

**ISSUES FOR DISCUSSION REGARDING FUTURE
STRUCTURE AND OPERATIONS OF THE STRATEGIC
GRAIN RESERVE (SGR) OF THE MINISTRY OF
AGRICULTURE AND CO-OPERATIVES**

by

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1. INTRODUCTION

Mission and Objective of the Assignment

This report aims at supporting on-going discussions within the Technical Committee of the Food and Agriculture Sector Group of the Informal Donor Group on the need to be more systematically informed on the history, objectives and performance of the Strategic Grain Reserve (SGR) in Tanzania. The SGR is a unit within the Food Security Department (FSD) of the Ministry of Agriculture and Co-operatives (MAC). It is expected that such discussions will lead into concrete recommendations on what steps are necessary towards improving the institutional framework, effectiveness and efficiency of the SGR in future.

Therefore, this report will have achieved its main objective if it succeeds in bringing out more clearly and concisely, the crucial issues that need further discussion and agreement by the Technical Committee. The consultants have tried to keep within the terms of reference (ToR) provided for this task (see Appendix 1 for the ToR).

Methodology

Given the limited time available to the consultants (10 working days) relative to the task at hand, it was decided to use a straight forward methodology e.g. consult available documents in the relevant offices (SGR, FSD, PMO, Treasury, FAO, other donors) and hold open-ended interviews with officials in various organizations that have a stake in the operations of SGR. A summary of the available documentation is presented in section 6 of this report and the individual documents are listed as Appendix 2. A list of individuals and organizations contacted is shown in Appendix 3.

After going through the documents and holding interviews, the consultants set down to compile the data and attempt an analysis in accordance with the main outlines of the terms of reference. The analysis has been done with a purpose of informing the committee on the background to the SGR, what is going on in the SGR and in the process extract a set of issues to be deliberated upon by the technical committee as it focuses on future challenges and opportunities.

Organization of the Report

The material is organized into seven sections. After this introduction, a brief outline of the historical evolution, legal and policy of SGR operational framework is given. This is followed by a description of the institutional and management structure of the SGR. Operations and procedures of the SGR are then described in section four; while financial position and performance is outlined in section five. Section six summarizes the findings and recommendations of previous studies and reports on the SGR that the consultants have been able to access. Section seven, which is the key output, presents the emerging issues. Additional information is provided in the appendices.

The team expresses its appreciation to all individuals and institutions that supported, in one way or the other, the successful completion of this task. For obvious reasons all of them cannot be mentioned here. However, special thanks go to SGR Head Office Staff, The Irish Embassy, FAO, PMO, USAID and Planning Commission. The team, however, retains responsibility for any shortcomings associated with the final product.

2. HISTORICAL EVOLUTION, RATIONALE AND LEGAL FRAMEWORK

2.1 Historical Background

While discussing the present and future role of the SGR in Tanzania today, it is useful to go back into history with a view to learning from it. In 1949, the Tanganyika Government of the time established a **Grain Storage Department (GSD)**; probably to serve emergency needs as the SGR is supposed to do today. However, it should not be forgotten that, even as early as the period of German rule in this country, measures to deal with food emergencies were put in place. For example, **crop movement restrictions** were imposed in various parts of the country **to forestall local famine**. Similar measures were applied during the uprising of 1905-07 and during WWI (1914-1918)

During the time of British rule, the first marketing ordinance was enacted in 1927 to **regulate activities of food markets**, while in the 1930's, frequent and **generalized famines** (as a consequence of the great depression) were accompanied by **strict government controls on movement of food across districts**, thus limiting inter-regional transactions.

During WW II, mobilization of food and other materials for war efforts was dominant in the marketing scene and an overall East African approach to food supplies was adopted. Thus, two organizations were established to co-ordinate procurement, storage and distribution of foods for both the military and the civilian population. These were the East African War Supplies Board (EAWSB) in 1940 and the East African Civil Supplies Board (EACSB) in 1941.³

In the 1950's, marketing boards were created and co-operatives were established and/or strengthened to stimulate smallholder farmers to produce more for the market. It was in 1949 when the **Grain Storage Department (GSD)** was established to cater for emergency food supplies in Tanganyika. It will not be possible to go into details about its operations, here, but it is on record that the **GSD was disbanded in 1957 due to economic failure**. From that time up to independence, private traders and co-operatives were given the leeway to organize marketing activities without much state intervention.

When Tanganyika gained independence in 1961, the government inherited this rather "liberalized atmosphere" of marketing. One of the first post-independence policy elements was to establish the National Agricultural Products Board (NAPB) in 1963. The NAPB was the forerunner to the National Milling Corporation (NMC), which was established in 1967. The mandate of NAPB was to protect producers and consumers from world market instabilities, **to procure, store and distribute strategic reserves in times of need**, organize exports and imports and curb perceived exploitation by middlemen.

After 1967, there was a general move towards state control of the marketing activities. Marketing Boards were converted into fully-fledged state crop authorities. It was at this stage that the NMC was given sweeping powers to control grain from the farm level to the consumption stage, be it local or overseas. The responsibility for managing the strategic grain reserve was placed squarely on NMC, whose story is well known. During the early 1970's, NMC was strengthened and given much wider powers in line with the mood of the

³ After the war, the two bodies were merged to form the East African Production Committee (EAPC). In 1948, this organization became the nucleus for the East African High Commission, which was transformed into the East African Common Services Organization (EACSO) and later in 1967 to become the East African Community. As we all know the EAC collapsed in 1977 but was revised in 1998 when the Secretariat for East African Co-operation was established in 1994 and Treaty of East African Co-operation was signed in 1998.

time e.g. state-control of economic activities. NMC was given the mandate to manage the strategic grain reserve on behalf of the government.

