities are typically substitutes, and that a price increase in wheat, for example, may well translate into increased demand for rice.

2. It should consider subsidizing the producers of domestically produced rice at the farm gate rather than subsidizing the inputs needed to produce the rice. This will help achieve greater efficiency in the distribution of agricultural inputs by encouraging the private sector rather than the National Rural Development Company (SONADER) to be the principal supplier.

3. It should try to improve the current system that CSA uses to report on the distribution of commodities and the local currency generated from the sale of the commodities.

I. INTRODUCTION

The purpose of the evaluation is to assess program progress and the extent to which program objectives are being achieved, and on this basis, recommend whether or not: (1) the current program should be continued; and (2) a future program should be planned.

A. Objectives of the Section 206 Program

The objectives of the Section 206 program, as set forth in the Program Paper, are twofold:

1. to increase marketed domestic food production; and

2. to strengthen the food marketing and distribution system of the Mauritanian Cereals Office (OMC) -- now integrated with the Food Aid Commission (CAA) into the CSA.

Two measures would indicate the extent to which program objectives were being achieved:

1. OMC purchases of locally produced food grains would increase from an average annual level of 2,000 MT in 1982 to 4,500 MT in 1987; and

2. OMC handling capacity would increase from 20,000 MT in 1982 to 64,500 MT in 1985 and stocks would turn over once annually; in addition, the OMC would operate as a financially self-sustaining institution by 1987.

The program has three components specifically designed to achieve these objectives:

1. food price policy reform, under which OMC wholesale prices would gradually be increased to 100 percent of import parity (including internal transport and handling costs) by 1987.

2. increased investments in the agricultural sector, under which:

    -- 115 km. of the M'Bout - Kaedi road would be upgraded to serve as a year-round, all weather serviceable road; and

    -- crop extension and plant protection activities would be supported and a bulk handling facility would be financed.

3. food marketing and price stabilization, under which:

   -- market prices would fluctuate within a 20 percent range by 1987;

   -- a food price monitoring system would be established and fully operational by 1987;

   -- 40 OMC rural marketing specialists and warehousemen would be trained and functioning by 1985;

   -- one 1,000 MT warehouse and five 500 MT warehouses would be constructed by 1988 for OMC; and

   -- studies on the impact of food aid, traditional marketing of cereals, and production trends would be completed by 1984.

One or more of these objectives (and sub-objectives) of the program could be successfully implemented, according to the Program Paper, only if various assumptions were valid. The validity of the following assumptions is now open to question:

1. The agricultural sub-projects, including the extension activity and the plant protection activity, would be implemented.

2. Severe drought would not disrupt market stability and would not be of disastrous proportions.

3. Farmers (and traders) would be responsive to price incentives.

Because these three assumptions have not been valid to the extent assumed in late 1982, the program needs to be evaluated in this new context. An additional change that has taken place since the TA was signed in July 1983 is that the OMC was absorbed into the CSA. Finally, the proposed shift in the Mission's strategy from dryland agriculture to recessional and irrigated agriculture needs to be taken into consideration insofar as any future Section 206 program is concerned.

B. <u>Criteria for Evaluating Program Progess</u>

The evaluation is organized in terms of the three components identified above: (1) the price policy initiative; (2) local currency programming and self-help measures; and (3) food distribution through CSA. In particular, it addresses each of the following key concerns:

1. Price Policy Initiative

-- To what extent has the program been used to improve domestic food production by improving price incentives? (In this context, what was the presumed link between an increase in the wholesale price and an increase in the producer price?)

-- What should the pace, size, and composition of the annual, upward wholesale price of imported wheat and sorghum be over the period 1984-87?

-- With respect to the composition of the price increase, should it include rice and should it exclude U.S. sorghum (as distinct from domestically produced sorghum, taghalit, the preferred commodity)?

-- Can CSA improve its targetting efforts so that the needy are not adversely effected by upward price adjustments?

-- Should the one ouguiya wholesale price differential between Nouakchott and the interior be maintained?

-- Would more effective donor coordination strengthen the overall price policy initiative?

2. Local Currency Programming

-- To what extent is the local currency being used to increase agricultural production?

-- To what extent is it being programmed to non- (or indirectly) productive activities, such as: (a) CSA operating costs; (b) rural roads improvement; (c) a bulk handling facility; (d) CSA infrastructure such as storage; (e) in-service training; (f) a food data reporting system; and (g) the food consumption and income distribution survey?

-- Are local currency accounts and reports being maintained in a timely and accurate manner?

-- How should unallocated local currency be allocated over the remainder of the current program? How should local currency be allocated under a possible future program?

-- If price increases are not implemented on schedule, will implementation of the local currency activities be adversely affected?

3. Food Distribution

-- Is the CSA performing its marketing functions efficiently or cost-effectively?

-- Should the CSA continue to receive Section 206 local currency to help finance its operating costs?

-- What progress has been made in implementing activities designed to strengthen the CSA?

-- Can the private sector play a greater role in food marketing (including transportation, storage, and processing)?

-- Are reliable records being kept regarding CSA stock movements?

C. Section 206 Legislative Requirements

In addition to evaluating the Section 206 program in the context of the objectives set forth in the Program Paper and the Transfer Authorization, and against the specific criteria set forth above, the team was cognizant of the overall objectives of the PL 480 Title II, Section 206 legislation. This legislation states, in part:

> Except to meet famine or other urgent or extraordinary relief requirements, no assistance under this title [Title II] shall be provided under an agreement permitting generation of foreign currency proceeds unless:
>
> -- the country receiving the assistance is undertaking self-help measures in accordance with Section 109 of this Act;
>
> -- the specific uses to which the foreign currencies are to be put are set forth in a written agreement between the U.S. and the recipient country; and
>
> -- such agreement provides that the currencies will be used for:

> (a) alleviating the causes of the need for the assistance in accordance with the purposes and policies specified in Section 103 of the FAA of 1961 [regarding agriculture, rural development and nutrition]; or
>
> (b) programs and projects to increase the effectiveness of food distribution and to increase the availability of food commodities provided under this title to the neediest individuals in recipient countries.1/

D. Methodology of Evaluation

A four-person team worked in Mauritania for approximately two and one-half weeks during November/December 1984 to undertake the evaluation. Team members included an economist to examine the price policy initiative; an agricultural economist to examine the programming of the local currency generations and self-help measures; an institutional development specialist to examine the operational aspects of the CSA; and a team coordinator. The team reviewed appropriate analytical work and other documentation both in Washington, D.C. and in Mauritania and carried out extensive discussions (formal and informal) with USAID officers, Government of Mauritania officials, and representatives of various international organizations. The team also visited one of the nine regional centers where the Section 206 food aid is distributed and sold, as well as grain storage facilities in Nouakchott and in the interior. (The annexes provide a list of persons and documents consulted as well as a map showing the location of the regional centers.)

1/ Agricultural Trade Development and Assistance Act of 1954, as amended (PL 480), Section 206.

II. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

A. Overall Conclusions

The first overall objective of the program has not been achieved. Marketed domestic grain production has not increased under the first two years of the program and is unlikely to increase during the third year. There are several reasons for this, only some of which are related to the Section 206 program.

-- The increase in the wholesale price of wheat and sorghum has had no effect on encouraging farmers to produce more grain. Farmers are already producing as much as they can given existing technology, resource constraints, and the drought during the past two years. (It is instructive to note that when the program was designed, domestic grain production was 60,000 MT, substantially more than that produced in both earlier and more recent years; (for example, 15,000 MT were produced in 1983).

-- The local currency was not allocated to support directly productive activities as had been envisioned during program development. The extension activity and the plant protection activity were not implemented, and this may have had a deleterious effect on domestic production.

The second overall objective of the program is on track. The CSA is an effective and appropriately organized institutional mechanism to distribute and market food. Procedures have been established to monitor food deliveries as well as the local currency generated from the sale of the food. All except 15 percent of the food is distributed to the regional centers by the private sector. Ample storage facilities are available and personnel have been trained to manage the distribution of food. Nevertheless, there are several problems with the system:

-- Although the food data reporting system has been implemented as called for under the program, the food consumption and income distribution survey has not. As a result, it is difficult to know with any degree of certainty who is, and who is not, able to pay for food.

-- CSA food sales have generated substantial local currency. However, except for the sales proceeds generated from the AID, World Food Program (WFP), and German programs, it is difficult to monitor the allocation of these resources. In the absence of a CSA budget or financial accounting system, the overall cost-effectiveness of the organization is impossible to assess.

B. Component-specific Conclusions

The Section 206 program includes three principal components designed to achieve these two overall objectives. Progress to date is reported below in terms of these three components.

1. Price Policy Initiative

-- The government increased the wholesale price of wheat and sorghum in November 1983 as called for in the Transfer Authorization. While this did not have the anticipated effect of encouraging increased marketed domestic food production for the reasons noted above, it was still justified (as are additional incremental price adjustments) for the following reasons:

a. Although the CSA is now financially viable (because it receives free food aid and sells it), it is not economically viable (because it sells the food aid for less than it would cost on the international market). As a result of adjusting the wholesale price of wheat and sorghum to import parity, the CSA will be in a position to import food commercially on the international market without economic distortions.

b. An increase in the wholesale price of grain will generate additional revenue for the government which can be used to support development activities, and in particular, the recurrent costs associated with existing agriculture-related investments.

c. In the absence of an upward price adjustment, there would continue to be an incentive to purchase food aid from CSA regional centers in Mauritania and transport it across the southern border to sell in Mali where these cereal grains command a higher price. (In addition, the local currency of Mali is the CFA, which is convertible into French francs, and which therefore is particularly desirable because it can be used to purchase imported goods.)

d. As a corollary to the above, relatively inexpensive wheat and sorghum are likely to continue to be used to feed animals. Indeed, under the current price structure it is cheaper to use food aid as animal feed than it is to use feedgrains.

e. Finally, an increase in the wholesale price of food is justified and needed in order to compensate for domestic inflation which is currently about 4 percent. Since CSA's costs have probably risen in conjunction with inflation, the price of the food aid CSA sells needs to increase by at least an equal increment.

(The actual pace, magnitude, and composition of future price adjustments are discussed in Part II.C. where a mechanism is proposed to assure that the poor will not be adversely affected by such a price adjustment.)

-- There is no evidence to suggest that the UM 1 per kg. price differential between Nouakchott and the interior has had any effect on discouraging people from migrating to Nouakchott. Some have suggested that people in the interior are not even aware of the price differential. On the other hand, migration may have been even greater in the absence of the differential.

-- The substantial price differential between domestically produced sorghum (taghalit) and U.S. sorghum at the retail level (UM 40/kg. and UM 15/kg., respectively) can be explained by taste and consumer preference. Compared to the U.S. sorghum, taghalit is smoother when cooked, cleaner when purchased, white rather than red, and is perfectly round rather than shaped irregularly.

2. Local Currency Programming

-- As of December 5, 1984, the U.S. had delivered 40,000 MT of wheat and sorghum to the Government of Mauritania over a two year period. Of the 40,000 MT, about one-half had been sold, generating about $3.9 million of local currency. Of this, about 77 percent had been deposited into the special account. About 50 percent of the proceeds deposited had actually been disbursed to support activities agreed upon by the U.S. and the government of Mauritania. (These figures are based on an exchange rate of $1.00 = UM 65.)

-- Of the $3.017 million deposited in the special account, $1.498 million has been commited to AID-approved activities, including CSA operating costs and rural roads construction. Additonal local currency could now be disbursed for CSA operating costs, but not without a request from CSA.

-- About $41,000 of the local currency in the special account is interest earned on the sales proceeds. It is unclear whether or not interest is being earned on sales proceeds not yet deposited into the special account.

-- The main bottleneck in the programming process is transferal of the sales proceeds into the special account. Committing proceeds from the special account to agreed upon activities has been relatively smooth. However, additional activities need to be identified to absorb the local currency that was to have funded the agricultural extension and plant protection activities and the port handling facility.

-- CSA's reporting system for the distribution and sale of food is being modified.

-- The food consumption and income distribution survey has not been carried out, largely because no dollar or local currency resources were specifically allocated to support this activity.

-- The quarterly reports due to USAID have been submitted from one to four months late, which, under the circumstances, can be considered "timely." However, there are sometimes inconsistencies between government estimates and Mission estimates of the quantity of stocks sold, thereby bringing into question the accuracy of CSA reports.

-- Delivery of commodities to Nouakchott via Dakar has been problematic as manifested by half of one shipment being bagged improperly and by scrap metal being bagged with grain that arrived under another shipment.

3. Food Distribution

-- CSA keeps no financial records of its own, which makes it impossible to determine how counterpart funds are used by the government -- except insofar as this is required by food aid donors. Only three donors -- the U.S., WFP and West Germany -- require such accountability.

-- CSA has developed the capability to handle (receive, store, transport, and distribute) over 200,000 MT of grain annually with its infrastructure (warehouses and storage facilities) without substantial loss.

-- CSA has not requested reimbursement for its operating expenses in a timely manner. This is perhaps due to inadequate accounting procedures under which CSA does not know how much it is owed; or perhaps, to an informal system under which the Treasury reimburses CSA upon request, even though the special account should reimburse CSA.

C. Recommendations: Current Program

1. Price Policy Initiative

-- The price of imported wheat should be raised by UM 2 per kg. before the release of the next 20,000 MT of food under the Section 206 program. The price of imported sorghum should remain at the current level. The rationale in support of this recommendation is set forth in Part III (and summarized in Part II.A.). However, questions may arise concerning the efficacy of this approach. For example:

a. The proposed wholesale price increase of UM 2 per kg. for wheat may adversely affect more people than anticipated, in which case the demand for the lower priced sorghum may increase substantially. (Only 19,000 MT of sorghum is being supplied to Mauritania annually from all sources, of which 15,000 MT is sold.) The rationale suggesting that this is <u>not</u> likely to be the case is as follows:

- When the price of imported rice was increased by 33 percent in October 1983 (as recommended by the IMF), the demand for imported rice fell by only 7 percent, implying an inelastic demand response; the price elasticity of demand for rice in this case is .21. This suggests that most people have the purchasing power to absorb a 14 percent increase in the price of wheat.

