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FINAL EVALUATION REPORT FOR LOAN 522-1-021

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I. Background

PD-AAN-478
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Loan 522-1-021 provided financing (\$2.0 millions) to strengthen and expand the BNF's Grain Price Stabilization and marketing program. One of the principal constraints of the program was thought to be a lack of funds sufficient for effective BNF operations in this field. Loan 522-1-021 provided \$1.9 million to the BNF revolving fund for financing grain purchasing operations and \$100,000 to fund technical assistance and training of personnel responsible for its administration. In addition, the BNF agreed to contribute \$200,000 of its own funds to upgrade rural storage facilities, as well as some additional funds for technical assistance.

II. Project Execution

During the disbursement period of the Loan \$1,908,587 were disbursed to the BNF for reimbursement of grain purchases made through its revolving fund. Disbursements of \$69,399 were made for Technical assistance and training and the remaining amount of \$23,014 was de-obligated. The funds disbursed for technical assistance were used to carry out a study to develop a cost accounting system and inventory control measures for the cereals division of the BNF and to contract the services of a grain storage and handling expert and a redesign engineer for the rural collection stations. Funds disbursed for training were used to carry out an in-country training course for employees of the cereal division and to cover costs for 3 participants in a grain storage and handling course held annually at Kansas State University.

In spite of the above efforts, the purpose of the loan to contribute significantly to the stabilization of grain prices through increased grain purchases and storage capacity and improved administration and management of the cereals division of the BNF was not achieved. In fact, the fluctuations of basic grain prices have been greater in the past several years than before this loan project was begun. While it can be argued that these greater fluctuations are partially attributable to variable weather conditions and to untimely imports, there are other factors which caused the grain price stabilization project to be less effective than it might have been.

From the standpoint of focusing on the problems at hand, little fault can be found with project design other than that it did not give attention to basic policies governing the grain prices and the timing of purchases and sales by the BNF. There is a little doubt that in order to contribute significantly to stabilization of basic grain prices the BNF needed to increase its grain purchasing and storage capacity and improve the administration and management of its grain purchasing, handling and storage operations. Furthermore, few would argue against the steps chosen to achieve the above; i.e., (1) an injection of capital into the grain purchasing fund; (2) upgrading and expansion of rural buying stations; (3) improved administrative procedures and (4) training of personnel. Instead, for the most part, failure to achieve purpose can be attributed to too little

too late rather than the wrong prescription.

It is difficult to judge whether the \$1.9 million injection into the grain purchasing fund was too much or too little considering the inefficiencies inherent in the rest of the stabilization program.

However, there can be little doubt that the emphasis placed on training of personnel was grossly inadequate considering the extent to which administrative and management deficiencies led to inadequate maintenance and incorrect operation of both central and rural storage and handling facilities which in turn greatly reduced their capacity to contribute towards price stabilization. These administrative and management deficiencies also contributed to unnecessary and prolonged delays in the acquisition and installation of machinery and equipment (counterpart contribution) to upgrade and expand the rural collection and storage facilities. Only now are some of the installations being completed. One can only speculate on the extent to which these improved rural storage facilities would have contributed to more stable prices for basic grains. Nevertheless, there have been numerous instances in which the lack of adequate rural grain handling (cleaning and drying) and storage facilities can be blamed for losses of mature grain at harvest time or have led to local (regional) scarcities in cases of reduced local (regional) production.

Furthermore, increased storage costs resulting from inefficiency in the operation of existing storage and handling facilities and corresponding losses of stored grain have undoubtedly contributed to higher grain prices.

As mentioned above, one of the crucial elements of any price stabilization program which this project did not give attention to is the policy upon which administrative decisions governing the program are based. Admittedly it is a problem which is not unique to this program or this country. But the fact remains that decisions regarding the setting of prices in the stabilization program have been based more on politics and guesswork than on basic knowledge about existing relationships between supply and demand, how they determine price, and viceversa. Irregardless of whether it would have had an effect on the ultimate decisions regarding pricing policy, the persons making these decisions were not guided by a working knowledge of floor price; ceiling price; incentive price; etc. Furthermore administration did not have the benefit of expertise in how to use the marketing power, i.e., when and how much to buy and sell, that the revolving fund gave the stabilization program to effect prices. As a result, policy decisions to buy and sell were also more often based on politics and guesswork than knowledge of the economic relationships involved.

Other weaknesses in the price stabilization program which this loan focused on were a lack of adequate inventory control and of a cost accounting system for the grain purchasing, storage and handling operation. As indicated earlier a study for the purpose of establishing these measures was completed under the loan. While the BNF has attempted to employ the measures recommended as a result of the study, numerous problems still exist in these two areas. Some

blame the problems on the recommended measures, particularly the accounting system, being too complex for the BNI operation. However, these problems may also be partially blamed on the lack of adequately trained personnel to implement them. In addition, it is evident that changes could be made to improve the inventory control procedures.

III. Recommended Actions

To realize the full potential of the grain storage facilities and the revolving grain purchasing fund to contribute to the stabilization of basic grain prices, the COM and A.I.D. should act jointly and quickly to resolve the administrative and management problems which have contributed to the ineffective and inefficient operation of the facilities and the fund. This action should involve technical assistance in administration and management of the stabilization program, including guidance in establishing basic policy. Assistance in the management and operation of the grain storage and handling facilities should also be provided. In addition, either sufficient training should be provided so that existing personnel can effectively carry out their duties, or personnel who are adequately trained for the job should be hired.