Following acute food shortages in 1973/74 and 1974/75, the government of Tanzania requested FAO to study the situation and recommend long term actions that would prevent the recurrence of such food shortages and unpreparedness. In response, the FAO fielded the Food Security Review Mission (FSRM) in 1976, which recommended the establishment of two units within the MAC:

- Crop performance surveillance system
- Strategic grain reserve of 100,000 MT of food grains

In 1985, FAO sent another food security mission (FSM) to review the entire food security programme in the country following the 1983 change in agricultural policy. The mission recommended the re-construction of the SGR and the establishment of Food Security Unit (FSU) to manage stocks on behalf of the GoT so as to **ensure that past history is not repeated**. The evolution of the SGR can be summarized in the following milestones and time frames:

- 1976/77 - Government seeks FAO assistance to help set up the SGR. FAO responds and recommends the establishment of the 100,000 metric tons composed of various cereals.
- 1978 - 1981 - Donors contribute 77,000 metric tons for the SGR plus giving funds for the construction of 90,000 MT of grain storage facilities in various parts of Tanzania.
- 1988/89 - Government restructures the SGR and places it under a Board of Trustees (BOT) providing separate budgets and accounts. Also Government replenishes depleted stocks to 141,000 metric tons from its own budget but physical stock management is left to NMC. SGR target is adjusted to 150,000 metric tons to cover both emergency relief (100,000 MT) and 50,000 buffer stocks for price stabilization and price support purposes.
- 1991 - NMC faces serious difficulties due to liquidity problems (and near insolvency) resulting from unprofitable operations. This causes NMC to drastically reduce its grain marketing operations. Government intervenes and sets up an alternative agency much smaller in size but enough to continue the SGR operations. The Act of Parliament reconstituted and detached SGR from NMC, and warehousing network are integrated within the earlier established Food Security Unit (FSU) of MAC. The FSU is renamed the Food Security Department with two operating units namely the SGR and the Crop Monitoring and Early Warning Unit (CMEWU).
- 1994 - SGR stops direct purchase of grains after government approves open tender system following expanded grain liberalization trade. NMC is incorporated in the official privatization master plan of the Presidential Parastatal Sector Reform Commission (PSRC).

2.2 Rationale, Objectives of SGR and Policy Changes

Although there is a history behind the grain reserves dating to 1949, the establishment of the SGR as we know it today can be traced from the serious food shortages and resulting food emergency situations experienced during the mid-seventies. The resultant laws (1977, 1991) recognized the need for an effective food security system to respond to food shortages, stabilize prices and offer alternative purchasing services in areas where the private sector fails especially in remote areas.

Government mandate expects the SGR to assume two main functions

- Operation of the core 100,000 MT for emergency food security purposes meant to cover the needs of the country for a period of three (3) months providing adequate lead-time to import grains

- Operate 50,000 MT buffer-stocks procured locally for price stabilization and price support purposes.

In 1986, Tanzania adopted the Economic Recovery Programme (ERP) that necessitated broad macro-economic reforms, whose implementation led to the definition of the roles of the SGR, the NMC, Co-operative Unions and Private Traders in grain marketing. The definition of roles led to the following:

- Removal of NMC monopoly in grain buying and selling and thereby allowing NMC and Co-operatives to operate commercially
- NMC declared to operate in Arusha, Dodoma Iringa and Mbeya regions and limited its maize and beans purchases to 100,000 tons and 10,000 tons, respectively.
- SGR was designated a grain buyer of last resort in Rukwa and Ruvuma Regions.
- Private traders were given official recognition in the food marketing system.
- SGR size was revised upwards from 100,000 set in 1978 to 150,000 tons

As Tanzania enters in to the 21st century and continues to pursue economic reforms, it is essential to re-examine the performance of the SGR in the light of the objectives for which it was set to fulfill. This paper is part of that process.

3. INSTITUTIONAL ARRANGEMENTS AND MANAGEMENT STRUCTURE OF SGR

3.1 Organizational Structure of the SGR

The SGR is a unit within the Food Security Department (FSD) of Ministry of Agriculture and Co-operatives (MAC). The organizational structure of the ministry as shown in Appendix 4 indicates where the FSD is located within the structure of the ministry. The FSD serves staff functions at par with finance and accounts and external audit despite of having pan-territorial operations. The organizational structure of the FSD consists of the Board of Trustees, whose secretary is the Director of FSD. Under the FSD are three departments i.e. SGR, CMEWU and the CFSP. Appendix 5 shows the organ gram of the FSD. MAC is responsible for providing management team of SGR.

3.2 Legislation Governing Establishment

In 1988, the GoT issued orders to constitute the Board of Trustees for Food Security Department (FSD). The Board was to exercise final control on SGR, which is a department within the FSD. The Food Security Act of August 1991 specifies the duties of the Food Security Department, and in this sense, the Act is the legal basis for the SGR. The Act provides for SGR mandate, the establishment of the Board of Trustees, composition of the Board, functions of the Board, meetings and organization of the Board; function, funding, management and the power for call and custody of records, data and information.

The Board of Trustees is responsible to the Minister of Agriculture and is composed of 7 members as follows:

- Permanent Secretary - MAC - Chairman
- Permanent Secretary - Prime Ministers Office (PMO)
- Permanent Secretary - Finance (MOF)
- Permanent Secretary - Planning Commission (PC)
- Permanent Secretary - Communications and Transport (MOC)
- Permanent Secretary - Health (MOH)
- Director - FSD - Secretary to BOT

The BOT should have a minimum of 4 meetings per annum. The Minister of Agriculture is mandated to make rules for operation and control of the SGR.

The main functions of the Board are as follows:

- Recommend release and level of release from SGR to the Minister • MAC
- Provide guidance and support to PSO in efforts to collect, analyze and disseminate information on food security
- Review and approve the annual work plan and budget of FSD
- Guide, direct approve and control the FSD activities

BOT can authorize establishment of sub-departments, zones or centres expedient for FSD functions.