- The Rural Agricultural Manpower Survey (although seriously deficient in a number of ways) estimates the income elasticity of demand for cereals in Mauritania as 0.4, suggesting that, on average, people allocate a relatively small proportion of their incremental income to purchase food; (this is in contrast to the situation in many developing countries where the income elasticity of demand for food staples is often around 0.8).

b. If, in contrast to the above rationale, the demand for imported sorghum <u>does</u> increase substantially in response to the increased price of wheat, there are several options:

- Increase the price of sorghum along with the price of wheat. The problem here is that even more people would be adversely affected if the price of both commodities were increased, and these additional people would need to rely increasingly on free food. Direct food distribution systems are typically more costly to administer than those that use the market (which is possible with a self-targeting commodity such as U.S. sorghum).

- Shift the commodity mix of the Section 206 program during the third year from half wheat and half sorghum to all sorghum. Also, since sorghum is less expensive than wheat, more than 20,000 MT of sorghum could be purchased with available resources.

- Request the WFP, whose food sales program is identical to that of AID, to supply sorghum to Mauritania rather than wheat. This kind of donor coordination would facilitate the operation of the self-targeting distribution system (if, in fact, more people than anticipated were adversely affected by the proposed price increase for wheat and began demanding the lower priced sorghum).

c. Wheat is consumed largely by one ethnic group in Mauritania, while sorghum is consumed largely by another ethnic group. Under these circumstances, an increase in the wholesale price of wheat, but not sorghum, favors one group over the other. There is no good solution to this potential problem. However, in contrast to U.S.-supplied wheat (which is distributed only to the nine AID-designated regional centers), U.S.-supplied sorghum is distributed nationwide to all 64 regional centers. Therefore, it is possible, at least, for all Mauritanians to purchase the relatively inexpensive sorghum should they so desire.

2. <u>Local Currency Programming</u>

-- Possibly with AID or other external assistance, a food consumption and income distribution survey should be carried out, as stipulated under the current Section 206 TA. This would help the government identify the number of people who might be adversely affected by a price increase, including where they live and how their food consumption patterns (and preferences) vary with income levels.

-- The local currency proceeds currently in the special account, and those that will be deposited during the third year of the program, should continue to be allocated to reimburse CSA for appropriate operating costs associated with distributing Section 206 food.

In addition, activities should be supported that will contribute to increased food production and/or increased foreign exchange for purchasing food on the international market. These activities might include: (a) activities that are supported with dollar assistance by AID, including training; and (b) the rehabilitation of existing agriculture infrastructure, such as water development facilities and rural roads.

-- The process of depositing local currency proceeds into the special account from food sales in the Nouakchott regional center should be accelerated by requiring that such transfers be deposited either into a commercial bank (or directly into the special account) rather than into the Treasury. This is the system that is followed by those regional centers where there is a commercial bank.

-- Local currency that is not deposited into the special account in a timely fashion is presumably earning interest elsewhere. The interest earned under these circumstances should be transferred to the special account along with the sales proceeds.

-- Part of the problem associated with accounting for sales proceeds can be attributed to the fact that only the U.S., the WFP and the German food aid programs require accountability for the local currency generated from the sale of the food. Better donor coordination may help to improve the overall rigor with which the system is implemented and would help improve CSA's financial accounting system. In the absence of such coordination, it is likely that a certain portion of CSA funds (though not AID funds) will continue to be unaccounted for.

3. Food Distribution

-- A radio communication system should be used in order to improve the timeliness of reporting food sales from the regional centers to CSA headquarters in Nouakchott.

D. Recommendations: Future Program

Available evidence suggests that Mauritania will need to import food for the foreseeable future. While some of this food can continue to be purchased on the international market, concessional (mainly grant) food assistance will also be required to supply a large portion of the population. Thus, after the current Section 206 program terminates in FY 1985, Mauritania will remain a chronic, food deficit country, with severe balance of payments problems, and require grant food aid from the U.S. and other donors.

TABLE 1.--Estimated Food Aid Needs for Mauritania, 1985-88

Year (MT)	Population[a/] (mil)	Consumption[b/] (000 MT)	Local Production[c/] (000 MT)	Import Require. (000)
1985	1.80	270	60.5	209.5
1986	1.84	276	75.2	200.8
1987	1.87	281	106.4	174.6
1988	1.91	287	148.4	138.6

a/ Assumes a base population of 1.73 million in 1983 and an annual compound rate of population growth of 2.0 percent.

b/ Assumes an annual average per capita grain need of 150 kg.

c/ Based on average annual production over the past decade (30,000 MT) plus estimates of the Ministry of Rural Development of additional production to be generated from new projects between 1985 and 1988. (These estimates are considered to be optimistic.)

Sources: AID, Office of Foreign Disaster Assistance; U.S. Department of Agriculture; Government of Mauritania, Ministry of Rural Development.

In view of the bleak situation that is anticipated, in recognition of satisfactory performance under the first two years of the current Section 206 program (especially in the area of price policy reform), and in light of the alternatives (set forth below), a future Section 206 program, incorporating appropriate revisions and modifications, should be approved for Mauritania for a three-year period, FY 1986-88. Section 206 Food for Development programs, like Title III programs, typically involve multi-year agreements between the U.S. and the recipient government. Multi-year food aid agreements, in contrast to annual agreements, usually place AID in a far better position to negotiate appropriate food policy reforms. They also permit more rational planning of the allocation of the local currency proceeds.

A future Section 206 program should have the following policy reform and local currency programming components, both of which would be designed to contribute to the agricultural development of the country.

1. Policy Reform

-- The Transfer Authorization for the current Section 206 program provides an agreed upon schedule for upward wholesale price adjustments for wheat and sorghum through 1987 (U.S. FY 1988), at which time full import price parity will be achieved. A future Section 206 program should continue to condition each year's supply of food on the government's approving an annual price adjustment, as has been the case under the current program. (In the absence of a new program, AID will have no "vehicle" for monitoring compliance with the 1985-87 price adjustments called for under the existing TA.)

-- All staple food grains, including rice and maize as well as wheat and sorghum, should be included in the food price policy dialogue associated with a future program. In particular, the wholesale price of imported rice should be maintained at import parity. In the case of domestically produced rice, the producer subsidy (to the extent it must be maintained) should be implemented by raising the producer price rather than by subsidizing input costs as is presently the practice. The objective of such a reform would be to encourage the private sector to distribute agricultural inputs in a more efficient manner than is currently being done by the parastatal, SONADER.

-- In the event dollar assistance is not provided during the third year of the current Section 206 program to finance the food consumption and income distribution survey, it should be provided in conjunction with a future Section 206 program.

-- Dollar resources should also be integrated into a future Section 206 program to assist the CSA, as appropriate, develop an improved financial accounting system. (In the absence of such a system, it is virtually impossible to determine whether or not the CSA is being operated cost-effectively.)

These policy-oriented components of a future program would constitute the principal "self-help" measures called for in the Section 206 legislation.

2. Local Currency Programming

-- As under the existing Transfer Authorization, a future Section 206 program should continue to support that portion of CSA operating costs directly related to the distribution and handling of U.S. food aid provided under the program. (This is consistent with the Section 206 legislation which permits local currency to finance costs which must be incurred to assure that the food is distributed to those who need it.)

-- Section 206 legislation also permits local currency to be allocated to any activity included under Section 103 (Agriculture, Rural Development and Nutrition) of the Foreign Assistance Act which will "alleviate the causes of the need for the assistance." Accordingly, local currency under a future program should be allocated: (a) to such activities that are supported with dollar assistance and justified in the Mission's CDSS; and (b) to efforts designed to rehabilitate existing agriculture-related infrastructure. Water development structures and rural roads would be likely candidates for support.

-- An unallocated reserve should be built into a future program to support the self-help measures identified above as well as relatively small, unanticipated costs associated with activities such as land tenure analysis and improvement of Mauritania's agricultural research capability.

E. Alternatives to the Section 206 Program

If a future Section 206 program were not approved for Mauritania, it is likely that the Mission would request annual emergency food aid with 100 percent monetization (as was the case during the three years immediately preceding the current Section 206 program). Under certain circumstances, such an approach to providing food aid may be most appropriate. For example, to the extent policy reform is not viewed as a key to agricultural development in Mauritania, this approach may be more appropriate than a multi-year program. Moreover annual emergency programs are usually easier to design than are multi-year Food for Development programs. As a result they are less resource intensive, both on the part of Mission staff and government officials. They do not require that Missions be staffed with expertise to carry out effective food policy analysis and to monitor the allocations of local currency proceeds. Finally, it is likely that the economic viability of the various activities to be supported by the local currency generations of a monetized emergency program would come under less scrutiny, since the program is basically emergency- rather than development-oriented.

This is the most likely alternative to a future Section 206 program. However, a Section 206 program is probably the superior alternative on the grounds that policy reform <u>is</u> important in Mauritania. Moreover, if the local currency of a future Section 206 program were programmed to support key agricultural rehabilitation efforts (rather than new capital development), the economic return could well be high because the initial capital investment would be treated as a sunk cost and not factored into the benefit-cost calculation.

Part II has summarized the principal conclusions and recommendations of the evaluation. A more complete discussion of these and other conclusions and recommendations is provided in Parts III, IV, and V as follows:

-- price policy initiative (page 32);
-- local currency programming (pages 50-53);
-- food distribution (pages 60-62).

III. THE PRICE POLICY INITIATIVE OF THE SECTION 206 PROGRAM

A. Introduction

The Government of the Islamic Republic of Mauritania (GIRM) and the U.S. have agreed that the goal of the grain price policy reform of the Section 206 program is a wholesale consumer price for imported sorghum and wheat, sold by the CSA, which reflects the world market price including national and international transport and handling costs. These prices are to be attained gradually through annual price increases between 1983 and 1987. This increase in price levels was expected to provide greater incentives for domestic grain producers and to stabilize grain prices for both producers and consumers.

Since 1981, due to the price policy dialogue initiated by USAID, the GIRM has increased consumer prices of wheat and sorghum. Consumer prices for the two commodities have risen, between 1981 and 1984, from UM 8 per kg. to UM 14 per kg. in rural areas, and from UM 10 per kg. to UM 14 per kg. in Nouakchott -- increases of 75 percent and 50 percent, respectively. The current price levels are approximately 53 to 57 percent of the import parity price for sorghum and 64 to 68 percent of the import parity price for wheat.

Although producer prices (which, like consumer prices, are set by CSA in its capacity as buyer of last resort for domestic output) were not directly affected by the price policy initiative, it was expected that the CSA would adjust these prices to higher levels as consumer prices increased. In fact, since 1981 this has occurred in the case of locally produced sorghum. Producer prices for sorghum have risen from a floor-ceiling price range of UM 13-15 per kg. in 1981 to a range of UM 15-17 per kg. in 1984, an average increase of around 14 percent. Millet prices have remained unchanged.2/

In order to assess the progress and effectiveness of the price policy initiative and make recommendations for current and future program planning, it is necessary to consider the following issues:

2/ The floor-ceiling price range is offered to producers who are unable to sell their output on local markets. The floor price is offered to farmers whose average yields are high; the ceiling price is offered to farmers with lower yields. This definition of floor and ceiling prices is different from the standard one.

-- the size, pace and composition of annual price adjustments for wheat and sorghum over the period 1985-87;

-- the responsiveness to price incentives of local farmers in both the traditional and irrigated agricultural sectors; and

-- the effect of increased consumer prices on Mauritanian consumers.

B. Annual Price Adjustments for Imported Wheat and Sorghum

The wheat price should continue to increase as a condition for the 1985 shipment of 20,000 MT of wheat to Mauritania under the Section 206 program. The sorghum price should remain at its current level. There are four reasons for continuing to increase the wheat price to import parity:

Economic Justification. It is desirable from the point of view of the Mauritanian economy to remove the economic distortion caused by providing grains to consumers at a subsidized price. Such price distortions may lead to poor resource allocation and increased dependency for food on other nations.

Leakages. Currently, two major leakages exist in the grain distribution system. First, wheat and sorghum are being sold in Mali. Merchants buy wheat and sorghum for UM 14 per kg. in Kiffa and ship it to Kayes, Mali, where it is sold for UM 26 per kg., a margin of UM 12 per kg. In addition, merchants earn CFA for their sales, a hard currency which can be used to purchase goods unavailable in Mauritania. Second, food aid grains are being diverted for use as livestock feed. Imported livestock feed is becoming increasingly important as traditional pasture lands yield to the Sahara. Imported feed grain sells for between UM 15 and UM 20 per kg. while the usual price of sorghum and wheat is only UM 14 per kg.

Inflation. The IMF estimates that inflation in the Mauritanian economy has averaged around 4 percent over the past year. If food aid prices remain at current levels, food grains will become less expensive relative to other products in the economy, thereby increasing the economic distortions already present.

Counterpart Funds. As food grain prices increase, the revenues accruing to the GIRM will also increase. In part, the funds going to CSA will be absorbed by higher distribution costs due to inflation and a possible increase in the provision of free food. However, to the extent an increase in counterpart funds does occur (which is likely), it can be used to help achieve food self-reliance for the country, making it less dependent on food aid.

C. Size, Pace and Composition of the Price Increase

The Size of the Price Increase for 1985. The wholesale prices for imported wheat and sorghum proposed for 1984/85 are calculated on the basis of the estimated 1985 import parity price for both commodities as defined in the Transfer Authorization; see Table 2. Table 3 recommends CSA sales prices that do not include an adjustment for domestic inflation. Table 4 includes an inflation adjustment estimated at 4 percent.3/ The sales prices recommended under the two scenarios are essentially the same when rounded to the nearest ouguiya. The price of wheat should be increased by UM 2, from UM 15 per kg. to UM 17 per kg. in Nouakchott and from UM 14 per kg. to UM 16 per kg. elsewhere.4/

The price of sorghum should remain at its current level of UM 15 per kg. in Nouakchott and UM 14 per kg. in other areas. This price differential between sorghum and wheat should be adopted for several reasons. As seen in Tables 2 and 3, it is currently more expensive to import sorghum from the U.S. than it is to import wheat from Europe. However, Mauritanians consider American No. 2 Red sorghum to be an inferior good. Under these circumstances, it is unlikely that any sorghum would be imported when the parity price is reached, thus putting in question the desirability of achieving an import parity price for that commodity. Moreover, a lower price for imported sorghum, relative to wheat, is consistent with the current trend in retail market prices. Finally, a lower price for sorghum will permit it to be a self-targeting commodity; that is, those Mauritanians who are unable to pay the proposed increased price of wheat will be able to purchase sorghum, thereby partially alleviating the need for increased free grain distribution.

