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PAKISTAN

AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

PROGRAM EVALUATION

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LIST OF ABBREVIATIONS AND DEFINITIONS

AN	Ammonium Nitrate
AS	Ammonium Sulphate
Barani	Rainfed Crop Areas
CAN	Calcium Ammonium Nitrate
C&F	Cost and Freight
DAP	Diammonium Phosphate
EFF	Extended Fund Facility
ESF	Economic Support Fund
FA	Fiat/Allis
FAS	Free Along Side
FOB	Freight on Board
FPR	Federal Procurement Regulations
GDP	Gross Domestic Product
HP	Horse Power
IFB	Invitation for Bids
IH	International Harvester
IMT	A Yugoslavian Tractor
Kg	Kilogram
Kharif	Summer Crop Season, April - September
K_2O	Potash
L/C	Letter of Credit
L/COM	Letter of Commitment
MF	Massey-Ferguson
MT	Metric Ton
N	Nitrogen, the indicator of Nitrogen content of fertilizer
NMT	Nutrient Metric Tons
NP	Nitrophosphate
NPK	Nitrogen, phosphate, and potash
PFY	Pakistan Fiscal Year, July 1 - June 30
P_2O_5	Phosphorus Pentoxide, the indicator of phosphorus content of fertilizer
PMT	Product Metric Tons
PSA	Procurement Services Agent
Rabi	Winter Crop Season, October - March
RCO	Regional Contracts Officer
RCMA	Regional Commodity Management Advisor
Rs	Rupees
SDR	Special Drawing Rights
SSP	Single Super Phosphate
TA	Technical Assistance

INSTITUTIONS

ADB	Asian Development Bank
FAO	Food and Agriculture Organization
FDFI	Federal Directorate of Fertilizer Imports
GOP	Islamic Republic of Pakistan, The Borrower/Grantee
IBRD	International Bank for Reconstruction and Development

IFDC	International Fertilizer Development Center
IMF	International Monetary Fund
IRRI	International Rice Research Institute
NFML	National Fertilizer Marketing Limited
NFC	National Fertilizer Corporation
NFDC	National Fertilizer Development Center
NLC	National Logistic Cell
OPEC	Organization of Petroleum Exporting Countries
PAC	Pakistan Automobile Corporation
PARC	Pakistan Agricultural Research Council
PADSC	Punjab Agricultural Development Supplies Corporation
PIDE	Pakistan Institute of Development Economics
SASO	Sind Agricultural Supplies Organization
SER/COM	AID's Office of Commodity Management in Washington

TABLE OF CONTENTS

Table of Contents

List of Abbreviations

Section 1	Executive Summary	Page 1
Section 2	Conclusions and Recommendations	Page 5
Section 3	The Agricultural Commodities and Equipment Program Context	Page 11
Section 4	Purpose and Methodology of Evaluation	Page 12
Section 5	Procurement of Agricultural Commmodities and Equipment	Page 14
Section 6	Progress Made Towards Planning, Developing and Executing Policy Studies	Page 35
Section 7	Monitoring and Evaluation of Program Performance and Impact	Page 45
Section 8	Generation and Use of Rupee Proceeds Accruing from Sales of Imported Commodities	Page 51

Appendixes

SECTION I

EXECUTIVE SUMMARY

Problem and Overview. A major concern of the Agricultural Commodities and Equipment Program is to address Pakistan's balance of payments problem. Although Pakistan's exports have increased in recent years, the country continues to suffer from chronic balance of trade deficits. Pakistan remains dependent on imported petroleum products and although self-sufficiency in wheat was attained in PFY 1980/81, imports of edible oil have now become a major drain on foreign exchange, reaching $300 million in 1981 and promising to increase. Remittances from Pakistan workers abroad have reduced somewhat the growth in the current account deficit, but it is uncertain that rapid annual increases in remittances would be sustained. As a result, there is the real danger that Pakistan's current account deficit will continue to widen as the import liberalization measures under the EFF begin to take effect. A secondary concern of this program is to address problems associated with Pakistan's agricultural sector productivity. Despite improvements in agricultural production performance during the past four years, Pakistan's agriculture sector continues to be plagued with serious problems of low cropping intensity and low productivity. In addition to a lack of sufficient, timely and appropriate use of inputs, agricultural productivity remains below potential because of existing policy constraints. With an awareness of the problems and conditions plaguing agricultural performance, the GOP announced the National Agricultural Policy in February 1981. This policy recognizes that the transformation of the agriculture sector hinges not only on the provision of additional physical (inputs) and human (skills) assets but also on the overall economic environment that permits higher private and social returns on additional assets.