3.3 Decision Making Processes/Operational Arrangement Between SGR/MAC/PMO/Treasury/PO

3.3.1 The FSD Secretariat

The Food Security Department operates under a Director who is responsible for day-day management of FSD and he/she is responsible to the BOT for the following:

- Advise Government on food security policies
- Coordinate current food security implementation by other bodies
- Implement or cause to be implemented different food-security programmes
- Initiate undertake and participate in the collection preparation and production of data on the food security for use by the Government
- Monitor the country's food situation at all stages and provide early warning service on food security.
- Coordinate and exchange information about food security with various organizations at national, regional or international levels.
- Ensure the availability of relevant information and reports concerning food and agriculture generally within a required time
- Recommended to the Government the level of exports and imports of major cereal staple crops annually.
- Coordinate all activities concerning food aid
- Review and propose SGR level when required
- Produce and maintain crops for the SGR
- Monitor the volume, type, distribution and usage of farm inputs for food crops
- Prepare and implement the process of SGR recycling rotation and release
- Participate and represent the Government in for a concerning food security

3.3.2 Funding

The sources of funding as mandated by the Act for the FSD are:

- Government budget as approved by Parliament.
- Public subscriptions.
- SGR proceeds.
- Donations *and* grants

3.3.3. Records

The SGR is also supposed to keep essential records such as:

- Location and level of storage by centre/zone under its ownership or custody.
- Register showing statistical data concerning weather and early warning facilities
- FSD may require in writing any other organization to furnish information that will facilitate food security planning and operation.

3.3,4 Staffing

60 officers run the FSD and auxiliary staff of which about 80 percent are in regions/zones. A detailed staff disposition, qualification is depicted in Appendix 7. The distribution of staff by function as compared to approved manning levels is shown in Appendix 8.

3.3.3 SGR Facilities

FSD operates 30 godowns with a capacity of handling 241,000 metric tons of which 8 godowns with a capacity of handling 35,000 metric tons are either idle or leased - see Appendix 6. SGR does not directly operate any trucks for food transport. It has vehicles only for administrative activities in the head office and in the zonal offices.

3.3.4 Observations

- Most functions mandated to FSD are not carried out except those highlighted above.
- Mandated functions not carried out by FSD include:
 - Planning and coordination of food security programmes.
 - General information gathering for food and agriculture
 - Import/export recommendations
 - Monitoring volume, type, distribution and usage of farm inputs designed for food crops.
 - Food-aid coordination.
- There is a duplication of mandate between the Food Security Department (Food Security Act - 1991) and the Disaster Relief Coordination Department of the PMO (Tanzania National Disaster Relief Coordination Committee Act No. 9 of 1990) especially the mandates to coordinate food security programmes, coordinate information on disasters and food aid.
- FSD does not belong in a staff - function category - being a nationwide operator. Most of the staff functions of FSD as noted in section 10(b) are not being carried out.
- While SGR is funded internally, the CMEWU is funded from MAC budget.
- There are some glaring absences of essential functions common to grain handling organizations in the same category as the SGR represented by.
 - monitoring and evaluation experts
 - stock controllers
 - planning experts in zones
 - internal audit
- Given the scope of operations and role there seems to be a justification for SGR to be classified as a self-contained unit with its own machinery - i.e. a semi-autonomous organization.
- Given the multiplicity of potential funding and need to resolve basic stocking, purchasing and release issues, there is a need for a permanent feature of a technical committee to come from specific relevant government departments and donor community.
- There is a need for operating rules for SGR to be widely circulated to enhance stature and credibility of SGR operations to the public, NGOs and donors.
- There is a need to rationalize the operational role of the Disaster Relief Coordination Committee under the PMO with the role of BOT of the FSD in line with the autonomous nature of FSD operations as observed above.
- There is a need to internalize the CMEWU funding in the SGR to ensure its sustainability given inadequate central government budget allocation.
- SGR has storage over-capacity of about 91,000 MT above the authorized stocking levels. There is need to rationalize on capacity and location of godowns once future of SGR is decided.
- The Crop Monitoring and Early Warning Unit (CMEWU) is charged with forecast of the likely food situation of the country so that, where shortages are eminent, the SGR may position itself to address them by strategically positioning the stocks near the shortage areas. The CMEWU and SGR operate almost independently with scanty working relationship with each other. The only connecting activity is that SGR provides statistical information for CMEWU food security bulletin.

- The Ministry of Finance is responsible for annual budgetary funds for SGR operations and paying for disaster relief stocks through the Prime Ministers Office. Timing of payments has a profound bearing on level and cost of procured stocks for normal renewal and disaster preparedness.

4. SGR OPERATIONS AND PROCEDURES

4.1 Between 1978 and 1981, the SGR was able to secure food grain contributions from WFP, Canada, USA and the United Kingdom. In addition, SGR was granted funds for grain storage in Shinyanga, Dodoma, Makambako and Dar es Salaam. The stock accumulation for period 1990 -2000 is shown in Appendix 9.

4.2 Purchases, Releases for period 1995/96 to 1998/99 are summarized in Appendix 10 and 11 respectively. SGR purchased the highest quantity of maize locally in 1995/96 (73,190 MT).

4.3 Funding for SGR operations is summarized in Appendix 12. Note that the Government budget has been the major source of funding.

4.4 Operational Structure

(a) Free/Subsidized food

Requests of maize stock releases to address the disasters in affected areas of the country originate from the Regional Authorities. The requests take into consideration the assessment carried out by the CMEWU of FSD in collaboration with the other government agencies, donors and the NGOs. The Regional Authority requests are forwarded to the PMO where the Disaster Management Unit verifies the requests and thereafter instructs Treasury to pay SGR for the requested maize. Treasury will then pay cash to SGR or issue guarantees for future payments. Upon receipts of payment or guarantee from Treasury, SGR, on written instructions of the Chairman, BOT, releases the maize to the relevant region for distribution to relevant families.