3/ An increase in the wheat price which reflected only domestic inflation would raise the price to approximately UM 15.5 in Nouakchott and UM 14.5 in other areas.

4/ Annex E shows alternative sales prices based on various assumptions concerning devaluation. Annex E also explains the methodology used for estimating these prices.

TABLE 2.--Import Parity Price for Imported Wheat and Sorghum, 1985

	Price per MT	
	Wheat	Sorghum
(1) FOB Price, 1985 ($)	159.10	123.00
(2) Ocean Transport and Handling ($)[a/]	79.55	184.50
(3) CIF Price, 1985 ($)		
(3) = (1) + (2)	238.65	307.50
(4) CIF Price, 1985 (UM)		
(4) = (3) x UM 66	15,750.90	20,295.00
(5) CSA Handling Costs (UM)[b/]	6,240.00	6,240.00
(6) Import Parity Price, 1985 (UM)		
(6) = (4) + (5)	21,990.90	26,535.00

a/ CSA estimates ocean transport from European ports to the port of Nouakchott at 50 percent of the FOB price of wheat. USAID estimates ocean transport from U.S. ports to Nouakchott at about 150 percent of the FOB price of sorghum.

b/ The 1984 average handling cost per MT quoted by CSA, and adjusted for 4 percent inflation.

Sources: World Bank, CSA, USAID/Nouakchott.

TABLE 3.--Wholesale Price Increase for Imported Wheat and Sorghum, Unadjusted for Domestic Inflation, 1984/85

	Price per kg. (UM)			
	Wheat		Sorghum	
	Urban	Rural	Urban	Rural
(1) Import Parity Price, 1985	21.99	21.99	26.54	26.54
(2) CSA Sales Price, 1983/84	15.00	14.00	15.00	14.00
(3) Difference between Import Parity and CSA Sales Prices				
(3) = (1) - (2)	6.99	7.99	11.54	12.54
(4) 25% of Difference				
(4) = (3) x .25	1.75	2.00	2.89	3.14
(5) Proposed CSA Sales Price, 1984/85				
(5) = (2) + (4)	16.75	16.00	17.89	17.14

TABLE 4.--Wholesale Price Increase for Imported Wheat and Sorghum, Adjusted for Domestic Inflation, 1984/85

	Price per kg. (UM)			
	Wheat		Sorghum	
	Urban	Rural	Urban	Rural
(1) Import Parity Price, 1985	21.99	21.99	26.54	26.54
(2) CSA Sales Price, 1983/84	15.00	14.00	15.00	14.00
(3) Difference between Import Parity and Sales Prices (3) = (1) - (2)	6.99	7.99	11.54	12.54
(4) 25% of Difference (4) = (3) x .25	1.75	2.00	2.89	3.14
(5) Inflation Adjustment (5) = (2) x .04	.60	.56	.60	.56
(6) Proposed CSA Sales Price, 1984/85 (5) = (2) + (4) + (5)	17.35	16.56	18.49	17.70

The proposed price increase of UM 2 per kg. of wheat is equivalent to an increased cash expenditure per family of UM 1,500 per year, assuming annual per capita grain consumption of 150 kg. and an average family size of five members. (This increased cash expenditure is "high" since it assumes families purchase only wheat to meet their per capita grain requirements.) At a rural minimum wage of UM 180 per man-day, an additional 8.4 days of labor per family per year would be required to earn UM 1,500.

The Pace of Future Price Increases. Assuming a constant exchange rate of $1 = UM 66 and strict adherence to the terms of the Transfer Authorization5/, wheat prices would increase

5/ The provisions for price increases as stated in the TA are as follows: "It [the joint CSA-USAID technical committee] will then calculate the [CSA] sales price for the following year, to start November 1, by taking a progressively increasing percentage of the remaining subsidy (the difference between the unsubsidized price and the CSA sales price). These percentages are as follows:
November 1, 1984: 25 percent of the remaining subsidy.
November 1, 1985: 33 percent of the remaining subsidy.
November 1, 1986: 50 percent of the remaining subsidy.
November 1, 1987: 100 percent of the remaining subsidy."

from 1984 through 1987 as follows:

TABLE 5.--Proposed Wheat Prices, 1984-87

Year	Wheat Prices (UM/kg) Urban	Rural
Nov. 1984	17.0	16.0
Nov. 1985	20.0	19.0
Nov. 1986	25.0	24.0
Nov. 1987	31.0	30.0

On the surface, the gradual increases over the next few years seem reasonable. However, the feasibility of implementing them will depend on the purchasing power of consumers, the political situation at the time of each increase, and the efficiency with which free food is distributed. Therefore, before the next increase goes into effect, a food consumption and income distribution survey should be carried out to analyze the effects of past price increases on groups of consumers.

The Composition of the Price Increases. According to the Program Paper for the Section 206 program, the wholesale prices of sorghum and wheat should reflect the different import parity prices of the two commodities. As mentioned above, the high cost of transporting American sorghum to Mauritania (relative to the price of transporting European wheat to Mauritania) means than the import parity price of imported sorghum is actually higher than the import parity price of wheat -- despite the local preference for wheat over imported sorghum. Therefore, the desirability of continuing to include imported sorghum as part of the price policy initiative is questionable.

Urban-Rural Price Differential. Present wholesale prices for grains are set by CSA at UM 15 per kg. in Nouakchott and UM 14 per kg. elsewhere. This small price differential, which has existed since 1980, is designed to encourage people to stay in rural areas, thus minimizing the population flow to Nouakchott. Between 1980 and 1984, the population of Nouakchott has at least doubled in size, putting into question the effectiveness of this policy. However, there is no way of knowing how many more Mauritanians would have flowed to

Nouakchott without it.

D. The Food Production Response of Local Producers

When the Section 206 program was designed, it was assumed that because wholesale prices of grains were subsidized in favor of the consumer, local production incentives were dampened. This assumption was based in part on the situation in 1982, the year following the highest levels of output for local grains, 66,000 MT, in a decade. In that year, the market was glutted and producer prices were at low levels. The OMC, the predecessor of CSA, intervened in the local market to buy nearly 5,000 MT of local crops. At the time, government officials believed that this output represented a normal year of production, and that the low production levels of the 1970s were an aberration caused by unusually severe droughts. As rainfall returned to normal levels, it was felt that production would return to levels realized during the 1960s when average annual output was around 98,000 MT. In that period, the free market was not adequate to stabilize producer prices, and government intervention was used to insure an adequate producer price incentive.

Since that time, contrary to expectations, the country experienced several more years of drought, and local output plummeted to 15,000 MT in 1983/84. In view of these changed circumstances and in order to measure the efficacy of the price policy initiative to date and the expected effect of reaching import parity prices in 1987, it is necessary to examine the production and marketing of both traditional and irrigated crops.

Traditional Agriculture

There are three types of traditional agriculture in Mauritania. The first, rainfed agriculture, relies entirely on direct rainfall and occurs primarily in the regions of Guidimaka, Gorgol, Assaba, and in the south of East Hodh and West Hodh. The second type relies on small barrages which catch rainfall as it drains off of local mountains, creating small artificial lakes, in Brakna, Assaba, and the north of East Hodh and West Hodh. The third type is recessional agriculture which is practiced along the Senegal River.

Millet and sorghum are the traditional, dryland crops grown by Mauritanian farmers; millet is mainly a rainfed crop whereas sorghum is primarily a flood recession crop. The average farm size is approximately 2 hectares with average annual yields varying from 250-600 kg. per hectare. Most producers of traditional grain operate at the subsistence level.

Drought has recently been Mauritania's most persistent obstacle to agricultural development. Rainfall in major productive areas of the country has been below the 50-year mean in each of the past 12 years. In general, the minimum amount of rainfall required to support a rainfed crop is 350 millimeters per year. Average rainfall has been below this level in seven of the past 12 years.

TABLE 6.--Average Annual Rainfall in Productive Areas of Mauritania, 1972-82

Year	Average Rainfall[a] (millimeters)	Percent of 50 Year Average[b] (percent)	Percent of 350 mm Minimum Rainfall Requirement (percent)
1972	171.6	34.3	49.0
1973	349.2	69.8	99.8
1974	418.4	83.7	119.5
1975	481.3	96.3	137.5
1976	282.5	56.5	80.7
1977	303.2	60.6	86.6
1978	372.2	74.4	106.3
1979	247.7	49.5	70.8
1980	369.5	73.9	105.6
1981	243.8	48.8	69.7
1982	326.6	65.3	93.3
1983	290.6	58.1	83.0

a/ Average rainfall for Kaedi and Selibaby.

b/ The long-term average is approximately 500 millimeters.

Source: AID, Office of Foreign Disaster Assistance, Mauritania: A Country Profile, May 1984.

Declining rainfall leads to declining farm output, because as the Sahara moves south (currently at the rate of 2-15 kilometers per year), once-fertile land is turned into desert.

Between 1969 and 1983, the total amount of arable land dropped from 272,000 hectares to the present level of 27,000 hectares, a decline of over 90 percent.

Output for both millet and sorghum varies enormously from year to year due to their high dependency on rainfall. During the past decade, average annual output has been around 30,000 MT (around one-third of the average annual output of 98,000 MT achieved during the 1960s). It has varied from a high of 66,000 MT during the campaign of 1980/81 to a low of 15,000 MT in 1983/84.

Modern agricultural inputs (fertilizers, animal traction, and other commercial inputs) are not used widely by cultivators on rainfed lands, and the extension service is apparently unable to provide much assistance on methods of increasing grain production. Although some traditional cultivators use fungicides for the treatment of seed and fast-maturing varieties of sorghum, these are distributed irregularly by the agricultural services; moreover, the fast maturing varieties of sorghum are not being accepted readily since there is a strong preference for the taste of traditional varieties.

Some have argued that price increases for traditional grains may encourage subsistence farmers to adopt more modern technologies on rainfed lands and thus increase their yields from the current low averages observed for millet and sorghum. This would provide them with a surplus which could be marketed. Given the risk associated with the limited and highly variable rainfall observed in Mauritania, this seems unlikely. In order to use fertilizer and animal traction, the average producer will need to draw upon his limited supply of cash or borrow money. Given the uncertainty of rainfall and thus the uncertainty of producing surpluses which can be sold, this financial risk is greater than most producers are willing to take. Therefore, traditional producers will continue to practice the same agricultural technology regardless of the price offered for their output.

The Marketing of Taghalit. Traditional farmers are motivated largely by the desire to be self-sufficient in grains. This goal has not been met over the past several cropping years, since many farm families have had to purchase imported grains or receive free food to meet their consumption needs. When surpluses exist, individual farm families sell their output on the local markets, which operate freely, as the need arises for cash to purchase tea, sugar and other consumer goods. In certain areas, farmers sell their local sorghum and use some of the cash proceeds to purchase imported sorghum, which sells at half the price of the local sorghum.

Domestically produced sorghum, taghalit, is the grain of preference among the local population. This strong preference is reflected in the retail price structure of purchased grain. As shown in Figure 1, over the past four years, taghalit has consistently sold at a premium over other grains. In December 1984, taghalit sold for UM 40 per kg. compared to UM 25 per kg. of rice, UM 20 per kg. of imported wheat, and UM 15 per kg. of imported American sorghum at a typical Nouakchott market.

This retail price for taghalit translates into a producer price of around UM 29 per kg. as shown in Table 7.

TABLE 7.--Price Structure for Taghalit

	Taghalit UM/kg
Retail Price in Nouakchott	40
Retailer's Margin	1
Wholesale Price in Nouakchott	39
Cost of Transport	5
Price on the Local Market	34
Transport, Handling and Profit Margin	5
Producer Price	29

Source: GIRM, Ministry of Finance, Analysis of Selected Aspects of the Agriculture Sector in Mauritania, September 1980. Figures have been adjusted for inflation at an annual rate of 4 percent.

This estimate for Nouakchott is consistent with reports that taghalit has been selling on local markets in Kaedi at a producer price of UM 25 per kg. and in Guidimaka for UM 25-26 per kg.