U.S. Assistance. During negotiations between a U.S. Economic Negotiating Team and the Government of Pakistan on the size and general content of a six-year program of economic support, the Agricultural Commodities and Equipment Program (391-0468) was identified as one of the major components of the total assistance package. This $300 million five-year program was subsequently designed to accomplish two objectives: (1) provide balance of payments support; and (2) increase productivity of the agricultural sector. Accomplishment of these two objectives was based on successful implementation of the following strategies: (1) financing of needed agricultural commodities and equipment; and (2) examination and influence of policy issues important to, and capable of improving agricultural sector performance. The first tranche of this program was approved in March 1982 for $60 million. This first tranche was designed to finance the foreign exchange and local costs

for the importation of: (1) $34 million of fertilizer; and (2) $26 million of equipment to support the objectives of the USAID/Pakistan FY 1983 Irrigation Systems Management Project (391-0467). Because there was a need to move rapidly during the first year in providing balance of payments support, no policy issues were to be addressed during the first tranche. There was, however, an expectation that prior to obligation of subsequent tranches, proposed policy changes would be defined and negotiated with the GOP.

Purpose of Evaluation. The purposes of the evaluation are the following: (1) to identify the lessons learned from implementation experiences in order that they can be applied to the design of activities as well as the selection of commodities, mechanisms and procedures for subsequent tranches; (2) to assess progress made towards planning, developing and executing policy studies; (3) to identify mechanisms established for monitoring use of local currency generated by sales of imported commodities; (4) to identify (to the extent possible) potential indicators and methodologies that will be used to monitor and evaluate program impact on increasing agricultural sector productivity; and (5) to make recommendations for enhancing program effectiveness and efficiency. The evaluation team relied on the following three sources of data: (1) review of various documents; (2) meetings and discussions with concerned Mission staff and various GOP officials at both the federal and province level; and (3) field visit to Karachi port.

Findings. Implementation of program activities during the first nine months of the first tranche of the Agricultural Commodities and Equipment Program has progressed on schedule and has basically conformed to design plans. Activities intended for the first nine months have been accomplished and the program has made significant progress in achieving the primary objective of the first tranche --providing balance of payments support. The evaluation team supports the continuation of this program and offers the following more specific conclusions and recommendations for consideration in the design of subsequent tranches. Fertilizer Procurement - Procurement went smoothly and according to schedule. There were no major problems. Minor shipping-related problems were encountered. Equipment Procurement - USAID's role as agent of the GOP brings with it fiduciary responsibility to the GOP and since, in many cases, it is AID not the GOP performing procurement actions, it weakens the usual protection enjoyed by AID. The rationale for the USAID's agent role and for the use of PSA's was to expedite the procurement process by reducing the GOP's role in that process to a minimum. In practice, however, the GOP has retained approval rights at the most critical points in the procurement process. As such, it is not yet clear how much GOP non-involvement has been achieved. Policy Studies - Considerable progress has been made in the planning, developing and executing of the policy studies. The quality

and usefulness of these studies, however, was not assessed. End Use of Commodities - There was concern that the storage facilities in some depots may be unsuitable for providing adequate protection for the warehousing of fertilizer. Distribution and End Use of Equipment - It was unclear to the team whether final procedures had, in fact, been established for getting equipment from customs to the provinces and what role AID would play in this activity. Program Impact - Balance of payment relief was felt when the contracts for $34 million were awarded for fertilizer during FY 82. Although impact on agriculture productivity is an objective of this program, there exists a discrepancy between the evaluation plan and USAID/ARD's intention to measure impact of this particular program on agriculture productivity. Generation and Use of Rupee Proceeds - 97% of all rupees resulting from the first tranche have been generated and should have been deposited in the special account. Negotiations for use of rupee proceeds have been initiated and are proceeding on schedule.