(b) Commercial Operations

- (i) Stocks can be released to targeted areas upon requests from Regional Authorities to alleviate food shortages, but sales are done on market conditions.
- (ii) Recycled maize is put on the market on principal of rotating at least one third of average holding per annum. I.e. stock is stored for three years before recycling-

4.5 Purchasing Procedures

- SGR annual target is to procure maize stocks so as to achieve the annual ceiling of 150,000 tons. There are two factors that guide the SGR in determining the annual levels of maize purchases namely:
 - Previous year's balance
 - Availability of funds - internal, annual budget of the Government, donors
- The SGR fixes purchasing prices (into store prices) on an annual basis and subject to BOT approval. The tender system of procurement was used in the period 1994 - 1995/96 but abandoned due to failure to get tangible supplier contracts on time given the bureaucratic procedures through MAC, Central Tender Board.
- SGR procures through private traders who deliver and get paid ex-godowns after certifying the quality (moisture, cleanliness etc.).
- Major sources are Rukwa, Iringa, and Ruvuma but in "good" years, purchases are extended to Arusha and Dodoma. Imports are done when the country falls short of maize countrywide.

4.6 Selling Prices

- Disaster Relief Stocks are priced at cost
- Commercial stock is priced at market prices.
- Observations

4.7 Since 1995/96, all releases from SGR were for disaster relief, except 74,000 ton of maize that was released as commercial stock in 1998/99.

4.8 The tender system of procurement that was introduced in 1994/95 had to be terminated in 1996/97 due to the long time it takes to enter into supply agreements with the private buyers given the bureaucratic nature of the Government system. SGR now uses a system of setting prices after studying the market trends. The current procedure, in which there are funding constraints in terms of timing and levels, results in SGR offering unattractive prices to traders and therefore reducing chances of stock - replenishment or obtaining the same quantity of stocks at higher prices than would have happened at the beginning of the season.

4.9 PMO has introduced a system of assessing disaster levels and extent of assistance required for affected communities. The Food Security Information Team, chaired by PMO with FSD as secretariat and membership from MAC, NGO's carries out in-depth assessment of disaster relief needs and recommends interventions including releases, imports, food-aid requests etc.

4.10 The Disaster Relief Coordination Department in the PMO has introduced a community based distribution system to ensure transparency and reach to the targeted recipients. The Regional Authorities are charged with identification of traders/distribution of commercial stocks at agreed prices and within the targeted deficit areas and communities.

4.11 Review and Evaluation of Appropriateness of Criteria Used for Determination of Stock Levels

The need for emergency food in Tanzania is justified by many reasons. One of the key reasons is the fact that some households have limited or no access to basic food requirements despite food being generally available. This is what Kajumulo (1991) and others have called "Food Security Paradox", a phenomenon that is experienced even in the main food producing regions such as Rukwa and Ruvuma.

It is also worth noting that, although Tanzania produces a variety of staple food crops, maize is the dominant, accounting for almost a third of the supply and demand of most Tanzanian diets. Data on trends in maize production, consumption requirements, imports and exports indicate clearly that per capita consumption requirements fall short of production. Between 1980/81 and 1991/92, the country had experienced deficits of maize in 9 out of 12 years.

Besides, other studies have shown that, although aggregate figures of production and consumption may not be so alarming, the sub-regional level has always been different. Available data show that at one time, 11 regions (Coast, Dodoma, Kigoma, Lindi, Mara, Mtwara, Mwanza, Shinyanga, Singida, Tabora and Tanga) failed to meet food requirements in two out of five years, a probability of about 40 per cent. Food insecurity is also experienced at household level, where studies have shown that 43% of households in Mtwara and Zanzibar and 63% in Shinyanga produced grains that lasted for only six months. Another factor that justifies emergency food stocks is the growing refugee problem in the western part of the country. Since 1963, Tanzania has been facing an episode of refugee influx at least once a year, but this problem is becoming acute year after year.

The main point here is that, given low production of food grains, uncertain production conditions such as inadequate and unreliable rainfall, infrastructure weaknesses, marketing problems, bureaucratic delays and inadequate foreign reserves, a reserve stock is imperative in ensuring food security during crisis situations and the transition period between a crisis and the time when remedial action is finally taken. However, keeping a reserve stock involves high costs, which are associated with low or no profitability at all, poor efficiency and ineffectiveness in achieving desired goals. Alternative organizational, management and operational arrangements must be sought to minimize costs, improve efficiency and achieve effectiveness of SGR.

In future, one of the crucial issues for improving SGR operations is to review the assumptions and method used to arrive at stock levels. At the time of establishment, SGR stock level was set at 100,000 tons for emergency purposes. According to Kajumulo, the figure was based on NMC data for 1980/ to 1987/88 as calculated by Olivares (1988)⁴. The method involves constructing a monthly time series of say 3 or 5 months cumulative stock change based on the domestic market intake and sales. The rule is that the minimum reserve stock should be set at the maximum historical month stock rundown for a selected import lead- time, in this case 3 months. These figures would then show the minimum requirements over the year from August to July as shown in table 1:

Table 1: Three Alternative Monthly Series of Minimum SGR Stocks to Maintain Certain Confidence Levels

MONTH	CONFIDENCE LEVEL		
	LOW	MEDIUM	HIGH
August	21,000	42,000	63,000
September	20,000	44,000	68,000
October	32,000	55,000	79,000
November	57,000	78,000	100,000
December	74,000	93,000	112,000
January	86,000	104,000	122,000
February	86,000	102,000	119,000
March	83,000	102,000	111,000
April	73,000	97,000	96,000
May	57,000	84,000	77,000
June	47,000	67,000	71,000
July	31,000	59,000	63,000

Source: Olivares (1988) as quoted by Kajumulo (1991) p. 18

It was on the basis of such variations in requirements as shown in the table that a figure of 100,000 tons was arrived at after considering the need for 3 month lead time between ordering and receiving of grain from outside the country. It is necessary to run the calculation based on recent figures and a re-consideration of the lead-time given the current regime of market liberalization. While reviewing the stock levels, it is also worth factoring in actual historical emergency food requirements as requested by the Disaster Relief Coordinating Department of the PMO For example, in 1994/95 PMO requested for only 44,621 tons of maize and 4,462 tons of beans for emergency, while the latest request was only about 67,000 tons. Other variables to include in the equation are: the increased population which may imply that more people are vulnerable, food needs of refugees and a consideration of the lead time given the fact marketing, including exports and imports have been liberalized thus allowing that private traders to participate. However, for the latter point, the experience is that private traders took more time to import the latest consignment of maize.

