PL-480 PILOT COMMERCIALIZATION

LESSONS LEARNED

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PL-480 PILOT COMMERCIALIZATION

LESSONS LEARNED

EXECUTIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

During the summer and fall of 1990, O/AID/REP, in coordination with the Government of Pakistan, carried out a Pilot Commercialization Program with 10,000 tons of PL-480 wheat. Development Alternatives, Inc. (DAI), a contractor to the Afghanistan Agricultural Sector Support Project, acted as Administrator to the program. Following procedures agreed upon by O/AID/REP and the Government of Pakistan, DAI held three auctions, the first in Peshawar and the others in Quetta, inviting traders to bid on wheat for resale in Afghanistan. Although the Peshawar auction was unsuccessful (all bids were below the floor price), the two in Quetta proved that the program was feasible.

Overall, the Pilot Commercialization Program must be considered a success. The procedures were, by and large, workable; Afghan traders were interested; and the traders were able to purchase, transport and resell wheat through commercial channels. This is not to say, however, that the auctions took place without hitch. Major problems derived from poor communications and inadequate understanding of the Program within the Government of Pakistan. Yet future commercialization efforts should be successful if certain recommendations for improvement are implemented and sufficient contractor manpower is committed.

This paper attempts to summarize the program, identify key lessons learned and make recommendations for future PL-480 commercialization efforts. The paper makes the following recommendations for future PL-480 commercialization efforts.

- All deposits to DAI for bid and security bonds should be made by bank draft.

- In the event that there are identical successful bids for a greater quantity of commodities than is available, it should be allocated in proportion to the number of bidders.

- It would be of value to conduct a limited number of future auctions with varying maximum quantities, ranging from significantly lower quantities (say, 100 tons out of a total of 5000) to no minimum quantities at all.

- We recommend establishing a separate Commercialization Group with the Project whose sole function would be administration of PL-480 auctions.

- There should be no overt attempts to control commodity destinations within Afghanistan.

- Tracking could be improved through more formalized and systematic interviews with traders. Additionally, project personnel might occasionally accompany wheat shipments, not so much to verify delivery as to better understand distribution mechanisms.

- The project should conduct a limited number of auctions for commodities to be picked up inside Afghanistan.

- All auctions should be preceded by a meeting to include representatives of relevant GOP, O/AID/REP and DAI bodies who will agree on their respective roles and obligations.

- MINFA and/or CCAR should be contractual parties with the winning bidders.

- We recommend that a working group be set up, including federal and provincial representatives of CCAR, MINFA and Home Affairs, as well as O/AID/REP and DAI, to draw up a detailed plan for auctions during calendar year 1991. The plan would include:

  - approximate quantities and types of commodities,

  - locations of auctions,

  - approximate dates,

  - roles of each of the parties (CCAR, MINFA, DAI etc.)

  - simple procedures for amending the plan.

  The plan would provide the basis for the meetings that would precede each auction as outlined above.

- All instructions to DAI from O/AID/REP should come through its Project Officer to the Chief of Party

based in Peshawar.

I. BACKGROUND, JUSTIFICATION AND OBJECTIVES

I.A. Background. In 1989, O/AID/REP began preparations for commercialization of a portion of PL-480 commodities destined for Afghanistan. Under Amendment No. 1 of the Transfer Authorization signed by the Governments of Pakistan and the United States in July of 1989, 60,000 metric tons of wheat were added to the fiscal year 1990 program. Of that total, 10,000 tons were to be "sold (monetized) for distribution within Afghanistan by private distributors". (Crandall, May 10, 1990.) The wheat would be drawn from stocks in GOP Food Department warehouses in Peshawar and Quetta.

In September of 1989, the Governments of Pakistan and the United States signed an Implementation Agreement which further defined procedures for commercial sales and stated that the GOP would assist in making arrangements with Afghan "entities/traders" to facilitate re-export of the wheat. A consultant group reviewed existing regulations, conferred with relevant GOP bodies and others in November of 1989 and made recommendations concerning the most effective way of conducting commercial sales. The resulting Implementation Plan was reviewed and amended by the Governments of Pakistan and the United States.

In May, 1990, the Chief Commissioner, Afghan Refugees (CCAR) of the Government of Pakistan and the AID Representative for Afghanistan (AID/REP) of USAID signed a Project Implementation Letter. The Implementation Letter specified that Development Alternatives, Inc. (DAI) would act as Administrator of the pilot program. The Implementation Letter was counter-signed by DAI's Chief of Party. A copy of the Letter is attached.

I.B. Justification. The pilot program grew from the realization that, while there is substantial unmet demand for food (particularly wheat) in Afghanistan, free distribution can create dependency, distort markets and be a disincentive to local production. Furthermore, commercial markets, distribution systems and financing mechanisms, though disrupted by the war, continue to function in Afghanistan. Given these factors and the belief that many ordinary Afghans have sufficient cash to pay market prices for food stuffs, O/AID/REP developed strategies for testing food distribution through private sector, commercial channels.

In developing the PL-480 commercial sales pilot program, O/AID/REP felt that the private sector could, under

certain circumstances, be utilized to move food stuffs into deficit areas more efficiently than direct distribution mechanisms. The program was "aimed at providing one part of a food security system which can operate without bureaucratic delays in moving food inside Afghanistan, as requirements justify." (Draft Implementation Plan, no date.)

I.C. Objectives. As set forth in the Implementation Letter, the objectives of the PL-480 commercial sales pilot program were two-fold:

1. Test officially sanctioned, commercial wheat sales and marketing/distribution operations into Afghanistan; and

2. Provide a better understanding of the underlying marketing/distribution dynamics in response to a variety of demand and supply factors.