Recommendations. Fertilizer Procurement - To resolve shipping-related problems, Mission should encourage and assist early discussions between FDFI and M/SER/COM on Charter Pary terms. Procurement Equipment - Despite the risks associated with USAID's role as agent of the GOP, the evaluation team does not necessarily believe the agent role should be abandoned. However, the USAID should move very cautiously in determining what functions it will perform. A specific area to avoid is physically taking possession of any equipment. The potential dangers of the agent role should be addressed in the PAAD amendment for the second tranche. Furthermore, the USAID should assess experiences to date in deciding whether or not the present arrangement involving USAID's role as agent of the GOP and the use of PSA's have been beneficial to the implementation of the program and if they should be continued. Regardless of the procurement arrangements chosen, we believe an experienced full time procurement specialist should be brought on board if at all possible. The current approach which combines a highly active role in the procurement process with relatively little experience is relatively "high risk". Policy Studies - An examination of the quality and usefulness of the studies being conducted should be an integral part of the scope of work for the next evaluation of the program. End Use of Commodities - To assure that fertilizer is cared for properly and is being delivered in a timely manner, USAID should institute a system of selective monitoring of the warehousing of A.I.D. fertilizer. Distribution and End Use of Equipment - If procedures for getting equipment from customs to the provinces have not been established, it is advisable to do so at the soonest possible time. To simplify the process of transporting the proper equipment to the appropriate province, arrangements should be made to have the name of the province for which the equipment is destined clearly marked on each package prior to being shipped. Program Impact -

With AID's emphasis on measuring impact, particularly beneficiary impact, the monitoring and evaluation plans for measuring changes in agriculture performance should be further examined to ensure that the expected changes to which this program as well as ot her projects are directed will be adequately monitored. Generation and Use of Rupee Proceeds - the Program Office should be aware of the particulars of the GOP established formula designating the amount of rupees generated from the sales and should assure its conformity to any regulations or agreements that may exist.

SECTION 2

CONCLUSIONS AND RECOMMENDATIONS

Overall Conclusions and Recommendations. Implementation of program activities during the first nine months of the first tranche of the Agricultural Commodities and Equipment Program has progressed on schedule and has basically conformed to design plans. Activities intended for the first nine months have been accomplished and the program has made significant progress in achieving the primary objective of the first tranche -- providing balance of payments support. The evaluation team supports the continuation of this program and offers the following more specific conclusions and recommendations for consideration in the design of subsequent tranches.

A. Procurement of Agricultural Commodities And Equipment

1. Fertilizer Procurement. Procurement went smoothly and according to schedule. There were no major problems. Minor problems in shipping were encountered.

   Recommendation: To resolve the shipping issues, Mission should encourage and assist early discussions between FDFI and M/SER/COM on Charter Party terms.

2. Equipment Procurement: The major features of the procurement plan are the use of procurement agents and USAID's role as agent of the GOP. It is too early to make a definitive judgement on these arrangements. However, we have made the following recommedations/observations:

   (a) The agent arrangement brings with it a fiduciary responsibility to the GOP and since, in many cases, it is A.I.D. not the GOP performing procurement actions, it weakens the usual protection enjoyed by the agency. Thus there is an increased risk of damage to A.I.D. if serious problems develop.

   Recommendation: We do not necessarily believe the agent role should be abandoned. However, the USAID should move very cautiously in determining what functions it will perform. A specific area to avoid is physically taking possession of any equipment. We also note that the potential dangers of the agent role were not discussed in the last PAAD. Future PAADs should address this issue.