In 1988/89, SGR reserves were increased to 50,000 tons to enable it to assume price support functions in favour of remotely located surplus producing regions of Rukwa and Ruvuma. Thus SGR's capacity for emergency reserves reached 150,000 tons. In view of

⁴ Fitzpatrick (1977) proposed a method of calculating emergency reserve (R) by considering three factors: number of people affected (A); number of days before supplies can arrive (lead time) (B); daily ration per head (dr). The formula is: $R = A \times B \times dr$. However, the method has been criticized for over-estimating requirements. The formula applied for the case of SGR was the Olivares method.

recommendations from existing studies, and the actual experience of SGR, this additional stock may be unnecessary because price stabilization and income support functions have not fared well. Indeed, they have proved to be a source of SGR's capital erosion.

5. SGR FINANCIAL POSITION AND PERFORMANCE 1996-1999

5.1 Financial Position

The FSD financial position as on 30/6/96, 30/6/97, 30/6/98 and 30/6/99 is depicted in Appendix 10, 11, 12, and 13 respectively. The financial position is summarized in table as follows:

Table 2: SGR Financial Position 1996-1999 (All Figures in TShs.'000)

	30.6.96	30.6.99	% Change
Current Assets	11,478,236	17,336,060	51.0
Less: Current Liabilities	415,879	3,975,854	670.7
Net Working Capital	11,062,357	13,360,206	20.8
Add: Fixed Assets	576,780	3,451,827	498.5
Net Assets employed	11,639,137	16,812,033	44.4
Less: Long-term loans	-	-	-
Net Worth	11,639,137	16,812,033	44.4

Source: SGR Records

Working capital and net worth have increased by 21 percent and 44 percent respectively. The net fixed assets increased about five times due to booking of godowns acquired from the National Milling Corporation.

In the period under review, the SGR Net assets employed have increased by 44 percent over the last four years, mainly due to stock accumulation and debtors which have been financed by Treasury grants of TShs. 3.5 billion and the Japanese Food-Aid counterpart funds of Tshs. 7.9 billion.

Analysis of the current assets indicates that the stocks and debtors have increased by 21% and 47% respectively over the last four year.

Table 3: Analysis of Current Assets f SGR 1995/96 - 98/99

	1995/96	1998/99	% Change
Stocks	3,463,715	4,183,954	20.8
Debtors	3,045,489	4,465,850	46.6
Cash/Bank	8,558,080	6,324,279	(26.2)
Prepayments	328,926	6,544,243	1,779.6
Staff Debtors	3,799	1,689	(56)
Total	15,400,009	21,520,015	39.7

Source: SGR Records

Also prepayments have increased by about 18 times while staff debtors have declined.

Further analysis shows that current liabilities have grown by about 8 times as a result of increases in trade creditors (15 times), Sundry creditors (twice) and doubtful debts (about 9 times).

Table 4: Analysis of Change in Liabilities of SGR 1995/96 – 98/99

	1995/96	1989/90	% Change
Trade Creditors	224,802	3,632,000	1,515.6
Sundry Creditors	206	3,464	1,581.6
Sundry Creditors	190,980	340,390	78.2
Doubtful debts	415,986	3,975,854	855.8

Source: SGR Records

The Profit and Loss Accounts for years 1995/96 to year 1998/99 are shown in Appendixes 14,15,16, and 17 consecutively. SGR made profits on her operations in year 1995/96 and 1996/97 but made losses in year 1997/98 and 1998/99. The trend in total costs compared to total revenue is as follows:

Table 5: Analysis of SGR Trading Profit and Loss

	1995/96	1996/97	1997/98	1998/99
Total Revenue	100%	100%	100%	100%
Cost of Sales	88%	86%	86%	106%
Gross Profit	12%	14%	14%	(6)%
Operating Expenses	8%	8%	*29.7%	3%
Net Profit/Loss	4%	6%	(15.7)	(9)%

* with prior years adjustments of 866 m.

Source: SGR Records

Total sales have increased by 86 percent over the four years mainly due to increased prices. Cost of sales increased by more than 122 percent over the years reflecting on increased purchasing prices for maize (see Appendix 17). While operating expenses have gone down by 52 per cent over the years, Net profit has gone down by more than 411 percent and resulted in losses for the last two year as shown below:

Table 6: Analysis of Trading Profit and Loss Account

	1995/96	1996/97	1997/98	1998/99
Total Sales	100%	89.8%	50.8%	186%.
Less: Cost of Sales	100%	88.6%	50%	222%
Operating Expenses	100%	39%	202.4%	51.8%
Net Income/Loss	100%	99.7	(262.1)%	(411)%

Source: SGR Records

The financial performance in 1998/99 was affected by sale of 74,000 tons of imported maize at a big loss. The trading results on this batch is summarized as follows:

Table 7: Analysis of Trading Results of Imported Maize in 1998/99

Purchase costs (7,400 tons)	11,719,148,881
Handling	170,940,000
Storage	336,256,000
Administration costs	139,860,000
Total costs	12,366,204,881
Cost per ton	167,110
Sales per ton	95,000
Loss per ton	72,110
Total Loss	7,030,000,000

Source: SGR Records

Note: The imported stock was discoloured due to high moisture content and therefore could not fetch high prices in the market. Detailed costings are shown in Appendix 17.

Budget versus Actuals Analysis: Performance of SGR against budget for the years 1995/96 to 1998/99 is summarized as follows:

- While net profit exceeded the target in years 1995/96 to 1996/97, they became negative in 1997/98/ and 1998/99 mainly due to an increase in the course of acquiring grain both locally and eternally.
- Inability on the part of SGR to meet targeted stock purchases except in year 1998/99 when target was met through importing grain.
- Target closing stock levels were not met in all the years except in 1996/97' due to drawdowns exceeding accumulations.
- Operating expenses have been kept below budget throughout the four years.