Given an estimated producer price of between UM 25 and UM 30 per kg., farmers should find it profitable to produce as much taghalit as possible given the average production cost structure for dryland agriculture in Table 8:

FIGURE 1. VARIATION IN RETAIL PRICES PER KILOGRAM FOR VARIOUS GRAINS 1981 TO 1984

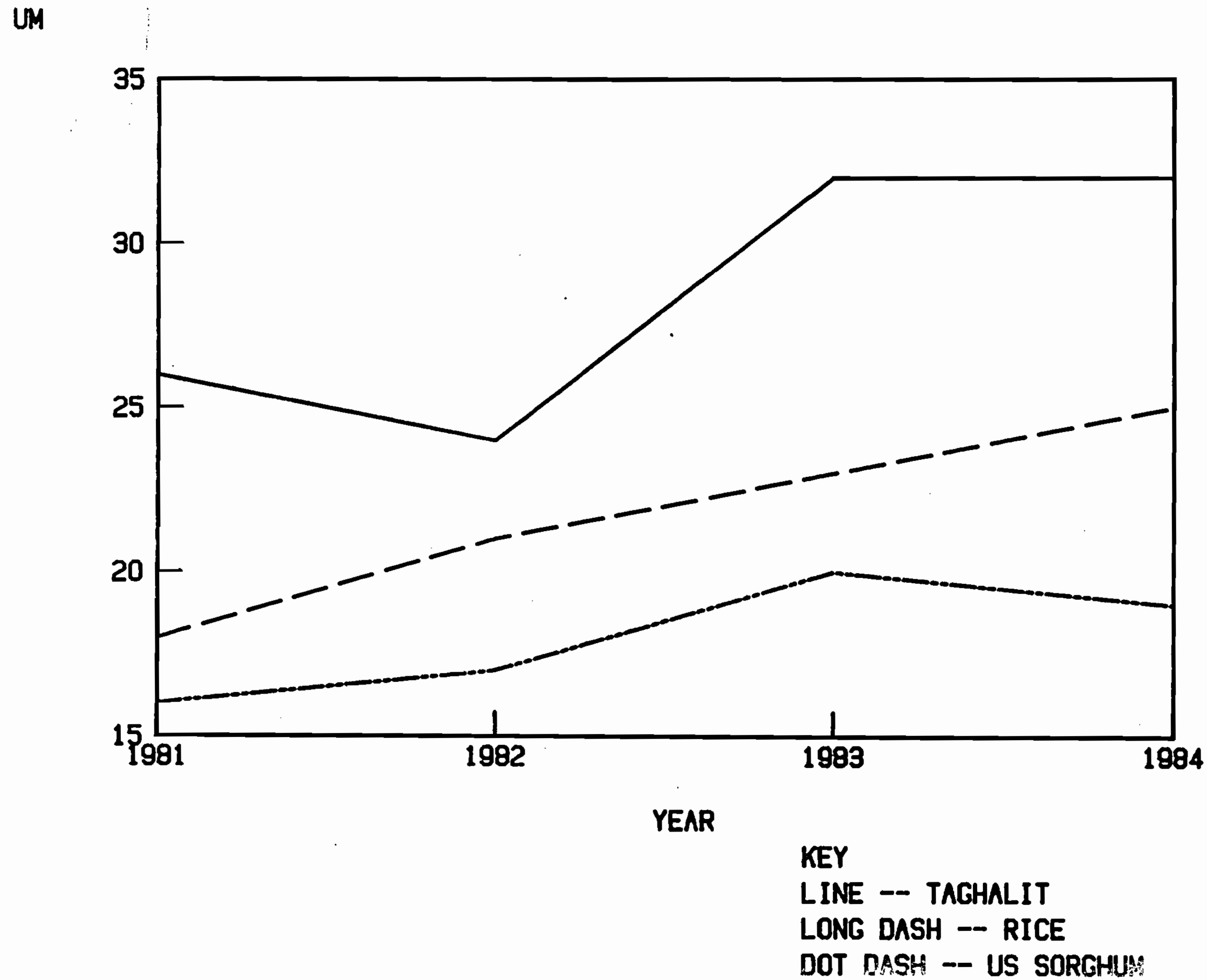

TABLE 8.--Farmers' Financial Incentive to Produce Taghalit

Yield (kg/ha)	Price (UM/kg)	Revenue (UM/kg)	Input Costs (UM/ha)	Net Income (UM/ha)	Man-day per ha	Net Income per Man-day (UM)
430	25.0 to 30.0	10,750 to 12,900	300[a/]	10,450 to 12,600	64	163.28 to 196.88

a/ Includes the cost of seeds and amortization of farm equipment.

Source: Frederic Martin, Food Aid and Cereal Price Policies in the Republic of Mauritania, April 1982.

This average net income per man-day of approximately UM 180 is equal to the present rural daily minimum wage of UM 180, thereby making production of sorghum competitive with alternative forms of employment in rural areas. Therefore, the price incentive necessary to insure maximum production may currently exist if producers respond to price incentives and if price incentives are the only factor these producers consider. However, given other, non-price constraints to local rainfed production, it is doubtful that producers of traditional agriculture are price responsive.

Irrigated Agriculture

Irrigated agriculture provides the greatest potential for increasing agricultural production since it frees producers from the obstacle of unpredictable rainfall. At present, around 5,000 ha. of land are being irrigated along the Senegal River, primarily between Kaedi and Rosso. Of this, about 3,900 ha. were fully equipped for irrigation during the 1983/84 agricultural campaign. Approximately 1,800 ha. are small perimeters of about 20 ha. each, and the remaining 2,100 ha. are divided between two large perimeters, one at Mpourie (1,400 ha.) and the other at Kaedi (700 ha.).

The principal crop grown on irrigated land is rice. Paddy production was 7,264 MT in 1981/82; 12,264 MT in 1982/83; and 6,000 MT in 1984/83. (During the past year, some producers were allowed to plant crops other than rice on irrigated plots. Production figures for these other crops are not currently available.)

Producer Prices for Rice. The CSA purchases surplus paddy from farmers, mills it, then sells it to the National Import-Export Company (SONIMEX) for wholesale distribution. SONIMEX, in turn, sells the locally produced rice to retailers. Presently, rice producers are offered UM 12.5 per kg. of paddy. This price has remained unchanged over the past three years. To maintain this price, both CSA, which purchases paddy from the farmers, and SONIMEX, which imports and markets rice, take losses estimated at UM 9 per kg. and UM 5 per kg., respectively, according to the following calculations:

TABLE 9.--Price Structure for Rice

CSA Cost Structure	UM/kg
Producer Price for Paddy	12.5
Transport and Handling for Paddy	4.5
Milling Cost	3.0
Price of Processed Paddy	20.0
Ex-Factory Cost (60% Milling Rate)	33.0
SONIMEX Purchase Price	24.0
Net CSA Loss	-9.0
SONIMEX Cost Structure	
Price for Milled Rice from CSA	24.0
Transport and Storage Cost	3.0
SONIMEX Full Cost Price	27.0
SONIMEX Actual Wholesale Price	22.0
Net SONIMEX Loss	-5.0

Source: World Bank working document.

In contrast, broken rice imported from Thailand is sold to Mauritanian consumers at its import parity price of UM 25 per kg. If the producer price for paddy of UM 12.5 per kg. is converted to its rice equivalent, it translates into a producer price of UM 20.0 per kg. or 80 percent of the import parity price. It should be noted that local consumers prefer broken rice to the wholegrain rice produced on irrigated perimeters.

At the current price of UM 12.5 per kg. of paddy, local farmers have the following financial incentive:

TABLE 10.--Farmers' Financial Incentive to Produce Rice

Yield (kg/ha)	Price (UM/kg)	Revenue (UM/ha)	Input Costs (UM/ha)	Net Income (UM/ha)	Man-day per ha	Net Income per Man-day (UM)
4,800	12.5	60,000	17,300[a/]	42,700	250	170.8

a/ Input cost to farmers for rice (UM/ha): diesel fuel (5,940), pump amortization (4,500), urea (2,400), pump spares (1,500), phosphorous (1,440), oil (840), seed (480), pesticides (200).

Source: World Bank working document.

However, inputs are provided to the farmers at highly subsidized rates by SONIMEX. At present, there is a 50 percent subsidy on fertilizer, a 33 percent subsidy on replacement parts, and a 70 percent subsidy on seeds.

Thus, some of the premises underlying the increase of wholesale prices toward import parity, as set forth in the Program Paper for the Section 206 program, have changed. First, the assumption that an increase in producer prices to import parity for traditional crops grown on rainfed land, principally millet and sorghum, would encourage increased production is questionable, because the supply of these crops is price inelastic; this is due primarily to the highly variable and irregular rainfall conditions under which they are grown. Second, insofar as supply is price elastic in the Mauritanian agricultural sector, it is for crops produced on irrigated land.

For this reason, the price policy dialogue should be expanded to include irrigated agriculture. Possible initatives which may be undertaken in this domain include:

-- The rice subsidy should perhaps be shifted from inputs to outputs to improve the financial management systems of farmers, encourage local merchants to become involved in the provision of inputs, and ease the financial burden on SONADER.

-- Maize cultivation should perhaps be encouraged on irrigated perimeters. Assuming a producer price for maize of UM 17 per kg., which is the floor price currently offered by CSA, farm families can realize a return per man-day of UM 372.12, nearly double the current rural minimum wage.

TABLE 11.--Farmers' Financial Incentive to Produce Maize

Yield (kg/ha)	Price (UM/kg)	Revenue (UM/ha)	Input Costs (UM/ha)	Net Income (UM/ha)	Man-day per ha	Net Income per man-day (UM)
3,600	17.0	61,200	14,435a/	46,765	125	374.12

a/ Input cost to farmers for maize (UM/ha): diesel fuel (4,320), pump amortization (4,500), urea (2,400), pump spares (1,000), phosphorous (1,440), oil (335), seed (240), pesticides (200).

Source: World Bank working document.

E. The Effect of Increased Consumer Prices on Mauritanian Consumers

Certain groups of the population will be unable to buy as much wheat as they have in the past in the wake of a price increase. This means that the difference between minimum consumption needs and wheat purchases will need to be made up through increased free grain distribution or some other means. During 1984, the CSA estimates that 40 percent of grain donations were distributed free while 60 percent were sold. (It is likely that as the result of a price increase, free grain distribution will be increased while grain sales will drop.) Calculating the exact magnitude of this change is not possible due to data limitations. However, donors should be aware of a possible need for increased grain designated for free distribution. In addition, insofar as the needs of the poorer segments of the population will be met by providing imported sorghum at the current price of UM 14 per kg. in rural areas and UM 15 per kg. in Nouakchott, donors may wish to contribute larger quantities of sorghum. It is important to keep in mind, however, that when the government raised the consumer price of imported rice by 33 percent, the demand for rice fell by only 7 percent, implying an inelastic demand response. This suggests that many consumers of rice have the purchasing power to absorb a 14 percent increase in the price of wheat.

F. Conclusions

The following conclusions emerge from the analysis of the price policy initative undertaken as part of the Section 206 program:

1. An increase in the consumer price of imported wheat will not provide a price incentive to domestic producers of traditional grains due to the irregular and sporadic rainfall which makes the producer price response relatively inelastic.

2. The price policy initiative should be expanded to include local paddy for which the price elasticity of supply is assumed to be high. In addition, consumer prices for all grains should be considered when considering a price adjustment for of any one grain, as all grains are substitutes.

3. The price for imported wheat should be raised by UM 2 per kg. before the release of the next 20,000 MT of food under the Section 206 program. The price of imported sorghum should remain at current levels. This price increase will reduce current leakages in the system; decrease current distortions in the Mauritanian economy; reflect domestic inflation; and increase the supply of counterpart funds available to the government.

4. An increase in the price of imported wheat will cause some consumers to buy less wheat than they have in the past. However, their need to consume grain will remain at the same level. Maintaining the price of imported sorghum at its current level will permit it to be a self-targeting commodity for those unable to pay an additional UM 2 per kg. for wheat.

IV. LOCAL CURRENCY PROCEEDS

A. Background

The Section 206 program in Mauritania evolved during a rash of changing events. Not the least of these was the drought. Mauritania saw its cereals production plummet to 15,000 MT in 1983, one-third of previous years' yields. Eighty percent of Mauritania's livestock died or left the country due to the severe drought.

The U.S. responded to the drought, in part, with a Title II emergency program. Most of the commodities arriving under the 1980-81 emergency program were sold, with proceeds of UM 93 million (about $1.43 million) budgeted for development activities. An interim program in 1981-82, which monetized some 10,000 MT of commodities, paved the way for a more formalized -- and rigorous -- Section 206 program.

Under this 206 program, proceeds from 60,000 MT of sorghum and wheat sales were to be channeled into specific development projects over a three-year period. The Program Paper envisioned sales proceeds equivalent to about $20.4 million supporting five sub-projects:

1. Crop protection services under an AID regional Food Crop Protection project.

2. Village extension and infrastructure construction under the USAID Guidimaka Integrated Rural Development project (682-0201).

3. Improvement of the Mauritanian Cereals Office (OMC).

4. Construction of a bulk handling facility at the Nouakchott port.

5. Upgrading and construction of rural roads in southern Mauritania under the USAID Rural Roads Improvement project (682-0214).

Both the dollar equivalent of local proceeds and the sub-projects themselves, however, changed at the outset. Projected proceeds for the three years fell to $13.769 million due to a 30 percent devaluation of the ouguiya and, to a lesser extent, due to price policy reforms that did not raise commodity prices as much as planned in the Program Paper. As for the sub-projects, the first two agriculture support activities were effectively eliminated with the rupture between

USAID/Nouakchott and the Ministry of Rural Development in 1982-83. The focus of the third activity necessarily changed because the OMC ceased to exist. It, along with the Commissariat of Food Aid (CAA), were merged into a new Commissariat for Food Security (CSA) under an October 1982 reorganization of Mauritania's food aid system.

The Transfer Authorization signed in July 1983 reflected these new developments. Instead of supporting the old OMC, 206 sales proceeds were to support operating and infrastructure costs of the new CSA. Proceeds were also to help fund construction of a bulk handling facility and improvement of rural roads in southern Mauritania.

The Transfer Authorization also called for CSA to undertake certain "self-help measures." Besides reforming its grain price policies, CSA was to: (1) establish a food data reporting system; and (2) undertake a food consumption and income distribution survey.

Although the Transfer Authorization was signed in July 1983, the 206 program actually began in April 1983 with the delivery of 10,000 MT of wheat and sorghum. The reason for this early start-up of the program was basic: Details on the grain price reform agreed to by the government of Mauritania were still being worked out, as were budget items that had changed because of the fall-out of the agricultural sub-projects. Meanwhile, the need to get food into the country prevailed.

Thus, the 206 program began during a time of crisis for the country. Key sub-projects changed before the program even got underway, and others were modified later. The rigor of the 206 program with regard to accountability for sales proceeds was new to the government. Furthermore, USAID/Nouakchott had no experience with a 206 program and few guidelines with which to work because of the relative newness of the 206 program worldwide.

It is within this context that use of local currency proceeds generated from the Mauritania Section 206 program is evaluated.

B. Current Status of the Section 206 Program

Because of the time lags associated with the 206 program, an explanation of these lags and a brief chronology of the program to date may prove useful.

The dates of the 206 program -- FY 1983-85 -- refer to the years in which funds to purchase PL 480 commodities are appropriated. Once commodities are ordered, delivery follows by a minimum of about three months. Local currencies generated by sales of the commodities become available about one year after actual delivery. This delay reflects the time required to distribute the commodity in-country and to channel sales proceeds to the Section 206 bank account in Nouakchott.

Actual deliveries for Year One of the Section 206 program occurred in April 1983 (10,000 MT) and November 1983 (10,000 MT). Based on these deliveries, Year One of the program refers to the period April 1 - December 31, 1983.