(b) The rationale for the USAID's agent role and for the use of PSA's was to expedite the procurement process by reducing the GOP's role in that process to a minimum. The theory, as we understand it, is that the PSA and USAID, not the GOP, does the procurement, thus avoiding the GOP bureaucracy and achieving rapid implementation. In practice, however, the GOP has retained approval rights at the most critical points in the procurement process. For example, the equipment specification and all awards must be approved by the GOP. As such, it is not yet clear how much GOP non-involvement has been achieved. With regard to writing equipment specifications, it did not appear to us to be very much. The GOP asserted a major role in this process. .

Recommendation: The USAID should consider experience to date in deciding whether or not to continue the present arrangements. If USAID determines that the GOP has asserted and will continue to demand a major role in the procurement process, USAID might wish to consider moving to more traditional procurement procedures especially where major equipment procedures are concerned. Under these procedures, SER/COM and USAID assist the GOP procuring agency in developing specificatons and IFB terms and conditions. The IFB would then be issued through the GOP Embassy in Washington. Bids would be evaluated and awards made by a team from the GOP procuring agency. SER/COM monitors the evaluation process and approves proposed awards. This process has been found to work well for items such as fertilizer. The record is more mixed when equipment procurements are involved. Procurements are generally successful if the host country procuring authority possesses some experience, is receptive to USAID and SER/COM advice, and if authority to conclude contracts is properly delegated. USAID rejected this procedure largely on the assumption that it required a prominent host country role. This is incorrect in that the procedure described above can be varied to provide virtually any degree of host country involvement. SER/COM often assists host country agencies to such an extent that the procurement is host country in name only.

Recommendation: No matter which approach the USAID chooses, we believe an experienced full time procurement specialist should be brought on board if at all possible. The current approach which combines a highly active role in the procurement process with relatively little experience is relatively "high risk". We know of no other Commodity Import Program of similar size and complexity that has been attempted without the services of a procurement specialist.

Recommendation: After current PSA procurement actions have been completed, the USAID should conduct a thorough review to provide more definitive findings on the procurement arrangements.

B. Progress Made Towards Planning, Developing and Executing Policy Studies

With consideration to the time and effort required in planning, developing and executing the studies proposed in the PAAD along with the staffing constraints under which the Mission currently operates, it is the opinion of the evaluation team that considerable progress has been made to date. Studies in three of the six proposed policy areas have already been executed and the initial planning stages of developing studies in two other areas have begun. Evaluation of the quality of the policy studies planned and executed was beyond the scope of work for this term due to time constraints and a lack of expertise in agricultural economics.

Recommendation: The scope of work for the next evaluation should include an examination of the quality and usefulness of the policy studies being conducted. If this type of examination would benefit USAID/ARD before the next planned evaluation is scheduled, consideration should be given now to developing a scope of work and determining when an evaluation of the policy studies would be most helpful.

C. Monitoring and Evaluation of Program Performance and Impact

1. Distribution and End Use of Commodities. To minimize the need for warehousing fertilizer for long periods, AID shipments are scheduled to arrive before or during peak months. Some portion, however, is kept in the warehouse to maintain a reserve level. There was concern that the storage facilities in some depots were unsatisfactory. The magnitude of this problem is unclear to the evaluation team and due to time constraints they were unable to make selective checks. Currently, USAID/ARD monitors fertilizer

utilization by receiving information from various publications and reports from liaison offices. There may be a misconception in USAID/ARD that the fertilizer was imported in bulk and bagged by FDFI in their own bags so that A.I.D. fertilizer is no longer identifiable. This, however, is not correct, since A.I.D. fertilizer is placed in A.I.D. marked bags and the bulk depot for which the fertilizer is destined is designated in the allocation plan.

Recommendation: USAID should initiate a system of selective monitoring of the warehousing of A.I.D. fertilizer to assure that fertilizer is cared for properly and is being delivered in a timely manner.