II. SUMMARY OF ACTIVITIES UNDERTAKEN

II.A. Planning. Following appointment as Administrator, DAI began planning for an initial auction of 2500 metric tons of wheat from Peshawar, to be followed by another auction from Quetta. Staff members drew up operational procedures (for details, see the appended Bid Document and Section III. A. below) based on the consultant study. These included, among others:

- eligibility requirements,
- bid submission procedures,
- minimum and maximum bid quantities,
- floor price,
- period of validity of bids,
- award criteria,
- performance security,
- payment mechanisms.

In addition, DAI established a bank account into which receipts would be deposited.

II.B. First Auction. DAI conducted the first auction under the PL-480 Commercialization Program on June 20, 1990, at its Peshawar Trade Center. The floor price, in accordance with the agreement with the GOP, was fixed at the official Pakistani price of Rs. 250 per 100 Kg. plus three percent (i.e., Rs. 257.5 per 100 Kg.). Staff members had identified over fifty potential bidders through their own contacts in the local trading community, as well as through interviews with the Vice President of the Peshawar Chamber of Commerce and provincial government officials. (AID had earlier requested DAI to restrict itself to "informal" publicity rather than public advertising through media such as local newspapers.) Following discussions with DAI staff, seventeen of the identified merchants (12 Afghan and 5 Pakistani) expressed interest and took bid documents.

Nine merchants (all Afghan) returned bids and security deposits on June 20. All bids were for the maximum quantity, i.e., 500 tons. Although all participants were aware of the floor price, the bids ranged from a low of Rs. 190 per 100 Kg. to a high of only Rs. 225, some Rs. 32.5 below the floor. The bidders were all domiciled in Peshawar or the adjacent Tribal Areas and listed their home provinces as Ghazni, Logar and Paktia. They intended, if successful, to market the wheat in Logar, Wardak, Ghazni, Paktia and Paktika.

II.C. Second Auction. DAI held the second PL-480 wheat auction for 5000 tons at its Quetta Trade Center on July 16, 1991. Fifteen traders submitted bids, all but one of which were for the maximum of 500 tons. The ten highest bids were all for the same amount, Rs. 281 per 100 Kg., which was about nine percent above the floor price of Rs. 257.5. DAI Quetta-based staff believed that the high bidders constituted a consortium led by a Mr. Bahauddin, who is originally from Kandahar and currently operates out of Chaman.

Although the auction was held on July 16, it was not until August 22 that the successful bidders were able to begin drawing down their wheat from the Food Department Warehouse. To its chagrin, DAI learned that neither the Food Department nor the Home Department of the Government of Balochistan had been informed of the PL-480 program. Although the relevant ministries at the federal level were aware, they had apparently not communicated with their provincial offices. Thus, when the Representative of the Chief Commissioner for Afghan Refugees in Quetta and DAI's Trade Center Director contacted the local Food Department for release of the wheat to the traders, they were turned down pending orders from Islamabad. They had a similar experience with the Home Department in regard to the Route Permits that would allow export to Afghanistan. In spite of

repeated interventions by AID officers at the federal level, it took more than a month to rectify the situation. (DAI received anecdotal reports that indicated that the traders actually benefitted from the delay because of increases in the market price of wheat in Afghanistan during the period in question.)

In the weeks following shipment, DAI tracked the wheat. Bahauddin and the other traders resold it in Spin Boldak, which lies in Kandahar Province, just across the border from Chaman. They were able to provide staff members with copies of invoices and their customers' bills of lading for 4400 tons, which gave a truer indication of the wheat's final destinations. Slightly over half appears to have gone to Kabul Province; the rest would seem to have been sold in Ghazni, Helmand and Kandahar. (Please note that it is unclear as to whether the wheat was sold in the regime-controlled provincial capitals or the liberated outlying areas.) The following is a precise breakdown of final destinations insofar as DAI is aware:

DESTINATION	TONS
Kabul	2313.3
Ghazni	987.0
Helmand	562.0
Kandahar	536.0
Total	4398.3

In the case of the latter three provinces, there is anecdotal information to suggest that a substantial portion was sold once again for shipment on to food-deficit areas in the central and northern regions of the country.

II.D. Third Auction. At the request of O/AID/REP, DAI held a third auction for 5000 tons of PL-480 wheat in Quetta on October 22, 1990. Following an increase in the government wheat price, DAI raised the floor price to Rs. 293 per 100 Kg., roughly Rs. 35 higher than in previous auctions. Trader interest was significantly higher than in the two previous auctions. This probably was the result of several factors, including greater awareness of the program within the trading community, higher Afghan wheat prices due to the approach of winter and a knowledge of the profits realized by the high bidders in the second auction.

One hundred eighty traders requested bid documents; of these, ninety-six submitted bids. They represented not only the southern provinces of Helmand, Kandahar and Zabul, but the eastern and northern provinces of Ghazni, Logar, Kabul and Samangan as well. Bids ranged from a low of Rs. 301 per 100 Kg. to a high of Rs. 345. During the opening, thirty-seven traders withdrew their bids after it became apparent that they were too high; two other bids were rejected as they did not include the required security deposit.

The high bidders were a consortium of ten traders from Shah Joy in Zabul Province, led by Haji Abdul Sattar, who each bid Rs. 3451 per ton for the maximum quantity of 500 tons apiece. Sattar is well known to DAI staff and is an active trader in fertilizer and agricultural machinery.

Reminiscent of the situation following the previous auction, the Balochistan Food Department initially resisted releasing wheat to the Sattar consortium on the grounds that the department had not yet received release orders from Islamabad. Subsequently, the Food Department maintained that there was actually no wheat left to distribute. Again, it was necessary for AID and the office of the Chief Commissioner for Afghan Refugees to intervene before the traders could begin to receive their wheat (which, indeed, did appear to exist). It was late November, approximately one month after the auction, before the traders were able to take delivery of the first 500 tons of wheat. During this period, the Government of Pakistan announced a forty percent increase in fuel prices, which in turn caused a significant rise in freight rates.