Year Two of the program is the calendar year 1984, January 1 - December 31, 1984. In 1984, two deliveries of 10,000 MT each arrived in June - July. Thus, so far 40,000 MT of the total projected 60,000 MT for the three-year 206 program have been delivered.

Year Three of the program will be calendar year 1985. Commodities are scheduled to be ordered in January 1985 if conditions of the program are met as agreed to by USAID/Nouakchott and the Mauritanian government.

Local currencies have been generated only for Year One of the program. Of a total UM 254 million ($3.9 million)

TABLE 12.--Deposits of Local Currency Proceeds: Year One

	UM	$b/
Proceeds Deposited in Special Account	196,095,881	3,016,860
Deposits Due	57,859,514	890,146
Total Projected Deposits a/	253,955,395	3,907,006

a/ Based on distribution of 19,477 MT. The difference between this amount and the 20,000 MT delivered is due to a 2.6 percent loss. The value is a weighted average based on the amount and price of commodities sent to the interior and the amount and price of commodities distributed in Nouakchott.

b/ An exchange rate of $1 = UM 65 is used to be consistent with USAID planning documents prepared in October 1984.

expected, about three-fourths or UM 196 million ($3 million) have been deposited in a special 206 account.

About UM 97.4 million ($1.5 million) have been spent -- on the rural roads sub-project and on CSA operating costs. As of December 5, 1984, proceeds deposited in the special account minus expenditures leaves UM 98.7 million ($1.5 million). With interest earned equal to UM 2.6 million ($40,000), the total amount currently available is UM 101.4 million ($1.6 million).

If all Year One local currency proceeds to be deposited are considered, a total of UM 159 million ($2.4 million) remains to be spent.

TABLE 13.--Net Local Currency Proceeds: Year One

	UM	$
Proceeds Deposited in Special Account	196,095,881	3,016,860
Less Proceeds Spent	97,368,940	1,497,984
Net Proceeds	98,726,941	1,518,876
Plus Interest Earned	2,625,862	40,398
Balance as of Dec. 5, 1984	101,352,803	1,559,274
Plus Deposits Due	57,859,514	890,146
Total Expected Balance	159,212,317	2,449,420

C. Progress on Development Activities Financed by Local Currency Proceeds

The following is a breakdown of the 206 program budget for Year One. The budget is based on an estimated UM 267,000,000 ($4,107,692) in local proceeds being generated for Year One. More recent estimates by CSA put that figure at UM 253,955,395 ($3,907,006). This amount has not yet been verified by the USAID/Nouakchott Controller's Office, which oversees financial accountability for the local currency generations, in cooperation with the Food for Peace office.

TABLE 14.--Section 206 Program Budget: Year One

	Budgeted		Spent		Balance	
	UM	$	UM	$	UM	$
CSA Support						
- Operating Costs	120,000,000	1,846,154	22,356,940	343,953	97,643,060	1,502,201
- Infrastructure	46,538,000	715,969	--	--	46,538,000	715,969
Rural Roads	47,112,000	724,800	75,012,000 a/	1,154,031	(27,900,000)	429,231
Bulk Handling Facility	45,350,000	697,692	--	--	45,350,000	697,692
Unallocated	8,000,000	123,077	--	--	8,000,000	123,077
Total	267,000,000	4,107,692	97,368,940	1,497,984	169,631,060	2,609,709

a/ Year Two allocation of UM 27,900,000 spent in Year One, along with Year One allocation of UM 47,112,000.

Source: USAID/Nouakchott; Controller's Office; November 27, 1984.

To assess progress in implementing local currency activities, it is necessary to examine each of the 206 sub-projects individually.

1. CSA

a. Infrastructure

Year One budget:	UM 46,538,000	($715,969)
Amount spent:	--	--
Balance:	UM 46,538,000	($715,969)

This source of revenue for CSA is essentially going untapped. The only likely expenditure identified so far will be about UM 2 million ($30,077) for printing and related costs of new stock management forms to be used by CSA personnel. FAO technicians will introduce the forms in conjunction with their efforts to improve certain CSA operations.

b. Operating Expenses

Year One budget:	UM 120,000,000	($1,846,154)
Amount spent:	22,356,940	(343,953)
Balance:	UM 97,643,060	($1,502,201)

While operating expenses account for 45 percent of the total Year One budget, actual expenditures for Year One, as well as for Years Two and Three, will likely amount to about one-third of total proceeds.

CSA operating expenses for the 206 program are calculated at UM 5-6 (7.7-9.2 cents) per kg. sold, and include budget support for rental of CSA warehouses, salaries for personnel at the nine centers where 206 commodities are sold, and transportation of commodities from Rosso to the nine centers.

An American accounting consultant to USAID/Nouakchott devised the following sample budget in 1983 as a guideline for allowable CSA operating expenses.

TABLE 15.-- CSA Operating Expenses: Sample Budget

	UM	$	% of Total
Warehousing	11,000,000	169,231	9
Transport	40,000,000	615,385	33
Wharf Expenses	12,000,000	184,615	10
Utilities	5,000,000	76,923	4
Salaries and Wages	20,000,000	307,692	17
Vehicle (Purchase, Lease, Maintenance and Repair)	20,000,000	307,692	17
Travel	5,000,000	76,923	4
Infrastructure (Maintenance and Repair)	7,000,000	107,692	6
Total	120,000,000	1,846,154a/	100

a/ Addition error due to rounding.

Although CSA has been reimbursed for only UM 22.4 million ($344,000), it is due another UM 69.3 million ($1,061,539). On receipt of the necessary vouchers, USAID/Nouakchott will verify expenses claimed and reimburse CSA from the 206 account.

2. Rural Roads

Year One budget:	UM 47,112,000	($ 724,800)
Amount spent:	75,012,000	(1,154,031)
Balance:	UM -27,900,000	($ -429,231)

Local currency needs of the USAID Rural Roads Improvement Project (682-0214) are funded from Section 206 local currency receipts. Under the project, 279 km. of all-weather road are being constructed in the Mauritanian River Valley (from Kaedi to M'Bout to Selibaby to Gouraye).

The cost of the FY 1982-85 project is nearly double the original life-of-project cost -- $10.36 million versus $5.55 million. Additional funding was needed because of the:

-- Inadequacy of the original design standards.

-- Need for additional equipment.

-- Need to rehabilitate 70 km. of roads built by the United Nations Sahelian Office (UNSO).

This unforeseen increase in costs prompted an early request for the Year Two 206 allocation, which was received along with the Year One allocation in FY 1984. No more 206 money is currently budgeted for rural roads in Year Three.

3. Bulk Handling Facility

Year One budget:	UM 45,350,000	($697,692)
Amount spent:	--	--
Balance	UM 45,350,000	$697,692

As originally envisioned, the 206 program was to finance $3 million in local currency costs of a $9 million project to construct a bulk handling facility at the Nouakchott port. The project was to help lower the exceedingly high handling costs of imported food due to poor port facilities at Nouakchott and high costs of transshipment of commodities from Dakar to inland points.

The project has been on hold, however, due to a number of technical assessments that call into question the idea of constructing a bulk handling facility. Proposals to use new bulk handling technology at the Chinese port facility (currently under construction) are also questioned. This is because of reservations about certain engineering practices used in the construction.

Thus, use of these funds is in limbo. The need to reduce handling costs of imported food, however, remains great. Local currencies now allocated to this sub-project will need to be reprogrammed if necessary action on technical studies does not begin soon.

4. Unallocated Reserve

Year One budget:	UM 8,000,000	($123,077)
Amount spent:	--	--
Balance:	UM 8,000,000	($123,077)

USAID/Nouakchott has said that unallocated revenues could be used for Mauritania River Valley development and construction of rural roads. Unallocated funds will increase substantially until the budget for the bulk handling facility is reprogrammed.

D. Future Local Currency Programming

USAID/Nouakchott recently prepared the following indicative budget for 206 proceeds generated in FY 1984, FY 1985 and FY 1986. Because this budget is for planning purposes only, some

TABLE 16.--Three-Year Planning Budget, FY 1984-86 (mil)

	FY 1984		FY 1985		FY 1986		FY 1984-86	
	UM	$	UM	$	UM	$	UM	$
CSA Support								
- Operating Costs	100.000	1.538	100.000	1.538	100.000	1.538	300.000	4.615
- Infrastructure	46.538	.716	32.200	.495	50.305	.774	129.047	1.985
Rural Roads	47.112	.725	27.900	.429	--	--	75.012	1.154
Bulk Handling Facility	45.350	.698	94.300	1.451	10.350	.159	150.000	2.308
Unallocated	26.000	.400	50.600	.778	164.345	2.528	240.945	3.707
Total	265.000	4.077	305.000	4.692	325.000	5.000	895.000	13.769

Source: Nouakchott 04793, cable dated October 11, 1984.

Year One figures differ from the actual Year One budget allocations shown in Table 15. For example, the following planning budget shows CSA operating costs at about UM 100,000,000 ($1,538,000). This is a more realistic estimate than the UM 120,000,000 ($1,846,000) allocation in the Year One budget. To compensate for the reduced allocation to CSA operating expenses, the planning budget's unallocated reserve is increased accordingly.

Effect of Non-implementation of Price Increases. The planning budget is based on an average price increase of UM 2 per kg. of grain from FY 1984 to FY 1985 and UM 1 per kg. from FY 1985 to FY 1986. Also assumed are annual sales of 20,000 MT. Thus, we have:

FY 1984:	UM 13.25 x 20,000 =	UM 265,000,000
FY 1985:	15.25 x 20,000 =	305,000,000
FY 1986:	16.25 x 20,000 =	325,000,000
Total		UM 895,000,000

If average prices remained constant for the three years, total revenue would equal approximately:

FY 1984-86: UM 13.25 x 60,000 = UM 795,000,000

Thus, projected revenues for the three-year period would decrease by about UM 100,000,000 ($1,538 million at an exchange rate of $1 = UM 65).

Such a decrease could easily be absorbed by the unallocated reserve, which totals UM 240,945,000 ($3.707 million). Thus, enough flexibility exists in the planning budget that decreased revenues resulting from constant grain prices would not greatly affect currently programmed activities.

E. Progress on Self-help Measures

In the Transfer Authorization of July 1983, the government of Mauritania committed itself to undertake certain self-help measures:

-- to improve the production, storage and distribution of agricultural commodities, and;

-- to increase the income of the rural poor to enable them to participate in increased agricultural production.

The key self-help measure outlined in the Transfer

Authorization was the grain price policy reform. In addition, the government of Mauritania and CSA agreed to: (1) establish a food data reporting system to improve the timeliness and accuracy of data on food availabilities and needs; and (2) undertake a food consumption and income distribution survey to determine the effect of the price policy reform on the Mauritanian consumer. In accepting these self-help measures, the government of Mauritania also agreed to "provide adequate financial, technical, and managerial resources for their implementation."

1. Food Data Reporting System

FAO technical assistance to CSA is probably the greatest impetus for progress in establishment of a food data reporting system. An FAO technician working with CSA has compiled a management reference manual for directors and storeroom managers of the CSA regional centers. The manual has been used in conjunction with five training courses held for some 50 center directors.

The intent is to improve certain reporting procedures and forms. More important, however, is to give center personnel an overview of the reporting system so they understand how their records are combined with other centers' records and why the records are needed.

Also planned is a radio system for regional centers that will enable them to readily transmit price data, as well as information on stock levels and sales. One reported hold-up has been the unwillingness of the central bank to allocate foreign exchange for purchase of the radios, and the apparent inability of CSA officials to convince central bank officials to do so. Some FAO money is reportedly now available for the radio system.

Besides helping to lay the groundwork for the radio reporting system, the FAO technician is working to develop CSA capability to process and analyze the information that will become available as a result of the system. The ultimate aim is to use price data for making decisions on food allocation and identifying trends of food aid needs.

Progress on this self-help measure has not kept pace with the benchmarks listed in the Transfer Authorization, which are as follows:

a. Seminar for regional sales center agents in Nouakchott on data collection in October 1983.

b. Chief of Marketing Service will make four study trips (end October, February, April, and June) to study food supplies. First trip undertaken by 31 October 1983 and report submitted to CSA by November 1983.

c. CSA guidance on data collection to regional agents by 30 November 1983.

d. System for weekly monitoring, reporting, and analysis of food prices and volume in place in regional centers by 1 January 1984.

e. Regional radio system operational in regional centers by 29 February 1984.

f. First annual report on Mauritanian food supply presented to donors in May 1984.

There are several problems with these benchmarks. For one, some of these benchmark dates are a bit unrealistic, such as the expectation in July 1983 that a regional radio system would be in place within seven months (Benchmark e).

The benchmarks are also too rigid. With regard to Benchmark a., for example, training for regional sales center personnel does not have to take the form of a seminar in Nouakchott. A more desirable training option, and in fact the one taken, is a series of courses held throughout the country.

Rather than setting out benchmarks that are overly prescriptive, perhaps a more useful approach would be to use benchmarks in such a way as to spell out objectives of the food data reporting system and the components of such a system. For instance, what are the data needs, why are they important, and what data could CSA center personnel reasonably be expected to feed into the system.

The benchmarks as presented do not appear to have facilitated USAID monitoring of progress on this self-help measure. Nor do they contribute to an understanding of the type of food data reporting system that is desired.

2. <u>Food Consumption and Income Distribution Survey</u>

No headway has been made on this survey, which is not surprising given that there was no planning for it and there were no resources allocated to implement it. In the absence of an allocation, USAID sought assistance from certain centrally and regionally funded projects, but without success.

The benchmarks for this self-help measure included in the Transfer Authorization are as follows:

a. Scope of work prepared by 30 November 1983.

b. Methodology formulated by 31 March 1984.

c. Survey field work by 1 April 1984.

d. Final report submitted to donors by 30 June 1985.

These benchmarks are vague and do not convey any sense of the type of survey desired. For instance, they do not discuss how extensive the survey should be or what type of information is sought.

To help ensure that this survey would get off the ground, it probably should have been budgeted as a sub-project, rather than included as a self-help measure. The following is an example of the type of resources that would be necessary:

-- 1-2 persons working 2-4 weeks designing a questionnaire.