6. SUMMARY OF PREVIOUS STUDIES: RECOMENDATION AND STATUS OF IMPLEMENTAT

Four studies have been reviewed for this task. Their recommendations and status of implementati

I A: The Tanzanian Strategic Grain reserve. An effective and Efficiency Policy Tool: by D. Kajumu

	RECOMMENDATIONS	STA
1.	Minimum stock level of 100,000 tons is adequate for food security during emergency provided administrative and bureaucratic delays in approving financing and clearing food grain imports are reduced.	Stoc of a This rese tons finan
2.	Implement rules and regulations of the SGR strictly.	Dele the its o regu unde of in cont
3	SGR can play a useful role in preventing transitory food insecurity at household level in the short term by stabilizing domestic grain supply and prices.	SGR secu succ not s price

II Technical Assistance for the operation of the Strategic Grain Reserve and the Crop Monitoring report FAO 1993.

A: On FSD

1.	Appoint a full time director of FSD.	Appo
2.	BOT and Government examine and approve new structure and staffing of FSD	Done
3.	Provide adequate office space and facilities for efficient FSD services.	Done

B: On CMEWS

1.	Obtain more objective data on food crop area than currently available.	Done exter
2.	Annual household food requirement survey be done	Done
3.	Provide consultancy in agricultural statistics to design questionnaires and implement surveys.	Done
4.	Obtain backstopping service from SADCC for B-1 and B-2 above.	Done
5.	Widen/broaden circulation of Food Situation Reports and Food Security Reports to cover government private sector, international donor community, NGO's and Tanzania embassies.	Done priva
6.	Enhanced computing services are used to obtain higher speed of preparation and better presentation.	Done

C: On SGR

1.	Limit function of SGR to only meet requirements of emergency food security situations	Polic stabil emer tions
2.	Financial control and accounting system should be put in use on a regular basis especially in terms of timely accounting.	Acco
3.	Utilize CMEWU computing capacity for SGR accounts preparation and continuous update of stock position	Not y

TRAINING

1.	Train CMEWU and SGR staff in areas of agro-meteorology, data processing, statistics, agricultural economics, accounting, quality control, warehouse management and marketing	On-g
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III: Review of the Operations and Management of the SGR - Elmo L. Custudio FAO - 1994

1.	SGR be restructured and transformed as an autonomous organization under MAC	Not
2.	Establish SGR Technical Committee with membership from Government, donor community, NGOs.	Ad- insti
3.	The Technical committee assume advisory functions to SGR for assessment of overall food situation and requests for food releases	Not futu
4.	Prepare comprehensive rules for SGR to enhance stature and credibility of the SGR to the public.	Imp
5.	Reconcile the operational role of the DRCC of PMO with that of BOT of the SGR.	In p issu
6.	Fill functional needs of FSD and remove imbalances between CMEWU and SGR by incorporating planning, internal audit, monitoring and evaluation warehousing management and statistics physical distribution operations, inventory accounting, grain quality assessment and control.	Stru recc recc
7.	Government exerts more efforts to obtain donor support in order not to divert a lot of development resources.	Don
8.	Adopt alternative approaches to direct sales as the main mechanism for stock releases in order to address the sustainability issue e.g. <ul style="list-style-type: none"> • Inventory loans • Prices support and stabilization fund established by Act of Parliament • Procure on commercial terms on basis of cost plus arrangement 	Part mar
9.	It is not relevant and appropriate to use SGR price stabilization. Use the price support and stabilization fund if it becomes necessary to use SGR in order to cover costs of the social function.	SGF and
10.	FSD management must address problems which are within its resource capacity <ul style="list-style-type: none"> • E.g. physical upkeep of warehouses set procedures for disposition of old stocks and levels of authority 	Impl
11.	Redefine the purpose, use and size of the reserve	Initia
12.	Position reserve stock only in areas normally "in need" i.e. the disaster prone areas	Not
13.	Government to review and formulate an updated National Strategy on Disaster Preparedness, Prevention and Management with SGR being one of the components	Nea
14.	Consider NGO, churches and private sector capacity and resource bases while evolving/assessing the role and extent of operations of the SGR	Targ sam eme price

IV: Final Report On SGR by R.N. Nagpal - Financial Expert - FAO 1993

RECOMMENDATIONS		
1.	Head Office maintains a stock control ledger. There shall be separate stock-ledger card for each zone/centre in a summary form to record stock movement for each zone/centre separately and shall follow balance of stock per each centre/zone	Im
2.	Critically review to amend guidelines/rules in the accounting manual derived from NMC in areas of sales inter-branch transfers and payrolls to formally applicable to FSD	Im
3.	Computerize accounting and stock-records	Nc in
4.	Standardize weight of maize to be contained in each gunny bag	Im
5.	Appoint TAC as external auditors	Ge ex
6.	FSD have own internal audit staff	MA
7.	FSD should include costs of stock-transfer in annual budget support from Government	Bu Tre
8.	Financing of debtors for food relief for the nation should not be a burden to FSD - separate budget provision to PMO be done to allow for quick settlement of bills presented by FSD	Nc
9.	Unsold stocks at end of accounting period should be valued at cost or net realizable value which is lower (not selling prices as done earlier)	Ad
10.	Prepare job descriptions of accounting staff	De
11.	Functioning of SGR and CMEWU should be coordinated through common policies and integrated budget	Bu dir cor
12.	Consider imports for SGR due to cost factor on transportation and handling charges of transferring SGR stocks from far-flung surplus areas near the border and allow these surplus areas to export to neighboring countries.	• No
13.	Targeted safety stock levels of food grains at all strategic storage points need to be monitored on continuous basis and corrective actions to be taken wherever stock levels fall or are likely to fall below the said levels.	Lin fail sto
14.	There is need to provide or inject funds to recoup working capital (due to market prices being below costs) losses in addition to "normal" annual shortfall and late provision of Treasury funds	No
15.	Signatories to bank accounts should compulsorily include the accounting cadre	Imp