Haji Sattar felt that he had incurred several costs as a result of the delay. First, he had based his bid on economic assumptions (i.e., transport costs) that were invalidated because of the unexpected fuel price increases. Secondly, his performance bond on the initial 500 tons was tied up for a month. Thirdly, he was unable to meet contractual obligations to his customers due to a delay that was beyond his control. He submitted a request for compensation to DAI in late November. DAI forwarded his request to O/AID/REP along with a recommendation for compensation at a significantly lower level. As of this writing (February, 1991), O/AID/REP has not responded.

Unusually bad weather and fighting in southern Afghanistan complicated wheat shipments. From late November through February, the pass between Quetta and Chaman was periodically closed by snow and rain, while roads inside southern Afghanistan were washed out by floods. Fighting between government forces and mujahideen effectively closed the road between Kandahar and Zabul for much of this period as well. As a result, Haji Sattar and his consortium were able to ship only 1500 tons of wheat from late November until early February, 1991.

In mid-February, DAI staff in Washington received word from Pakistan that staff there had been informed by the Balochistan Food Department that no further wheat was available for release to the traders.

Weather, fighting and the (seemingly successful) mujahideen blockade of Kabul have forced the initial 1500 tons of wheat to destinations other than the country's capital. Preliminary tracking based on invoices, bills of lading and trader interviews suggests that the wheat's destinations are as follows:

DESTINATION	TONS
Ghazni	431.5
Zabul	199.3
Oruzgan	160.0
Wardak	125.5
Kandahar	108.0
Total	1024.3

The balance, 475.7 tons, is (as of February 18, 1991) held up in Spin Boldak by the weather.

III. THE ROLE OF DEVELOPMENT ALTERNATIVES, INC. AS ADMINISTRATOR.

As the PL-480 Pilot Commercialization Program has evolved, there have been four aspects of DAI's role as administrator. They are:

- development of operating procedures for the auctions,
- administration of the auctions,
- management of funds,
- liaison with the GOP on the provincial level.

III. A. Operational Procedures. DAI built upon the recommendations of the consultant group to establish Operational Procedures for the auctions. These are contained in the appended Bid Document.

III. A.1 Lessons Learned. Overall, the Operational Procedures have worked extremely well and the auctions have proceeded without major difficulties. However, DAI feels that there are three areas in which positive changes could be made:

- Traders typically make deposits for bid and security bonds in cash. The large amounts of cash on hand following each auction pose a potential security risk to the project.

- The procedures do not cover the eventuality of a number of auction participants placing identical bids for a quantity of commodities greater than that available. For example, suppose that 5000 tons are being auctioned and 15 traders each place the same bid for 500 tons apiece.

- Point 14 in the Bid Document protects DAI (and, by extension, O/AID/REP and the GOP) against non-performance on the part of the bidder. However, there is no comparable clause offering protection to the bidder in the event of non-performance on the part of the parties providing the commodities. (This is discussed at greater length in IV.A.3 and IV.B.5 below.)

III. A.2. Recommendations. Based on the Lessons Learned above, we feel that the Operational Procedures should be altered as follows:

- All deposits to DAI for bid and security bonds should be made by bank draft.

- In the event that there are identical successful bids for a greater quantity of commodities than is available, it should be allocated in proportion to the number of bidders. For example, in the instance discussed above, each bidder would receive 1/15 of 5000 tons.

- Recommendations concerning non-performance on the part of DAI, O/AID/REP or the GOP are discussed in Section IV.B.5 below.

III. B. Administration of Auctions. DAI staff members conducted each of the three auctions held under the Pilot Program. Although each was organized by Peshawar or Quetta Trade Center staff, personnel from project headquarters in Peshawar opened the bids and announced the winners. Project personnel accepted, counted and issued receipts for all deposits in front of bidders. DAI has conducted all aspects of the auctions publicly, with all bidders present and with the participation of representatives of the GOP and USAID. The Afghan traders have accepted the auctions as fair and well run. While we do not recommend any changes in the way in which they are conducted, we do feel that at times they have placed a burden on staff members and have interfered with their other duties.

III. B.2. Recommendations. In order to minimize interference with DAI's other duties, we recommend establishing a separate Commercialization Group with the Project whose sole function would be administration of PL-480 auctions. The Group would comprise a Group Leader, an Accountant and a Trader Liaison Officer.

III. C. Management of Funds. DAI established bank accounts into which successful bidders deposit funds for commodities and from which DAI, at O/AID/REP request, withdraws funds. The account in Quetta clears weekly into the main account in Peshawar which is controlled by senior DAI management. The only problem encountered with the operation of these accounts is the cash deposits made by unsuccessful bidders that have to be returned; either the cash has to be held or it is deposited and cleared to Peshawar and then must be transferred back for refund. This problem will be eliminated by requiring bank drafts rather than allowing cash deposits. The bank drafts can be held in a safe and deposited or returned to the bidder as the case may be. (See III.A.)

III. D. Liaison with GOP. In the course of organizing and administering PL-480 auctions, it has been necessary for DAI to work closely with the provincial offices of the Chief Commissioner for Afghan Refugees, the Food Department and the Home Affairs Department. Lessons Learned and Recommendations in this area are discussed in Section V. below.

IV. RESPONSE FROM TRADERS.

Traders responded with interest to the three auctions. As might be expected, trader participation has increased with each successive auction. Given the prohibition on public advertising (see II.B. above), word of mouth has brought greater numbers of traders into the program after each auction. Numbers of traders and their home provinces are outlined in Section II.

IV. A. Lessons Learned.

IV. A.1. Maximum Bid Quantities and Consortia.

In order to prevent monopoly control of the wheat auctions, the original Implementation Agreement specified maximum quantities of wheat that could be purchased by individual traders. Although the results of the two successful auctions conformed with the letter of the Agreement, in fact the winning bidders formed consortia each centered around two powerful and influential traders. On examination, this is consistent with what DAI has learned of war-time trade in Afghanistan. DAI's experience in both PL-480 commercialization and fertilizer marketing suggests that, in addition to a high degree of shrewdness, successful traders share three characteristics:

- They are personally wealthy or, more commonly, have access to credit. Credit is normally extended by other wealthy Afghans, by political parties or commanders or by family and tribe members. (These are often the same.)