-- 1 coordinator and 2-3 surveyors working 6 months gathering, processing and analyzing data.

-- Dollar resources to cover expatriate salaries.

It was unrealistic to expect CSA to successfully implement this self-help measure, and it is unlikely that CSA will do so during the remainder of this 206 program. The need for this survey continues, however, as basic consumption and income distribution data are scarce to non-existent.

F. Timeliness and Accuracy of Reporting

The government of Mauritania, under the terms of the Transfer Authorization, is to submit quarterly reports to USAID that include estimates of beginning stocks, arrivals, distributions, sales, damaged stocks, ending stocks, currencies generated and interest accrued, and deposits and disbursements.

Timeliness of Reporting. CSA has been submitting quarterly reports anywhere from one to four months beyond the end of the quarter. Whether or not this is "timely" is a matter of judgment. It is timely in a relative sense if one considers the following:

-- The Training and Control division of the CSA Sales

Office prepares quarterly reports based on the monthly reports submitted by the nine AID-designated sales centers. These monthly reports may arrive late from some centers, which can delay preparation of the quarterly reports. Furthermore, one error in one center's reports necessitates that a control division staff member travel from Nouakchott to the center to rectify the error. The division has 10 such staff persons, who are responsible for compiling reports not only from the nine AID centers, but also from the other 55 non-AID-designated centers. These centers are dispersed throughout a country that is one and a half times the size of Texas and where communication and transportation are difficult.

-- Some CSA center directors are only semi-literate in French, thus increasing the possibility that errors will crop up in reports and that CSA headquarters personnel will have to travel to the center to investigate the mistakes.

-- Sales center personnel have had to undertake additional responsibilities due to their involvement with emergency food aid distributions for drought relief.

-- All reporting and tabulations are done with pencil and paper, without the aid of computers.

Accuracy of Reporting. The accuracy of CSA reporting has been called into question at several junctures during the past year. At a recent donors' meeting, for example, CSA reported that as of the end of October 1984, grain stocks in the country totalled 17,500 MT. By considering just the stocks available in Nouakchott and Rosso, USAID officials knew this figure was unreasonable. A collective donors' estimate put the figure at closer to 60,000 MT on hand. While this example does not relate to reporting accuracy under the 206 program exclusively, it does point to general inconsistencies of CSA reporting.

As for the 206 program in particular, problems with reporting have included the following:

-- At the end of Year One, CSA reported that 34,000 MT of 206 cereals had been sold -- in spite of the fact that less than 20,000 MT of 206 cereals had been delivered. This issue delayed the call forward scheduled in November 1983 until February 1984, when the government began to take corrective actions.

-- More recent CSA reports show that 206 proceeds attributed to four AID-designated centers exceed by 21 to 49 percent the value of 206 commodities distributed to those centers.

It should be noted that these discrepancies are essentially accounting errors by CSA headquarters in Nouakchott. CSA headquarters staff examine all sales receipts submitted by the field centers and, on the basis of distribution records, calculate the percentage of each center's total sales that should be attributed to the 206 program. In spite of these errors, USAID officials feel relatively assured that 206 commodities are being properly distributed and sold.

While four centers are credited with channeling more sales receipts than possible, based on 206 commodities those centers have received, the corollary is that the other five centers have forwarded no proceeds to the central 206 account. Assuming that 206 sales at these five centers began in Summer 1983, more than a year has elapsed with no proceeds forwarded from these centers to the 206 account.

These five centers have one characteristic in common. They do not deposit proceeds in a local bank account. Rather, their proceeds are deposited with the Treasury. In the case of Aleg, Boutilimit, Selibaby and Atar, this practice is followed because no bank is located near the center. The Nouakchott center, on the other hand, is near banking facilities. Yet proceeds from this center also go directly to the Treasury.

Whether proceeds are deposited in a bank or in the Treasury, the Commissariat of CSA must issue a transfer order authorizing the proceeds to be sent to the 206 account in the BAAM (Banque Arabe-Africaine de Mauritanie) in Nouakchott. Delays can naturally occur because of distances and general lack of correspondence between bank branches/Treasury agents and their respective headquarters. But because proceeds deposited in local banks do seem to get through the system (in fact, more proceeds than required), proceeds deposited with the Treasury are the most problematic at present. There is some speculation that proceeds become temporarily blocked in the Treasury to meet general budgetary needs of the government, but this can not be confirmed.

USAID has some leverage in this matter. Counterbalancing the delinquent sales proceeds, which amount to $890,146 worth of ouguiyas, is the fact that USAID owes CSA $1.06 million in operating expenses (pending CSA submission of appropriate documentation). It is in CSA's interest to see that proceeds are channeled from the Treasury to the 206 account so that CSA

TABLE 17.--Sales Proceeds from Four Distribution Centers (UM)

	Kiffa	Aioum	Nema	Kaedi
Total Projected Proceeds[a]	58,801,464	27,685,453	34,455,314	27,470,490
Proceeds Deposited in Special Account	71,438,560	41,180,269	46,042,516	37,434,536
Deposits Due	(12,637,096)	(13,494,816)	(11,587,202)	(9,964,046)
Excess Deposits (%)	21%	49%	34%	36%

a/ Based on number of MT distributed.

can be reimbursed for operating expenses.

To better monitor the flow of proceeds from banks located in the interior, USAID officials have started to request banking statements from them. This should help not only in monitoring the flow of proceeds from those banks to Nouakchott, but also in ascertaining what, if any, interest is being accrued before the proceeds reach the 206 special account.

G. Miscellaneous Section 206 Management Issues

The fact that USAID/Nouakchott is not involved with the delivery of commodities at port in Dakar creates a number of problems. These problems affect the ability of USAID/Nouakchott to monitor and manage the 206 program -- from distribution of commodities, to sales, to generation of proceeds.

A key problem involves USAID/Nouakchott's difficulty in obtaining copies of independent surveillance reports issued at Dakar. Lack of an objective assessment of initial amounts of grain delivered affects the entire accountability system for the physical stock and for the money generated from commodity sales.

Other problems with the system seem to stem largely from the way in which a through bill of lading is issued by USDA/CCC to a shipping agent. Under this system, the shipping agent contracts with a forwarding agent in Dakar who transports the commodities to Rosso. Once the commodities reach Rosso, CSA assumes responsibility for them.

Because the shipping agent receives full payment in Dakar, his interest in overseeing the inland transportation of the commodities is obviously reduced. This has opened the way for a host of negligent actions by the forwarding agent, over whom USAID/Nouakchott has no leverage. Problems that have arisen, while not directly related to the issue of local currency proceeds, nonetheless hurt the 206 program. The more serious of these problems include:

-- Commodities arriving as part of the first shipment under the 206 program were bagged at two different weights -- 45 kg. and 50 kg. This caused enormous problems for USAID and CSA officials monitoring distribution and sales levels.

-- During bagging of the second shipment of 5,000 MT of wheat in Dakar, scrap metal, automobile parts and rust were bagged with the wheat. This was due to negligence in unloading the commodity onto a berth not intended for cereals.

The government of Mauritania chose not to reject the shipment and thus not to file a claim against the shipper. Had it done so, it could not be assured that Mauritania would be re-allocated the 5,000 MT of wheat it would give up. Any successful claim against the shipper would result in reimbursement to the U.S. government. As a consequence, contaminated wheat was shipped to six CSA centers.

This fiasco diverted USAID and CSA officials from their regular responsibilities. It hurt the reputation of CSA as a food distribution organization that AID is trying to assist. It damaged the image of the U.S. government. It caused untold problems for millers around the country whose milling equipment was damaged from pieces of metal in the wheat. As for possible ill effects on the health of consumers who might have cooked and eaten rust and other metal particles, this is unknown.

H. Conclusions and Recommendations

1. Discussion. There has been no progress on the food consumption and income distribution study, which was included as a self-help measure in the Transfer Authorization. Yet, the need for this study remains. Among other reasons, it is needed:

-- To provide basic data needed to calculate price and income elasticities of demand for food commodities, as well as consumption patterns throughout the country.

-- To determine the magnitude of the need for free food distribution.

-- To identify other factors, besides food availability, income levels and taste preferences, which may affect nutrition.

Recommendation. Planning and budgeting for a food consumption and income distribution study should be a priority of any follow-on 206 program. To help meet the dollar needs for such a study, USAID/Nouakchott could perhaps amend the existing 206 program support agreement which makes Development Assistance funds available for such activities. CSA and other interested ministries, such as the Ministry of Rural Development, should be involved in designing the study.

2. Discussion. Under the current 206 program, the Ministry of Finance was effectively obliged to perform certain functions, yet was not officially included in negotiations of the Transfer Authorization. The fact that the Ministry of Finance was not prepared to deal with the volume of proceeds generated regularly from 206 grain sales may be contributing to current difficulties in the transfer of local currency proceeds to the 206 account.

Recommendation. In any follow-on 206 program, the Ministry of Finance should be included in discussions between USAID and CSA. To the extent possible, an official Ministry of Finance commitment to the 206 program should be sought.

3. Discussion. Of the five AID-designated centers where proceeds go to the Treasury or to a local Treasury account, Nouakchott is the only one that could deposit proceeds in a bank. Proceeds deposited in banks seem to be transferred to the central 206 account more readily than proceeds deposited in the Treasury.

Recommendation. The current proceeds deposit system in Nouakchott should be changed such that proceeds from this center are deposited in a bank account or, better yet, directly into the 206 special account.

4. Discussion. Substantial interest earnings could be accruing on proceeds deposited in banks located in the interior of the country. However, there is no accounting for these possible interest earnings.

Recommendation. USAID/Nouakchott should continue its efforts to acquire bank statements from banks accepting 206 proceeds to assess what, if any, interest earnings should be channeled into the 206 special account.

5. Discussion. There has been disagreement in the past between USAID and CSA over the role of CSA once a Transfer Order is signed. Namely, USAID feels CSA is responsible for ensuring that proceeds are transferred from bank/Treasury branches to the central 206 account even after the Transfer Order is issued. CSA, on the other hand, has said its responsibility ends once the Commissariat of the CSA issues the Transfer Order.

Recommendation. CSA's role in ensuring that proceeds are deposited in the 206 special account should be defined in the Transfer Authorization of any follow-on 206 program.

6. Discussion. The extent to which the 206 program's financial accountability is a success may be due, in part, to lax accountability requirements of other food aid donors. In other words, the less stringent are accountability requirements of these other donors, the easier it may be for the government of Mauritania to comply with 206 requirements. While such a situation may be acceptable within the narrow purview of AID's accountability concerns, it is not desirable from the standpoint of efficient use of food aid resources as a whole within the country.

Recommendation. USAID/Nouakchott should encourage food aid donors to adopt more rigorous accountability procedures such as those required by AID and WFP. Such procedures should be standardized among donors to the extent possible. AID/W can also play a role in this regard by encouraging multilateral institutions to actively support such donor coordination.

7. Discussion. A country receiving Title II food aid (that is, grant food aid) should not be placed in the untenable situation of having to choose between: (1) accepting contaminated commodities; and (2) refusing the commodities so that a claim can be filed against the responsible parties and, in the process, running the risk that the commodities given up will not be reimbursed. Mauritania was placed exactly in this position. Because it badly needed a 5,000 MT shipment of wheat, it decided to accept wheat containing automobile parts and other metal debris. The Mauritanian government hoped that the contamination was not widespread throughout the bagged wheat. The contamination was widespread, however, and hurt all concerned. USAID officials faced an extra work burden and additional monitoring problems (because wheat did not account for the entire weight of many bags). The image of CSA and the U.S. government was damaged. Millers broke milling equipment and were not reimbursed, and consumers suffered untold ill health effects.

Recommendation. AID/W should explore ways to ensure that governments receiving Title II food aid do not have to face a dilemma such as that faced by Mauritania under the 206 program; (that is, rejecting contaminated food and risking non-reimbursement, versus accepting the food and facing a multitude of other unknown problems and hazards). Perhaps reimbursement of contaminated commodities could be guaranteed to a government by means of a special line item contingency in the PL 480 Title II budget.

8. Discussion. Numerous problems have been associated with delivery of 206 commodities due to the through bill of lading procedure used. Under this procedure, the shipping agent receives 100 percent payment in Dakar, Senegal, before commodities have satisfactorily arrived at Rosso, Mauritania.

Recommendation. AID/W should discuss with USDA ways to remedy current problems associated with delivery of 206 commodities. One plausible step would be to withhold full payment to the shipping agent pending satisfactory delivery of 206 commodities to Rosso.

9. Discussion. USAID/Nouakchott has had difficulty obtaining copies of independent survey reports on 206 commodities arriving in Dakar. USAID/Dakar likewise has not been regularly receiving copies of these reports. Without this independent accounting of initial delivery of stocks, USAID efforts to verify CSA reporting of distribution and sales proceeds are stymied from the very beginning.

Recommendation. AID/W should help ensure that USDA, in its contract with an independent commodity surveyor, arranges to have copies of the survey report sent to both USAID/Nouakchott and USAID/Dakar.

10. Discussion. Commodities arriving in Mauritania under the 206 program are distributed in bags that are normally used for regular Title II programs; that is, the bags contain the markings, "not to be sold or exchanged."

Recommendation. Future 206 commodities should be bagged in sacks used for Title I commodities which do not contain writing prohibiting sale of the commodity.

V. DISTRIBUTION OF FOOD AID BY THE FOOD SECURITY COMMISSION

A. Background

Distribution of all food aid in Mauritania is under the direction of the Food Security Commission (CSA). This state owned and controlled organization, established in 1982 by Presidential decree, is a fusion of two previously existing food aid organizations, the Mauritanian Cereals Office (OMC) and the Food Aid Commission (CSS). Because of the key role it plays in maintaining the very existence of growing numbers of the Mauritanian population, CSA has grown into a large and politically powerful organization whose influence is felt throughout the country. All donors of food must deal with it; consequently it is important to have as accurate an idea as possible of its methods of operation and of its efficiency in carrying out its job.

CSA's basic objective is centralizing the distribution of food grains and the commercialization and management of food grain stocks (buying, selling, transporting and regulating the distribution of grain). CSA's directors insist that this form of central management is necessary to ensure equality of distribution, and to prevent fraud and speculation in grain trading, as well as to stabilize prices. CSA is particularly required to see to it that adequate amounts of food get to the more remote parts of the country and that the indigent are protected through a program of free food distribution.