7. ISSUES FOR DISCUSSION BY THE TECHNICAL COMMITTEE

A: SGR Mandate

- There is a strong resurgence of the private grain traders as a direct result of an evolving free market environment and liberalization policy reforms put in place by the Government. Also there is a growing countrywide logistical capacity of NGOs and religious organizations as Government partners in responding to needs of disaster affected communities. Under the changed circumstances, it is opportune time to assess and redefine the role and purpose of the SGR. It is clear that there are imperative reasons for Government to continue to **maintain Emergency Grain Security Reserve** through the SGR/FSD, but it will have to **review the levels to be kept** in light of involvement by the private sector, NGOs and religious organizations.
- The impact of SGR as far as **price support and price stabilization have been ineffective and expensive**. SGR does not carry volume of operational stock, which can affect price levels to the farmer and consumers. Also it has been shown that price stabilization activities may negate the real value of emergency food security grain reserve and at the same time affect the overall **credibility and financial sustainability** of the SGR. Mixing responsibility in managing emergency food security stocks with operational/working stocks for price stabilization purposes in a single agency is not only operationally difficult but may not provide adequate focus to a core activity.
- In the event Government decides to keep the price stabilization mandate with SGR, formal steps to sustain financial integrity of the SGR must be put in place by **establishing viable Price Support and Stabilization Fund (PSSF)**.
- Provisions of the Food Security Act (1991) and the Disaster Relief Coordination Committee Act (1990) show overlapping mandates in disaster assessment, programme coordination and management. These need to be rationalized and harmonized.

B: ORGANISATION

- SGR must be evaluated in terms of its ability to effectively respond to recurring food emergency situations in the country. With well-defined roles goals, objectives and a clear statement of the purpose and utilization of the SGR stocks, the organizational structure can thereafter be worked out. The resultant structure should be able to transform and strengthen the capacity of SGR to manage the Reserve efficiently, in a sustainable manner and transparently. External decision-making bodies and imperatives have in the past, affected the requirements for efficiency, transparency and sustainability. There is therefore a strong reason for **FSD to be made operationally autonomous**. This will make SGR to address issues of pricing, acquisition of stocks and supplies and releases less subject to political and bureaucratic decision making procedures and processes. Currently, excessive bureaucratic decision-making tends to cause late and expensive procurements from local and foreign sources and not meeting recycling targets.
- The present organizational structure has to be adjusted to **remove functional imbalances and strengthen interrelationships between the SGR and CMEWU**. The monitoring capacity in CMEWU has to be augmented to SGR monitoring of stocks and marketing, planning/audit staff must be available on a daily basis at both the zonal and head office level. Staff members have to be intensively trained in buying, stocking and management of the SGR.

- **Consider rationalizing the storage capacity level given the changes in role of SGR stocks and the required stocking levels.** Historical drawdowns for emergency food security needs from SGR have not exceeded 80,000 tons; therefore about 161,000 tons of storage capacity is excess. The excess godown be sold or leased. If only emergency food security stocks are kept, consider godowns locations near disaster prone areas.

C: FUNDING

- Government budgetary allotment of funds for the replenishment of the SGR during the period 1995/96 -1998/99 has been substantial (TShs. 3.5 billion) With the only donor support coming from Japan (TShs. 7.8 billion). **The major donor support was in 1982.** Donors have voiced their reluctance to support SGR due to perceived lack of transparency in the food distribution and doubts whether releases from SGR are reaching the most needy communities. In order to secure and financially sustain the SGR operations the following be considered:
 - If the Government wants to maintain the price support/stabilization function with SGR, **establishment of Price Stabilization and Support Fund** to automatically replenish any shortfall in working capital to protect SGR liquidity and ensure sustainability supports the operational stock management.
 - Government, with donor assistance, provide adequate seed-money for the given emergency food security stock, and withdrawals from stock be made on basis of **cost plus margin** pricing and be paid promptly through the PMO. In order to achieve this, Government consider **establishing and funding a Disaster Food Security Fund** maintained by DRCC of the PMO given that in the past, SGR's stocks have become expensive due to untimely procurement stemming from delayed payment and therefore procuring expensive maize. The expensive maize stock is subsequently sold at a loss or low margin that does not ensure financial sustainability of the SGR.
 - Commercial price levels for SGR stocks (cost plus margin) be approved by BOT.
 - Consider alternative food security arrangements such as: Maintaining stock purchase options with the private sector. SGR will draw on the stock if needed and allow *private dealer with formal supply contract to buy back the stock if not needed by SGR.*
 - Consider set-up of food security funds at regional or district level (to be used to purchase from SGR) utilizing public subscriptions. This may be perceived as additional taxation
 - In order to increase transparency and increase joint planning with other players, e.g. *the donor community/NGOs, it is proposed that a Technical Advisory Committee* composed of Government (Treasury, PMO, PC, MAC), NGOs and the donor community be formalized in the SGR operational structure to advice on all SGR activities including funding of operations, assessment of needs and releases

D: STOCK LEVELS

- *Review the mandated stock level of 150,000 MT using recent historical data and population increase.* Historically stock draw-downs have never exceeded 80,000 MT
- SGR should concentrate on managing an emergency stock, which is essential in overcoming food insecurity in the short-run. However, in the long run, food security, as a multi-sectoral issue, has to be addressed through **improved infrastructure and accessibility to markets, increasing the purchasing power of vulnerable groups and focusing at household food security.** Also crucial investments in preventing

post-harvest losses and promotion of agro-processing should be given due consideration in policy and allocation of funds.

- Price support functions should not be placed upon the shoulders of SGR without adequate means of doing it. Where price stabilization/income support to farmers or consumers is politically desired, the means to pay for it must be made available. At present price stabilization is ineffective and inefficient, drawing upon the working capital of SGR.