- They have extensive contacts with wholesalers, retailers and commercial truckers. (Indeed, they often own trucking or transportation brokering operations themselves.) Their contacts allow them to ship wheat (or other commodities) further, to areas with higher potential profits. This network is also an effective market information service from which smaller, less sophisticated traders do not benefit.

- They have a network of relationships that enables them to cross political, tribal and religious boundaries. These relationships are often reciprocal among traders. If, for example, one is well connected in Logar and another equally well connected in Kunduz, they will do each other favors by interceding with local commanders on one another's behalf when necessary.

As a result, there are relatively few Afghans capable of bidding independently and successfully on wheat. Even if a potential bidder is able to mobilize funds, he may well not have the commercial and political/social contacts to allow him to minimize the high degree of risk involved in trade inside Afghanistan as well as the normal costs of doing business. These contacts increase the trader's potential profit and allow him to outbid smaller competitors. It is not surprising that smaller

traders form ad hoc consortia around larger, more successful ones for the purchase of wheat (as well as fertilizer and other commodities). Not only do they pool their financial resources, but they benefit from the leader's contacts and relationships. The "junior partners" in the consortium are typically members of his tribe and are often from his extended kinship group. Their participation may either be as "minority shareholders" or as simple nominees of the leader to meet procedural requirements.

Consequently, maximum quantities for individual traders are, and will continue to be, a fiction. Whatever O/AID/REP, the GOP and DAI determine to do in the future, the nature of commercial life in Afghanistan during the war is such that any large-scale trade will be dominated by a few wealthy and successful merchants. This is not to say, however, that smaller merchants do not ultimately benefit. The large traders are essentially wholesalers; as wheat moves down the distribution chain, successive buyers are smaller and smaller. The final buyers are normally individual shopkeepers.

IV. A.2. Distribution Chains, Final Destinations and Tracking. The buyers of wheat in the second and third auctions functioned as middlemen, picking up product in Quetta, transporting it to Afghanistan and selling it in Spin Boldak. After that, a large proportion of the wheat from the second auction appears to have gone to Kabul. There is probably no way to avoid this so long as access is possible and the potential profits are highest there. In the case of the third auction, little (if any) wheat has so far gone to Kabul, as a result of the apparently successful mujahideen blockade. These two experiences illustrate the point that, in the absence of physical barriers, commodities will flow from areas of low profits to areas of high profits. However, even if there were some administrative mechanism that O/AID/REP could use to restrict the flow of PL-480 commodities to regime held areas, the net effect would likely be the same as if the mechanism had never existed.

Although Afghanistan is politically fragmented, economically it is a single market. PL-480 wheat auctions (and free distribution or increased local production, for that matter) increase the total quantity of wheat in the country. Wheat from surplus areas will naturally flow to deficit areas, whether in regime or resistance hands, so long as price differentials exist. Whether the actual wheat that goes to Kabul is from USAID or grown in, say, Ghazni is irrelevant.

As noted, the successful bidders are middlemen who have resold the wheat on the other side of the border, just inside Afghanistan. So far, DAI has been relatively successful in tracking distribution by subsequent buyers, who have been willing to provide the original bidders with copies of bills of lading

showing where the wheat was shipped. The traders' willingness to cooperate is, in large part, due to the goodwill that exists between DAI and the trading community. They are well aware that there is no effective way for the project itself to track the wheat's movements once it crosses the border. (Monitors are easily bribed or intimidated; distinctive markings can be removed; and false bills of lading can be readily provided.) So long as we do not place onerous restrictions on the traders, they will have no incentive to lie and will be relatively forthcoming about where the wheat has gone.

IV. A.3. Obligations, Contractual and Moral. Following the second and third auctions, the successful bidders encountered significant delays before they were able to pick up wheat (see Sections II. C. & D. for details). Poor communications within the Government of Pakistan appear to be the cause (see Section V. below). These delays are a violation of the spirit, and probably the letter, of the Bid Documents issued by DAI, which state in Section 12.2 (see Attachment), "DAI shall warrant the quality and prompt delivery of the wheat in standard 100 Kg. bags."

The winners of the third auction themselves encountered conditions that, following resolution of the issues that had prevented them from drawing down the wheat for a month, delayed pickup and shipment to Afghanistan. However, Section 14.2 of the Bid Document states,

> If at any time during performance of the contract the Bidder should encounter conditions impeding the movement of the wheat, the Bidder shall promptly notify DAI .....DAI, at its discretion, may extend the time for moving the wheat.

The traders met these conditions and DAI, as authorized, extended the time for pick up.

The delays call into question the viability of future PL-480 commercialization efforts. Success depends in large part on a relationship of trust between the trading community and DAI. If DAI is perceived to be an unreliable partner, the traders' future participation is doubtful. Of even greater concern are the possible adverse effects on the Private Sector Agribusiness component of ASSP. Relations soured by the PL-480 commercialization will inevitably carry over into other O/AID/REP private sector initiatives.

IV. B. Recommendations. Drawing on Lessons Learned from the trader response, DAI recommends the following in future auctions.

IV. B.1 Maximum Bid Quantities. Given the nature of trade in Afghanistan as discussed above, maximum quantities are probably meaningless. Consortia, dominated by one or a few major traders, will dominate bidding, whatever the limits. We feel that it would be of value to conduct a limited number of future auctions with varying maximum quantities, ranging from significantly lower quantities (say, 100 tons out of a total of 5000) to no minimum quantities at all. Trader response under these conditions would give us a greater understanding of market and trade mechanisms.