CSA's ambitious goals have been made all the more difficult to attain because of the growing food crisis over the past two years of drought which has forced the government to import an estimated 203,000 MT of food in 1984 from external donations. Increasing shortages of food in the rural areas are forcing ever greater numbers of the population to concentrate in the few urban areas. The capital, Nouakchott, alone accounts for almost one-third of the total population of the country. The city is now estimated to have a population of somewhere between 400,000 and 500,000, many of whom are forced to live in shanties and tents on the edges of the town, are unemployed, and must remain dependent on the state for their daily existence. The other main concentration of population is in the south along the valley of the Senegal river where the possibility of growing crops remains. Authorities estimate that in 1984 only 60 percent of the donated food imports will be sold; the remaining 40 percent will have to be distributed free to the poor. The number of poor is growing each year as the nomads of the desert areas find themselves increasingly unable to maintain their herds or to cultivate even the minimal crops necessary for subsistence. CSA becomes, therefore, the last and only resort for food for growing numbers of the people.

To accomplish its formidable task, CSA has put together a central administration in Nouakchott and an extensive field service of 64 distribution centers scattered widely throughout the country; (the number is scheduled to rise to 75 in the near future.) Plans are under way to create even more centers in the smaller and more remote administrative areas (arrondissements) in an effort to make centers accesscible to nomadic populations. Grains from external donations are allocated by CSA to the centers according to estimated demand established by local food committees working through the prefects who head the local authorities. The centers thereupon dispose of these stocks by:

1. Sales to all comers at fixed government prices (at present, UM 14 per kg. for sorghum and wheat in rural areas and UM 15 per kg. in the capital). The price differential is designed to reduce attraction to the capital of more people. The government must prevent, as one CSA director put it, "having trucks go out full of grain and return full of people." CSA's central administration fixes detailed regulations covering the mode and quantity of sales and disposition of sales proceeds. Retail sales of grain purchased from centers is at free market prices.

2. Free distribution to the indigent group. Sedentary indigents (widows, orphans and those incapacitated from working) are issued cards permitting them to draw specified amounts from the centers at regular intervals. Nomadic indigents are also given free food; their eligibility is determined by food supervisors who circulate in nomadic encampments in the surrounding areas and prepare lists of those in evident need, temporarily or on a permanent basis. The extreme difficulties of internal transportation and communication have tended to cause those living at great distances from a distribution center to move closer to the source of food. Private traders are allowed to obtain up to one ton of food per month to be sold at free market prices, often to encampments too remote to be reachable in any other way.

3. Distribution under a food-for-work program. Able-bodied indigents are assigned by local authorities to minor public works jobs for which they receive food allotments. The government regards this program as of particular importance as a means of

preventing the population from "turning into a nation of beggars" as one official put it. The program applies to members of village cooperatives or nomadic encampments who are able to perform work judged to be of direct benefit to their communities.

B. Organization of CSA

CSA is headed by a Commissioner, a member of the military government, who is directly responsible to the President's office. Under him are a Deputy Commissioner and four Directorates with accompanying subordinate departments and services. These are the Directorates of Administration and Finance (DAF), Commercialization and Food Security (DCSA), Logistics and Transport (DLT) and Emergency Food Aid (DAU). For the purposes of the Section 206 program, only the DCSA and the DLT are of direct concern.

DCSA controls commercialization of grain, price stabilization, maintenance of stocks and the training of distribution center personnel, while DLT oversees the establishment of centers and the transport of stocks to them. Field agencies for the receipt of incoming imports are located at Nouakchott, Rosso and Nouadhibou. Personnel at the central administrative headquarters is estimated to be not much more than 100, which is not an excessive figure in view of the job to be done. The Directorates are assisted by a corps of five technical advisers furnished by the West German government and one FAO adviser. Executive personnel appear to be reasonably well-trained in most cases but their numbers are very thin; it is expected that the USAID Human Resources Development project will assist in further training of personnel at all levels. Mechanization of office and accounting procedures is largely non-existent leaving a wide margin for human error. Plans are envisaged for computerization of stock allocation and accounting, but this will be some distance in the future since trained operators are not yet available and computer maintenance is difficult and costly.

The management, operation and supervision of distribution centers is one of CSA's major problems. The shortage of trained center managers is slowly being overcome, but managers appear to be moved frequently so that there is a lack of continuity of experience. Each center is headed by a <u>chef de centre</u> who is supported by a <u>magazinier</u> or stock keeper who is in charge of the actual distribution. Both posts carry substantial responsibility; the great bulk of them are held by employees with a secondary school education although some older <u>chefs</u> have only primary school training but experience in other government posts.

Center heads are paid an average of UM 22,000 per month; magaziniers, UM 18,000. CSA's annual expenses for center salaries therefore amount roughly to $475,000. Some centers are located in government owned buildings and warehouses built by donors; others are in buildings rented by CSA from the private sector. All paper operations are carried on in French. Central officials appear to place little trust in the center employees however; the paper work is complicated and time-consuming, and the center managers are subject to frequent inspections by central administrative personnel.

Centers are of three types, and their functions are largely interchangable.

1. Centers of urgent need. These are located in the most seriously drought stricken areas where food from national stocks is distributed largely free.

2. Price stabilization centers. These nine centers were established by agreement between CSA and the donors concerned. It is only from these centers that AID and WFP food is distributed.

3. Provisional centers. Headed by an official of local government rather than a CSA employee, these are centers set up to meet temporary or crisis regional needs. Many become permanent if the crisis continues. They distribute free food.

Training courses for chefs de centre and magaziniers have been established and the FAO adviser is at work on simplifying reporting requirements and training materials. However, given the state of management skills in Mauritania, it is unlikely that the system can undergo major changes. There appears to be a sufficient number of available and suitable candidates to permit expansion of the centers as needed.

C. Operation of CSA

The operation of the price stabilization centers is worth describing in some detail since the success of major aspects of the 206 program depends on the effectiveness of the job done by them. The basic document by which food is obtained is the

Certificate of Food Distribution (CVA)[6/] which is used by all individuals or communities drawing less than one ton of food. The CVA's are numbered and issued in three varicolored copies. The individual requesting food takes the three copies to the bank or local official to which the money is paid. One signed and stamped copy is retained by the payee, another is returned to the center head, and the third is given to the magazinier in return for the food. It is instructive to note that one entity handles the money and a different entity handles the food. One of the two copies is forwarded to the CSA administration in Nouakchott, and the other is retained at the center for its records.

A daily log recording certificate numbers is kept by the center head showing amounts of sales and cash paid to the bank and this, with the certificate copies, is also forwarded to the capital. It is from these records that the central services keep track of stocks sold from each center as well as the income generated by each. The center head is also expected to report monthly on stocks on hand and receipts of new stocks, to account for damaged stocks, and to submit detailed reports on the contract private truckers who transport the food from the reception centers to the local centers. The training service has recently issued a manual setting forth in extreme detail each operation for which the center head and his staff are responsible. (The free distribution of food is accompanied by equally complex documentation, and accounting for this food is in theory kept separate from that being sold.)

The distribution of U.S. grain under the 206 program is carried out relatively efficiently, sales are subject to controls and stocks are accounted for accurately. At an earlier point this year some question arose regarding the sale of stocks which were supplied by other donors when American grain stocks were exhausted. CSA responded by distributing other donor stocks until new U.S. stocks became available.

Accounting for sales revenues has not been handled as satisfactorily as has distribution. In the case of the four centers where branch banks are available outside the capital (Kaedi, Kiffa, Ayoun and Nema), sales proceeds appear to have been accounted for reasonably well and in somewhat timely

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6/ The system described here is currently being introduced into the centers as the heads undergo training programs. It replaces an earlier system which was even more complicated; it is anticipated that by mid-1985 it will be uniformly used by all centers.

fashion. Such is not, however, the case where revenues were collected directly by local authorities (percepteurs) to be forwarded directly to the Treasury in Nouakchott. Credits to the special account were not at all timely. The USAID mission has repeatedly urged CSA to deposit sales proceeds generated in Nouakchott in commercial banks but thus far to no avail.

It is unclear whether Treasury operations are simply so slow and cumbersome that timely accounting is not possible or whether the Treasury, having received the funds, uses them for current government operations and only gets around to making the necessary payments to the special account when pressed by the donor. In view of the extreme financial stringencies being suffered by the Mauritanian government virtually at all times, the latter scenario seems more likely. The Mission has used its leverage with the Treasury and CSA to press for more timely accounting and the situation may be improving in late 1984, but it will be a continuing problem unless the Mission is prepared to pay almost day to day attention to Treasury's accounting methods and payments to the special account.

In some aspects, then, CSA is both an efficiant and reasonably well managed state controlled organization. Its overhead costs are within reason. In 1983 (the last year for which full figures are available) food sales revenues were UM 1,047 million; out of this CSA's overhead and distribution costs were UM 564 million. The bulk of this went to transport costs and center operation. A much smaller, but undetermined, amount went to central administrative overhead charges. Of the net revenue of UM 483 million, UM 330 million was earmarked for special sales agreements such as the 206 program, leaving a net profit of UM 153 million.

CSA does not appear to have its own accounts, and therefore it is not possible to determine whether CSA itself benefited from this profit or whether it went into the Treasury for other uses. Some officials insisted that CSA operated, as any other government department would, by direct budgetary allocation from the Ministry of Finance, and that whatever revenues CSA generated became part of Treasury funds; Treasury was then responsible for appropriate payments into the special account. However, because the Commissioner of CSA has to certify payments by the Treasury into the special account, it would seem that CSA has at least some control over the funds generated from sales. Moreover, CSA does not appear to feel any real urgency to bill for overhead costs due it from 206 counterpart funds, indicating perhaps that CSA is not short of cash, or possibly this is just another case of inability to maintain correct accounting methods. In sum, a fuller explanation both from CSA and from Treasury of exactly how counterpart funds are treated would seem urgently necessary.

D. CSA and the Private Sector

The private sector plays a key role in CSA's operations in that some 85 percent of the transport of food grains is by contract to private truckers. The state of the roads and uncertain availability and high cost of spare parts require the truckers to charge relatively high prices per kilometer, particularly where there is no prospect of obtaining return loads from the interior. Indeed, private truckers have no interest in serving the more remote areas of the north and east of the country, and CSA is obliged to use its own vehicles and drivers to transport food to these areas. Because CSA's rates of depreciation of equipment are higher than those in the private sector, its costs of transport are generally higher or comparable to private sector costs; therefore, it is to CSA's advantage, both financially and administratively, to use private sector contractors insofar as possible. CSA rents warehouses and distribution center buildings from the private sector on a contract basis.

There is little or no prospect that the private sector will take over either the importing or distributing of grain supplies at any time in the future. The job is too large for the Mauritanian private sector, even if the government were inclined to surrender any of its current control. The provision of food is too critical to the mass of the population at the present time to allow it out of official hands; in any case food donors of necessity have to deal with the government. The government is seeking World Bank support to divest itself of other failing parastatals, however, indicating that there is no built-in bias against private sector activity.

E. Conclusions

1. CSA's data reporting system, as outlined above, is in the process of being modified insofar as it applies to distribution, and there is good prospect that it will improve as the new and simpler system becomes operative. Even so, it will never be perfect because of leakages within the distribution system.

2. Verification of CSA's distribution and financial records will probably never be totally satisfactory without improvement in the monitoring system. Figures for the receipt of stocks and for warehousing do not constitute major problems. Insofar as the 20,000 MT provided annually

under the 206 program are concerned, the figures suggest their distribution is consistent with the objectives of the program.

3. Continued severe drought conditions have required CSA to increase its grain handling capacities above those anticipated in the Program Paper. It speaks well for the organization that a system capable of handling over 200,000 MT of grain has been created.

4. Warehousing and storage facilities appear to be generally satisfactory; the extremely dry conditions have made this easier. Where interior storage is not possible in Nouakchott, provision for covered storage appears to be satisfactory.

5. CSA is essentially a service parastatal of enormous importance to the country now and in the immediate future. Although government owned and operated, it involves elements of the private sector where these are applicable and useful. CSA would appear to be profitable in a monetary sense, although not in any real economic sense, in that the bulk of the product distributed is supplied free by the donors. The situation would probably be substantially different if free market conditions applied and the private sector were in a position to buy the necessary imports at market prices and the grain were sold at prices not fixed by the government.

6. Improvements and even basic reforms should be strongly encouraged in accounting for sales revenues and payments to special accounts where such arrangments exist. Several donors appear to be increasing pressure on CSA for more stringent accounting. Under the current system, warrants are issued by the Commissioner of CSA, based on sales records, and Treasury pays into the special account out of bank accounts held by the central offices of banks to which funds from branches in sales centers have been forwarded. Delays in this system are inevitable; banks may not be in touch with their own outlying branches for months at a time. The farthest outlying centers (none of which is among the nine 206 centers) are 2,500 km. from the capital; roads are non-existent in most cases and the postal service sketchy at best.

   One suggestion for improvement, already discussed with CSA by the Mission, has a degree of merit. Income from sales could be reported weekly by radio by the branch banks to their head offices as could center sales figures. Payments to the special account could be made in more timely fashion, based on these reports, subject to later verification and rectification if necessary when written reports become available. The same procedure could be applied to sales revenues paid directly to the Treasury from percepteurs at centers which do not have banking facilities. If payments by the Treasury were not forthcoming promptly, at least the locus of blame for failure to pay could be narrowed down to the Treasury itself.

7. CSA has been extremely slow in billing for counterpart funds due it under the Transfer Authorization for operating expenses. This may be simply a matter of lax accounting at CSA headquarters or it may be that the Treasury makes available sufficient funds that CSA is under no pressure to draw on the local funds available to it from the program. A third possibility is that CSA itself simply does not pay its own outstanding bills from suppliers very promptly. In any case the present system requires Mission officers to spend unncessary time in monitoring accounts and in negotiating with CSA and Treasury officials.