E: OPERATIONS

- SGR has to be operated autonomously to shelter it from effects of bureaucratic procedures and political interference. The **financial sustainability** of the SGR will require efficient procurement, timely funding, and principled pricing which ensures recovery of all costs plus a margin to cover variability in working capital.
- The decision making process should be restricted to management and BOT with Government providing a regulatory framework, enabling policy-environment and facilitation to the SGR.
- Consideration should therefore be given to mandate BOT to guide and decide on issues of staffing, location and size of storage, procurement, disposal of excess assets, financing including borrowing from commercial banks and provide general operational guidelines to management. The BOT will exercise control on management through the budget process, the audited accounts and regular reports on operations.
- The operational guidelines and results of operations of SGR should be made public to enhance transparency and accountability. In order to guide/advise management of SGR, consider formalizing existence of Technical Advisory Committee composed of MAC, PMO, PC, NGOs, donor community and the private sector. This committee will also harmonize the resource bases and map out responsibilities of the players in a more coordinated manner.
- The SGR stocks should be distributed in a transparent manner. The process of identifying vulnerable groups and ensuring targeted households are served should be tidied up, made more transparent and widely publicized to remove any doubts of poor or "diverted" distributions. Transparency can be increased by widening circulation of food security reports and the joint plans by donors, Government, NGOs and church organizations.
- SGR consider alternatives for acquisition of reserve stocks.
 - Use of supply option
 - Set aside funds in an offshore account to be used to purchase maize in case of emergency need. It is estimated that 45,000 – 60,000 tons will cover emergency needs of three months. These would cost approximately TShs, 7.2 billion to 9.6 billion (equivalent to US \$ 9 –12 million) at current costs. This arrangement still suffers from bureaucratic procedures, long lead-time and ad hoc organization. These problems have to be resolved if the option is to work.
 - Use of private sector to hold emergency food reserves. However, private sector may be unwilling to incur extra costs.
- SGR be allowed to import or procure locally utilizing commercial principles.
- Consideration be given to allow border regions to export maize to neighboring countries due to high cost of moving stocks from these surplus regions to disaster prone areas compassed to imports. In the event SGR is compelled to purchase at non-commercial rates, compensation be given through the price support and stabilization.

TOR for the preparation of an Issues Paper on the structure and operations of the Strategic Grain Reserve (SGR)

1. Introduction

During February 1999 the Government of Tanzania committed itself to the establishment of a Technical Committee for the Review of the Structure and Operations of the Strategic Grain Reserve.

The necessity for the Review of SGR was prompted by several factors among others including the changing socio-economic environment under which the SGR is currently operating as compared with during the time of its founding, limited budgetary allocations for the operations with a need to reduce these costs and seek for alternative ways for maintaining efficiency and its effectiveness; and the need for increased transparency in its operations as called for by interested parties including the donors and the business community. As a follow up to Government commitment on the Review, the Ministry of Agriculture and Co-operatives through the SGR Board of Directors established a Technical Committee on Review of SGR with Members drawn from the Government, specialised UN agencies on the subject and some selected donor countries and agencies with interest on SGR reform.

The Technical Committee decided that, as a starting point for the review, the Food Security Department should prepare an Issues Paper to inform the debate in the committee. Ireland Aid was requested to provide advice on the content and format of the paper. The Issues Paper will be a confidential internal document for the committee and should discuss all relevant issues openly and frankly.

2. Overall objective

Conduct a desk review and prepare an issues paper on the structure, operations and management of the SGR. The paper should review the evolution and performance of the SGR to date. A brief summary of the historical background of the SGR should be provided but the document should concentrate on the performance of the SGR in the period 1996 to 1999.

The issues paper will serve to define the parameters for a comprehensive review of the need for and viability of a strategic food reserve mechanism, with a view towards making recommendations to government on the objectives, operating strategy, institutional framework, management structures, dimension and funding arrangements of such a mechanism.

3. Specific terms of reference

1. Examine the purpose and specific objectives of the SGR. Review the legislation and rationale governing its establishment in view of the ongoing food security situation and policy changes.
2. Outline the institutional, operational and management structure of the SGR. Describe the decision-making processes related to both the routine and emergency purchase, storage and release of grain at national and local level. Describe the relationships between the SGR and the MAC, PMO, Treasury and PO with regard to SGR operational management.
3. Indicate the SGR facilities and capacities in the country. Indicate number, location, size and condition of storage, transport and distribution facilities. Indicate numbers, location, levels and technical specialisation of staff.

4. Review and evaluate the appropriateness of the criteria used for determining the target stock levels.
5. Review the performance of the SGR in the period 1996 to 1999 in terms of stocks purchased and releases for commercial use, releases for emergency assistance and releases for stock rotation. Information should be presented on a regional/zonal basis.
6. Review the procedures and strategy used in the purchase and release/sale of grain and their effectiveness in stabilising market prices and ensuring commercial viability of the SGR operation.
7. Review the financial performance of the SGR. Indicate the costs related to purchase, storage and distribution of grain and the administrative/management costs of the SGR (include GoT budgetary allocations and donor funding). Indicate the receipts generated by the sale of grain through stock rotation, commercial sales and emergency releases and the use to which these funds were put.
8. Provide a comprehensive listing of studies and reports relating to the operation and management of the SGR and prepare a matrix synthesising their major recommendations and measures taken for their implementation to date.
9. Outline the principal issues for discussion by the Technical Committee arising from the review of points 1 to 6 above.

3. Methodology

The consultants will conduct a desk study using resources and materials available from the Food Security Department, the PMO and relevant donors. In preparation of the paper the ^{consultants} task group will make consultations with the members of the technical committee and relevant technical experts within MAC and other institutions.

4. Reporting

Wherever possible information should be presented in a summarised format preferably in tables and matrices. The text portions of the document should be focussed and precise, avoid repetition and refrain from the use of rhetoric.

The first draft of the Issues Paper, not more than 20 pages in length, should be submitted to Ireland Aid and the Food Security Department, MAC, for review by 18/10/00. Ireland Aid and FSD comments will be submitted to the consultants by 20/10/00. The final version of the paper will be submitted by the consultants by 23/10/00.

A visual presentation of the issues paper, by overhead projector, will be made by the consultants at the Technical Committee meeting on 25/10/00.