IV. B.2. Controlling Commodity Destinations. Given the nature of goods flows inside Afghanistan, we do not feel that it is appropriate (or feasible) to attempt to control the ultimate destination of commodities, so long as we are certain that they actually leave Pakistan. Prevention of shipment to Kabul or other regime-controlled areas is a function best left to the mujahideen. Consequently, we do not recommend overt attempts to direct shipment to specific areas.

IV. B.3 Tracking. So far, tracking has worked relatively well. We feel, however, that it could be improved through more formalized and systematic interviews with traders. Additionally, project personnel might occasionally accompany wheat shipments, not so much to verify delivery as to better understand distribution mechanisms.

IV. B.4 Distribution Chains. To date, we have depended on distribution chains that originate in Pakistan. We recommend that DAI conduct a limited number of auctions for commodities to be picked up at specified points inside Afghanistan. For example, Spin Boldak might be an appropriate pick up point for the traders. This would perhaps reduce some of the difficulties that traders have encountered with the government of Pakistan as well as possibly opening up other sets of traders who do not normally move goods across the border. DAI would contract for transportation and would pay freight with rupee funds from the PL-480 Special Account.

IV. B.5. Contract Performance. Many of the difficulties encountered to date stem from poor communications within the government of Pakistan. For example, although DAI warranted prompt delivery of wheat, it was unable to perform due to confusion over the program within the GOP. In order to avoid the same problems in the future, we recommend the following:

- Each auction should be preceded by a meeting

that will include provincial representatives of O/AID/REP, DAI, MINFA, CCAR. All should be apprised of their respective obligations and should provide written confirmation that commodities are available and that necessary permits will be issued.

- MINFA and/or CCAR should be contractual parties with winning bidders.

V. ROLE OF THE GOP.

The PL-480 Pilot Commercialization Program was a joint effort between O/AID/REP and the Government of Pakistan. As such, the GOP was involved from the outset at both the federal and provincial levels.

V. A. Lessons Learned. In both the second and third auctions, the successful bidders experienced significant delays (for details, see Sections II. C and D above) in implementation. The delays appear to have stemmed from poor communication between CCAR and other Pakistani bodies. In particular, provincial officials of the Ministry of Food and Agriculture and Home Affairs seem to have either been unaware of the program or unclear as to their roles in it.

V. B. Recommendations. It would be presumptuous to recommend administrative changes within the Government of Pakistan. Rather, we feel that O/AID/REP should take the lead in making the PL-480 Commercialization Program a real joint effort with Pakistan. We recommend that a working group be set up, including federal and provincial representatives of CCAR, MINFA and Home Affairs, as well as O/AID/REP and DAI, to draw up a detailed plan for auctions during calendar year 1991. The plan would include:

- approximate quantities and types of commodities,
- locations of auctions,
- approximate dates,
- roles of each of the parties (CCAR, MINFA, DAI etc.)
- simple procedures for amending the plan.

The plan would provide the basis for the meetings that would

precede each auction as outlined in IV.B.5. above.

VI. THE ROLE OF O/AID/REP.

O/AID/REP's activities during the Pilot Commercialization Program concentrated, in general terms, in three areas. First, it originated the program and drew up the Implementation Plan. Second, it gave general guidelines to DAI for scheduling the auctions. Finally, O/AID/REP officers served as liaison and trouble shooters between DAI and the GOP.

VI. A. Lessons Learned. As noted above, the Implementation Plan has generally worked well and the guidelines for scheduling auctions have been helpful. From the point of view of implementation, O/AID/REP's most valuable contribution has been as a trouble shooter and problem solver. It was only through its intervention that the problems associated with the second and third auctions were resolved.

DAI experienced some difficulties in its dealings with O/AID/REP because of ambiguous lines of authority. DAI's primary role is as a contractor in the Agriculture Sector Support Project and, as such, reports to the Agriculture Office. Responsibility for the PL-480 Commercialization Program, however, lies with the Food for Peace Office. This led, at times, to some confusion and uncertainty in implementation.

A second problem arose from the fact that DAI's project headquarters is in Peshawar while the two successful auctions took place in Quetta. From time to time, O/AID/REP officers in Islamabad by-passed Peshawar and gave instructions to DAI's Quetta Trade Center Director. This again created some confusion and made it somewhat difficult for DAI senior staff to adequately manage the program.

VI. B. Recommendations. We recommend that all instructions to DAI come through its Project Officer to the Chief of Party based in Peshawar.

بسم الله الرحمن الرحيم

GOVERNMENT OF PAKISTAN
States & Frontier Regions Division
CHIEF COMMISSIONERATE
AFGHAN REFUGEES

No.CC(R&R)&CCAR-11/90

ISLAMABAD 12 May, 1990

Tele : 851191
CHIEF COMMISSIONER

Mr. Larry Crandall,
US AID Representative,
American Embassy,
Islamabad.

MAY 14 1990

Dear Mr. Larry Crandall,

Reference your letter of 10th May, 1990 forwarding therewith the final version of the Implementation Letter for the PL 480 commercial wheat sales pilot programme.

2. The Implementation Letter after having been countersigned by the undersigned is returned herewith for further necessary action at your end.

Maj.Gen.(Retd.),
AGHA ZULFIQAR ALI

Encl: As above

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

AID REPRESENTATIVE

American Embassy
Islamabad, Pakistan

May 10, 1990

Major General (Rtd.) Agha Zulfiqar Ali
Chief Coordinator (Rehabilitation and Reconstruction)
and Chief Commissioner, Afghan Refugees
House No. 3, Street 49, F-8/4
Islamabad

Subject: Title II PL 480 War-Affected Afghan Emergency Relief
Project Implementation Letter No. 1

Reference: Transfer Authorization No. 931-XXX-000-9635 as Amended

Dear General Zulfiqar:

This letter concerns the implementation of our joint agreement to provide humanitarian food relief to war-affected Afghans.