8. Attempts to reform or change the system should probably be focused in the first instance on Treasury policies and procedures. This can best be done only with a thorough knowledge of present Treasury practice which will not be easy to obtain unless there is someone on the spot following day-to-day actions closely. Urging policy reform on the basis of this knowledge, with some appreciation of the difficulties under which the Treasury and CSA operate, would, however, be preferable to the forceful use of program leverage when the situation has reached a crisis point in the failure to meet payment deadlines.

Clearly, the entire problem could be eased by a greater degree of donor coordination but this is unlikely at the present time unless one donor takes the lead in forcing donor-required changes on the government. Few donors have projects for which accounting for counterpart funds is required. From CSA's point of view, local currency programming can be advantageous, since it guarantees at least a proportional contribution to CSA's own operating costs and CSA has at least an advisory role in the development uses to which the remaining funds are to be put. This accounts in part for CSA's continued interest in both the current 206 program and a future program.

ANNEX A

Persons Consulted

AID Mission

Donald Miller, Director
Walter Boehm, Assistant Director
Richard Hough, Food for Peace Officer
Wayne Butler, Controller
Bud Lane, Agriculture Officer
Cynthia Wise, Health/Human Resources Officer

Embassy

Edward Peck, Ambassador

Government of Mauritania

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Ministry of Finance

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Mr. Lamine, Director of Finance, Department of Plan
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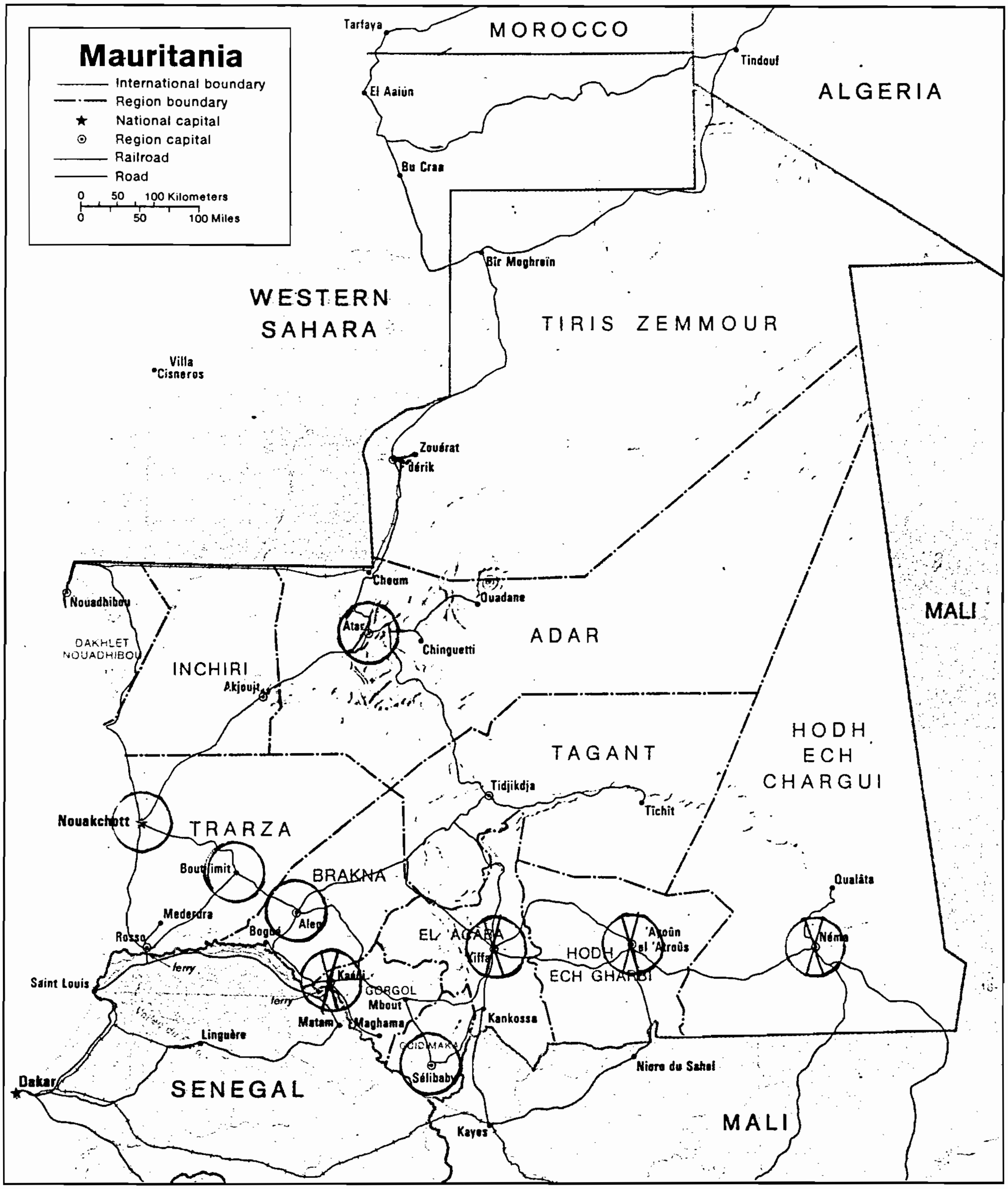
Rene Vaurs, IBRD Mission on Investment Plan
Mr. Jacob, IBRD Mission on Urban Development
Jeffrey Taft-Dick, World Food Programme
M. Massur, Caisse Centrale de Cooperation Development

ANNEX B

Glossary

BAAM	Banque Arabe-Africaine de Mauritanie
CAA	Commissariat a l'aide alimentaire (Food Aid Commission)
CCC	Commodity Credit Corporation
CSA	Commissariat a la Securite Alimentaire (Food Security Commission)
CVA	Certificate of Food Distribution
DAF	Directorate of Administration and Finance
DAU	Directorate of Emergency Food Aid
DCSA	Directorate of Commercialization and Food Security
DLT	Directorate of Logistics and Transport
GIRM	Government of the Islamic Republic of Mauritania
MT	Metric Ton
OMC	Office Mauritanienne des Cereales (Mauritanian Cereals Office)
SONADER	Societe Nationale de Developpement Rural (National Rural Development Company)
SONIMEX	Societe Nationale de l'importation et de l'exportation (National Import-Export Company)
TA	Transfer Authorization
UM	Ouguiya Mauritaniens
UNSO	United Nations Sahelian Office
WFP	World Food Program

ANNEX C



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Denotes AID regional centers.

Denotes centers which have transferred sales proceeds to special account.

ANNEX D

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ANNEX E

The Projections of Import Parity Prices

The calculation of the import parity prices for 1985-88 has several components:

FOB Price. The FOB prices are World Bank projections which cover the period 1985-1995. They appear to be consistent with recent trends for sorghum and wheat prices. The prices are world prices which are based on the FOB prices from U.S. Gulf ports for sorghum and by the FOB prices from Thunder Bay for wheat.

Ocean Transport and Handling. These costs include sea freight, bagging, wharfage, wharf loss, demurrage and detention, transport to the point of entry (in the case of sorghum), and transport to the Nouakchott warehouse/holding areas. Since it is unknown what these exact charges will be in 1985, projections are made based on past costs. In general, transport and handling costs are highly correlated with FOB prices; over time they rise and fall together. Therefore, it is valid to take the average ocean transport and handling costs over time as a percent of FOB prices for wheat imported from European ports and sorghum imported from U.S. ports. In the case of Mauritania, ocean transport and handling costs have been about 50 percent of the FOB price of wheat and 150 percent of the FOB price of sorghum over the past two years. It is assumed that this relationship will be maintained in the short run due to the high correlation between FOB and ocean transport prices.

Exchange Rate. It is assumed that the current rate of exchange between the dollar and the ouguiya ($1 = UM 66) will continue over the next year. However, since the IMF is currently negotiating a devaluation policy with the Mauritanian government, this assumption is subjected to a sensitivity analysis. In Table E-1, it is assumed that the local currency is overvalued by 33 percent and in Table E-2, by 100 percent.

Inflation Adjustment. The CIF prices for imported grains are adjusted to reflect a rate of inflation of 4 percent.

CSA Handling Costs. According to CSA estimates local handling costs during 1984 were in the vicinity of UM 6 per kg. of grain handled.

In addition to the above mentioned sensitivity analysis to assess the effect of devaluation on grain prices, future projections of import parity prices for 1985-88 are indicated

Tables E-3 through E-5.

Table E-1(a).--Import Parity Price for Wheat, Assuming Overvaluation of 33%, 1985

	Price per MT Wheat
(1) FOB Price, 1985 ($)	159.10
(2) Ocean Transport and Handling ($)	79.55
(3) CIF Price, 1985 ($) (3) = (1) + (2)	238.65
(4) CIF Price, 1985 (UM) (4) = (3) x UM 86	20,523.90
(5) CSA Handling Costs (UM)	6,240.00
(6) Import Parity Price, 1985 (UM) (6) = (4) + (5)	26,763.90

TABLE E-1(b).--Wholesale Price Increase for Imported Wheat, 1984/85

	Price per kg Wheat (UM) Urban	Price per kg Wheat (UM) Rural
(1) Import Parity Price, 1985	26.76	26.76
(2) CSA Sales Price, 1983/84	15.00	14.00
(3) Difference between Import Parity and CSA Sales Prices (3) = (1) - (2)	11.76	12.76
(4) 25% of Difference (4) = (3) x .25	2.94	3.19
(5) Inflation Adjustment (5) = (2) x .04	.60	.56
(6) Proposed CSA Sales Price, 1984/85 (6) = (2) + (4) + (5)	18.54	17.75

Table E-2(a).--Import Parity Price for Wheat, Assuming Overvaluation of 100%, 1985

	Price per MT Wheat
(1) FOB Price, 1985 ($)	159.10
(2) Ocean Transport and Handling ($)	79.55
(3) CIF Price, 1985 ($) (3) = (1) + (2)	238.65
(4) CIF Price, 1985 (UM) (4) = (3) x UM 130	31,024.50
(5) CSA Handling Costs (UM)	6,240.00
(6) Import Parity Price, 1985 (UM) (6) = (4) + (5)	37,264.50

TABLE E-2(b).--Wholesale Price Increase for Imported Wheat, 1984/85

	Price per kg Wheat (UM)	
	Urban	Rural
(1) Import Parity Price, 1985	37.26	37.26
(2) CSA Sales Price, 1983/84	15.00	14.00
(3) Difference between Import Parity and CSA Sales Prices (3) = (1) - (2)	22.26	23.26
(4) 25% of Difference (4) = (3) x .25	5.57	5.82
(5) Inflation Adjustment (5) = (2) x .04	.60	.56
(6) Proposed CSA Sales Price, 1984/85 (6) = (2) + (4) + (5)	21.17	20.38

Table E-3(a).--Import Parity Price for Imported Wheat, 1986

	Price per MT Wheat
(1) FOB Price, 1986 ($)	191.00
(2) Ocean Transport and Handling ($)	95.50
(3) CIF Price, 1986 ($)	
(3) = (1) + (2)	286.50
(4) CIF Price, 1986 (UM)	
(4) = (3) x UM 66	18,909.00
(5) CSA Handling Costs	6,489.60
(6) Import Parity Price, 1986 (UM)	
(7) = (5) + (6)	25,398.60

TABLE E-3(b).--Wholesale Price Increase for Imported Wheat, 1985/86

	Price per kg Wheat (UM)	
	Urban	Rural
(1) Import Parity Price, 1986	25.40	25.40
(2) CSA Sales Price, 1984/85	17.00	16.00
(3) Difference between Import Parity and CSA Sales Prices		
(3) = (1) - (2)	8.40	9.40
(4) 33% of Difference		
(4) = (3) x .33	2.77	3.10
(5) Inflation Adjustment		
(5) = (2) + .04	.68	.64
(6) Proposed CSA Sales Price, 1985/86		
(6) = (2) + (4) + (5)	20.45	19.74

Table E-4(a).--Import Parity Price for Imported Wheat, 1987

	Price per MT Wheat
(1) FOB Price, 1987 ($)	218.00
(2) Ocean Transport and Handling ($)	109.00
(3) CIF Price, 1985 ($)	
(3) = (1) + (2)	327.00
(4) CIF Price, 1985 (UM)	
(4) = (3) x UM 66	21,582.00
(5) CSA Handling Costs (UM)	6,749.18
(6) Import Parity Price, 1987 (UM)	
(6) = (5) + (4)	28,331.18

TABLE E.4(b).--Wholesale Price Increase for Imported Wheat, 1987

	Price per kg Wheat (UM)	
	Urban	Rural
(1) Import Parity Price, 1987	28.33	28.33
(2) CSA Sales Price, 1985/86	20.00	19.00
(3) Difference between Import Parity and CSA Sales Prices		
(3) = (1) - (2)	8.33	9.33
(4) 50% of Difference		
(4) = (3) x .50	4.17	4.67
(5) Inflation Adjustment		
(5) = (2) x .04	.80	.76
(6) Proposed CSA Sales Price, 1986/87		
(6) = (2) + (4) + (5)	24.97	24.43

Table E-5(a).--Import Parity Price for Imported Wheat, 1988

	Price per MT Wheat
(1) FOB Price, 1988 ($)	238.00
(2) Ocean Transport and Handling ($)	119.00
(3) CIF Price, 1988 ($)	
(3) = (1) + (2)	357.00
(4) CIF Price, 1988 (UM)	
(4) = (3) x UM 66	23,562.00
(5) CSA Handling Costs (UM)	7,019.15
(6) Import Parity Price, 1988 (UM)	
(6) = (5) + (4)	30,581.15

TABLE E 5(b).--Wholesale Price Increase for Imported Wheat, 1987/88

	Price per kg Wheat (UM)	
	Urban	Rural
(1) Import Parity Price, 1985	30.58	30.58
(2) CSA Sales Price, 1984/85	25.00	24.00
(3) Difference between Import Parity and CSA Sales prices		
(3) = (1) - (2)	5.58	6.58
(4) 100% of Difference		
(4) = (3) x 1.0	5.58	6.58
(5) Inflation Adjustment		
(5) = (2) x .04	1.00	.96
(6) Proposed CSA Sales Price, 1987/88		
(6) = (2) + (4) + (5)	31.58	31.54