As you know, Amendment No. 1 to the referenced Transfer Authorization was signed on July 12, 1989 by the Governments of Pakistan and the United States, adding 60,000 metric tons (MT) of PL 480 wheat to the fiscal year 1989 program. According to the Agreement, an Implementation Plan is to be developed which describes the procedures required for a pilot effort to sell 10,000 MT of the wheat to commercial traders for delivery and to test market/distribution systems inside Afghanistan.

BACKGROUND

Cooperation between our two governments in the implementation of the Title II program for war-affected Afghans began in February 1987. Since that time over 185,000 MT of wheat have been delivered inside Afghanistan for humanitarian purposes. In addition to providing PL 480 wheat for the existing delivery mechanism, it is the intention of the above agreement to diversify with pilot-commercial sales and food-for-work activities to accomplish our common goal of helping to assure

sufficient stocks of wheat in free areas of Afghanistan to sustain its population.

Paragraph G-3A of the agreement states, "of the 120,000 MT of wheat covered by this agreement, not less than 10,000 MT will be sold (monetized) for distribution within Afghanistan by private distributors; and, not less than 5,000 MT will be provided to USG contractors and/or grantees and/or to other private entities to support activities for war-affected Afghans and to diversify channels of distribution. It is the intention of this agreement that all commodities, including those monetized, are to be delivered into Afghanistan." Paragraph G-4 provided general guidance on implementation of the program.

On September 17, 1989, the GOP and the USG signed an Implementation Agreement which further defines procedures for commercial sales. The Agreement states, "The GOP will assist in making arrangements with Afghan entities/traders to facilitate the re-export of not less than 10,000 MT of the above wheat. A specific plan will be developed in cooperation with the GOP, and then will be the subject of subsequent implementation letters." A review of existing regulations and available resources was conducted November 1-25, 1989, to determine the most effective possible method of conducting commercial sales. Representatives from the GOP Ministries of Finance, Foreign Affairs, Commerce, Food and Agriculture were consulted.

IMPLEMENTATION PLAN

The plan presented below to implement the pilot commercial sales activity, calls for the assignment of an administrator to manage the activity and outlines basic steps required to tender, sell, and track distribution of the wheat, and program sales proceeds. Based on our review of available organizations, personnel resources and applicable regulations, we believe that delegation of responsibilities by the GOP to an administrator will facilitate the pilot commercial sales effort. The signature by the Chief Coordinator (Rehabilitation and Reconstruction) and Chief Commissioner Afghan Refugees (hereinafter referred to as the Chief Coordinator (R&R)) at the conclusion of this letter, coupled with the acknowledgement of the administrator relationship by the administrator on the same page, will create this delegation of authority and responsibility. Details of the plan are as follows:

COMMERCIAL SALES PROGRAM OBJECTIVES

Commercial Sales of PL 480 wheat will be a pilot effort to:

1) Test officially sanctioned, commercial wheat sales and marketing/distribution operations into Afghanistan; and

2) provide a better understanding of the underlying marketing/distribution dynamics in response to a variety of demand and supply factors.

The program will test the capacity of local traders to deliver badly needed food inside Afghanistan. The object of this experiment is to see if relatively large volumes of wheat can be effectively moved into markets inside Afghanistan through the private sector, with a minimum of outside intervention and subsidy. Distribution costs will be borne by the final beneficiaries of the program. This pilot program will provide more information on the amount of purchasing power available to buy wheat in the war-torn, largely subsistence Afghanistan economy.

I. MAJOR IMPLEMENTATION STEPS

The following steps will be undertaken in sequence in order to implement the program:

A. Selection of the Administrator: The GOP agrees to, and shall appoint, Development Alternatives, Inc. (DAI), a resident A.I.D. contractor, as its administrator for the purpose of managing the commercial wheat sales program, and managing a trust account to be held by A.I.D. The account shall be entitled "PL 480 Commercial Sales". This trust account shall be referred to in this Implementation Letter and Implementation Plan as the "Special Account". Furthermore, DAI, as an A.I.D. direct contractor, is responsible to A.I.D. and acts as A.I.D's manager with respect to the Special Account. DAI's costs will be the responsibility of O/AID/REP, and shall be borne pursuant to the terms of a separate contractual relationship with O/AID/REP which shall include the following administrative and operational requirements in its provisions (I.B-C, II and III). The delegation by the GOP to DAI of the responsibility for administering and managing the commercial wheat sales program on its behalf will be deemed accomplished and come into effect upon the signatures by the authorized signatories of both parties, below, and subsequent acknowledgement by DAI.

B. Special Account: Within ten days of the counter-signing of this implementation letter, the Chief Coordinator (R&R) will arrange for the Special Account to be opened in the name of DAI as administrator for the GOP, for the receipt of payment, and formally notify the administrator and O/AID/REP of the account number and bank. The account, under applicable Islamic banking laws and regulations, shall be in a profit-and-loss account, unless otherwise agreed to by the GOP and A.I.D.

C. Tender Process: Following establishment of the above, the administrator will publicize the availability of commodities, i.e., wheat, receive and review bids, and select, and make awards to qualified traders, in accordance with good business practices.

D. Transit Permits: After qualified traders are selected, contracts awarded and payment is received in the Special Account, the representative(s) of the Chief Coordinator (R&R) will notify the Provincial Home Affairs Ministry in Quetta and/or Peshawar in writing with the names of the traders, the amounts of wheat sold and funds received. The Provincial Home Affairs Ministries will issue transit permits in accordance with established procedures.

E. Wheat Release: When the selected traders demonstrate that they have paid for the wheat and have obtained the necessary transit permits, the representative(s) of the Chief Coordinator (R&R) will obtain in turn from the Provincial Food Department(s) authority for the release of wheat as soon as possible from their warehouses.

F. Review/Evaluation: If, after two sales auctions, the process is deemed infeasible by the administrator, the Chief Coordinator (R&R), and O/AID/REP according to operating assumptions, alternative plans will be tested, including, but not limited to, releases of wheat at the border and/or other transport subsidies.

G. Plan for Use of Special Account Funds: In accordance with the terms of paragraph 4, C of the Transfer Authorization, and in order of priority, commodity sales proceeds are hereby jointly programmed by the authorized representative of the GOP and the O/AID/REP to support the following purposes:

(1) Implementation of the PL 480 Title II program in general, such as:

--transportation subsidies for all three subprograms (commercial sales, food-for-work, direct distribution), or any combination thereof; and/or

--cash complement for a combined PL 480 food-for-work/cash-for-work program, administered by CARE;

(2) Cover local costs of ongoing A.I.D.-supported agriculture and rural development programs inside Afghanistan; and/or

(3) any other activity/activities mutually agreed upon.

The administrator will be the manager of the Special Account, held in trust by A.I.D. Once sales proceeds are in the Special Account and specific amounts can be budgeted for the purposes agreed upon, the administrator will disburse the local currency sales proceeds, as per agreement between the O/AID/REP and the Chief Coordinator (R&R). The O/AID/REP will provide the GOP's authorized representative with a copy of the budget and will report to the GOP on subsequent disbursements from the Account.

The Special Account to be established will provide for control and monitoring by a U.S. direct-hire employee in a manner satisfactory to the O/AID/REP Controller.

H. Records and Documents: The administrator must maintain auditable records and documents pertaining to all deposits into, funds maintained within, and disbursement from the Special Account, for a period of at least three years from the date of sale of the commodities which resulted in the deposits. The records and documents shall be kept in a manner which will accurately reflect all transactions pertaining to the sale of commodities, the deposit of the currencies in the Special Account and disbursements from the Special Account for authorized purposes. These books and records must be made available for inspection and audits at reasonable times by authorized representatives of A.I.D.

II. DETAILED TENDERING/SALES PROCEDURES

The administrator will:

- Establish and implement a simple procedure for prequalification of traders who will be recipients of tenders.

- Solicit names of interested or potentially interested private traders by informal advertisement. This will be carried out: a) in consultation with appropriate Provincial authorities; b) by informal canvassing of the private sector in and around Peshawar, Quetta and other possible points of operation; and c) by informal advertising for interested parties to make themselves known. If an adequate number of names and expressions of interest are not forthcoming, the administrator, in consultation with O/AID/REP and the Chief Coordinator (R&R), will devise and carry out other means for attracting interest in the program.

- Prepare, issue and distribute tenders for the specified quantities of wheat to be offered under the program. A single page form will be prepared and distributed with the tender for use of traders in making offers.

- Develop detailed procedures for evaluation of offers. As a minimum, the following will apply:

1) The offer must meet all the major requirements of the tender.

2) The offer must be not less than the existing market price for wheat plus a small fee for permits and other documents.

3) Not more than 25 percent of each auction tonnage will be awarded to a single trader unless extenuating circumstances justify a larger award (e.g., large gap between bid prices). Among those meeting the above and other tender conditions, the only selection criterion will be the price offered.

- Notify winning bidders and advise dates they must make payment, obtain documents, and receive the wheat from Food Department warehouses.

- Track deposits of money received from buyers into the Special Account.

- Keep accounting records of all financial transactions and provide monthly summaries to O/AID/REP and the GOP's authorized representative.

- Disburse the local currency sales proceeds in an expeditious manner in accordance with the jointly agreed Plan for Special Account Funds, as instructed by the O/AID/REP.

- Collect information on the destination of the wheat. Traders who buy the wheat will be required to indicate the planned destination. This will be recorded by the administrator when offers are accepted and again after payment for the commodity when the documents authorizing release of the commodity to the traders and export authorization are delivered to the traders. Returning traders will be requested to report, ex-post, the actual disposition site. These steps will be carried out to ensure that secondary economic objectives are being achieved and that the marketing system is functioning as predicted.

III. TRACKING SALES/DISTRIBUTION PROCEDURES

The administrator will make its best effort to ensure that the principal objectives of the program -- commercially moving wheat inside for sale in Afghan markets -- is achieved. The administrator will supervise and ensure to the best of its ability the movement of the wheat from the trader pick-up point (the Food Department) across the border to reassure the GOP and the O/AID/REP that this program does not undermine Pakistan's efforts to control illegal movement of wheat from Pakistan into Afghanistan.

The purpose of this letter is to request the approval by the Government of Pakistan of the attached Implementation Plan, to establish the administrative relationship with DAI, and the Special Account managed by DAI for A.I.D. If you agree with the procedures established in the Plan, please indicate your concurrence in the space below and return the original copy of this Implementation Letter at your earliest convenience.

We will arrange for DAI to initial the letter, thereby acknowledging that they are your administrator for the management of the commercial sales program and the manager for A.I.D. of the Special Account, in accordance with the terms of this letter. As soon as this is accomplished, we shall undertake the necessary contractual procedures to engage DAI's services.

Sincerely yours,

Larry Crandall

AGHA ZULFIQAR ALI
Chief Coordinator (R&R) &
Chief Commissioner Afghan
Refugees Islamabad.

Signed: 12 May 1990.

Chief Coordinator (Rehabilitation and Reconstruction) and Chief Commissioner, Afghan Refugees

16 May 1990

Acknowledged by: Richard L. Smith, Chief of Party, Development Alternatives, Incorporated

BID DOCUMENT

BID NO DAI/WI/1990

DATE: JUNE 14, 1990

INVITATION FOR BIDS

DATE: JUNE 14, 1990
BID NO DAI/WI/1990

1. Development Alternatives, Inc., (DAI) acting as sales administrator on behalf of the Government of Pakistan, invites sealed bids from eligible Bidders to purchase wheat grain for sale in Afghanistan.

2. Interested Bidders may obtain the bid document at:

   DAI Trade Center
   Street No. 3
   Obshar Colony
   Kababian
   Warsak Road
   Peshawar
   Phone: 72863

3. All bids must be accompanied by a bid security of 2% of the bid amount and must be delivered to the above address on or before 11 a.m on June 20, 1990.

4. Bids will be opened in the presence of any Bidder who choose to attend at 3 p.m, on June 20, 1990 in the office of DAI Trade Center at Peshawar.

5. The acceptable bid price per M.T shall not be less than 2575 Pakistani Rupees.

INSTRUCTIONS AND GENERAL CONDITIONS OF
THE BID NO DAI/WI/1990

1. ELIGIBLE BIDDERS.

1.1. The invitation for bids is open to Afghan and Pakistan nationals who agree to transport and sell the wheat only inside Afghanistan.

2. SUBMISSION OF BIDS.

2.1. Bids shall be submitted by completing the appropriate Bid Form furnished with the Bid Document.

2.2. The Bids shall be clearly typed or written in ink and shall be signed by the Bidder or Bidders.

2.3. Bids shall be submitted to DAI Trade Center in sealed envelops on or before 11 a.m on June 20, 1990. Any bid received by DAI after the deadline for submission of bids will be rejected.

3. BID PRICES AND QUANTITIES.

3.1. The Bidder shall quote the price per metric ton of wheat on FOT (Free On Truck) terms, ex-warehouse (Peshawar, Quetta)

3.2. The floor Bid price shall be 2575 Rupees per Metric Ton of Wheat. Any Bid lower than this price level shall be rejected.

3.3. The Bidder shall indicate the quantity he is bidding for. The minimum bid quantity is 50 M.T.; the maximum is 500 M.T. for any one qualified Bidder.

3.4. The Bidder shall indicate the quantity he is bidding for, the proposed shipping schedule and the planned destination of the wheat.

4. BID CURRENCY.

4.1. Prices shall be quoted in Pakistani Rupees.

5. PROOF ESTABLISHING BIDDERS ELIGIBILITY.

5.1. The Bidder shall furnish, as part of the Bid, proof establishing his eligibility to bid in accordance with paragraph 1.1.

6. BID SECURITY.

6.1. The Bidder shall provide, as part of his Bid, bid security of 2% of the Bid amount. Bids not accompanied by the bid security shall be rejected. Bid security shall be refunded to unsuccessful Bidders.

7. PERIOD OF VALIDITY OF BIDS.

7.1. Bids shall remain valid for 10 days after the date of opening.

8. AWARD CRITERIA.

8.1. DAI will award the contract to the successful Bidder whose bid has been determined to be fully responsive and has been determined as the highest evaluated bid.

9. POST QUALIFICATION.

9.1. DAI shall determine whether the Bidder selected as having submitted the highest responsive bid is qualified to satisfactorily perform the contract by taking into account the Bidder's experience and resource capabilities.

10. PERFORMANCE SECURITY.

10.1. The successful Bidder shall furnish a performance bond of 5% of the contract value, within 3 days of notice of award.

10.2. Failure to comply with the requirements of 10.1 shall constitute grounds for the annulment of award and forfeiture of the bid security.

11. PAYMENT.

11.1. Payment of the full contract amount shall be made in Rupees within 5 days after the signing of contract. The payment shall be deposited in a special account as instructed by the administrator.

12. DAI'S WARRANTY.

12.1. DAI, through the office of the Chief Coordinator (Rehabilitation and Reconstruction) and Chief Commissioner for Afghan Affairs, warrants the issuance of travel and necessary permits to the successful Bidder and his shippers for movement of the wheat through and export from the territories of Pakistan.

12.2. DAI shall warrant the quality and prompt delivery of

the wheat in standard 100 kg bags.

13. BIDDER'S WARRANTY.

13.1. The Bidder shall warrant that the packing and marking of the wheat bags shall be maintained and remain unaltered until they arrive inside Afghanistan.

13.2. Bidders shall establish to DAI's satisfaction that the full quantity of the contract wheat has been transported into Afghanistan.

14. DELAYS IN BIDDER'S PERFORMANCE.

14.1. The successful Bidder shall take acceptance of wheat and transport it into Afghanistan in accordance with the time schedule submitted in his bid. An unexcused delay by the successful Bidder in the performance of its obligations shall render the Bidder liable and cause the forfeiture of his performance security and/or termination of the contract for default.

14.2. If at any time during performance of the contract the Bidder should encounter conditions impeding the movement of the wheat, the Bidder shall promptly notify DAI in writing its cause and likely duration. After receiving the notice, DAI, at its discretion may extend the time for moving the wheat. However, the notice must show, beyond doubt, that events surrounding the delay are beyond the control of the successful Bidder and did not involve his negligence.

15. DAI'S RIGHT TO ACCEPT ANY OR ALL BIDS.

15.1 DAI reserves the right to accept or reject any or all bids, any time prior to award of contract, without thereby incurring any liability or obligation to inform Bidders of the grounds of its action.

BID FORM

DATE:
BID NO DAI/WI/1990

DAI TRADE CENTER
Street No. 3
Canal Bank, Obshar Colony
Kababian
Warsak Road
Peshawar

Gentlemen:

Having examined the Bidding Document, I/we the undersigned offer to purchase, transport and sell in Afghanistan _____ M.T of bagged wheat grain, in conformity with the Bidding Document for the price of FOT (Free On Truck) _____ Pakistani Rupees per metric ton.

I/we undertake, if my/our bid is accepted to commence taking delivery and transporting the wheat within _____ days and to complete moving all the quantity specified in the contract within _____ days, calculated from the date of signing of contract.

I/we plan to transport and sell the wheat in the provinces of _____ , _____ and _____ inside Afghanistan.

If my/our bid is accepted I/we will effect payment in the sum of _____ Rupees for the due performance of the contract.

I/we agree to abide by this bid for a period of _____ days from the date fixed for the bid opening.

I/we understand that you are not bound to accept any or all bids you may receive.

Dated this _____ day of _____ , 19 _____.

Signature