2. Distribution and End Use Of Equipment. After the equipment arrives and is processed through customs, A.I.D. may handle the costs involved in transporting the items to the four provinces. According to discussions with an official from the Provincial Irrigation Ministry, an agreement has been established with A.I.D. delineating procedures for getting the equipment to the four provinces. The official interviewed, however, could not recall the details of the procedures established in the agreement and it was unclear to the evaluation team whether this agreement does, in fact, establish procedures for handling the equipment beyond customs or that it simply states that A.I.D. will finance transportation costs.

Recommendation: If procedures for getting equipment from customs to the provinces have not been established, it is advisable to do so with the GOP at the soonest possible time since equipment could arrive at any time. To simplify the process of transporting the proper equipment to the appropriate province, arrangements should be made, if they have not as yet, to have the name of the province for which the equipment is destined clearly marked on each package prior to being shipped.

3. Effect of Program on Balance of Payments and on Performance of Agricultural Sector. With regard to impact on balance of payments to date, the effect was essentially felt as soon as the contracts for $ 34 million were awarded for fertilizer during FY 1982. If AID had not financed $34 million of fertilizer in FY 82, the GOP would have had to use part of their own scarce foreign exchange reserve. Thus, it can be said that this program has already made progress in providing the GOP with balance of payments support.

In addition to having an impact on balance of payments, the program has also been designed to have an impact on agricultural performance. With this in mind, the Mission Evaluation Plan stated that the FY 1983 or FY 1984 evaluation of the this program should include, to the extent possible, the process of quantifying indicators for later measurement of the impact on increasing agricultural sector productivity. USAID/ARD, however, informed the evaluation team that because this is a Commodity Import Program (CIP), impact of this program on agricultural sector productivity would not be measured. USAID/ARD assured the team, however, that agricultural productivity would be monitored as part of the monitoring and evaluation schemes of other Mission agricultural projects. There was not enough time for the evaluation team to review evaluation plans for other agricultural projects, so it is difficult to conclude that adequate monitoring is planned (i.e. do the evaluation schemes of other projects plan to monitor agriculture productivity in a way that can offer this program as well as other agriculture projects feedback on such critical issues as the validity of project assumptions, performance, effectiveness of strategies etc). At the same time there remains a discrepancy between the evaluation plan and USAID/ARD'S intentions regarding the measurement of impact of this particular program. The evaluation team believes that a definite position should be taken to resolve this difference of opinion.

> Recommendation: With A.I.D.'S emphasis on measuring impact, in particular beneficiary impact, the monitoring and evauation plans for measuring changes in agriculture performance should be further examined to ensure that the expected changes to which this program as well as other agricultural projects are directed will be adequately monitored.

D. Generation and Use of Rupee Proceeds Accruing from Sales of Imported Commodities

The GOP has already established a formula designating the amount of rupees generated per ton of fertilizer sold. During discussions with Mission staff, it appeared that some were uninformed of the particulars of the formula which defines the amount of rupees generated from the sales.

> RECOMMENDATION: The Program Office, wich will be monitoring rupee proceeds should be aware of the particulars of this formula and ensure its conformity to any regulations or agreements that may exist.

To date, 97% of all rupees resulting from the first tranche have been generated and should have been deposited in the special account. According to a schedule established for the receipt of reports, the first report detailing deposits from the first tranche was due in mid-December 1982.

Negotiations for use of rupee proceeds have been initiated and are proceeding on schedule. The GOP is aware of USAID'S programming preferences and according to the Project Officer, negotiations are, at this point, progressing satisfactorily.

SECTION 3

THE AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM CONTEXT

A. General

This program is a major component of a total $1.625 billion FY 1982-87 economic assistance package negotiated by the A.I.D. Administrator. It was conceived as a $300 million ESF effort over 5 years to provide needed balance of payments support and to increase the productivity of the agricultural sector. This latter objective was to be accomplished by reducing possible supply contraints by providing such necessary commodities as fertilizer and other critical inputs. The program has also been used as an instrument of the policy dialogue to support policy implementation actions in areas affecting overall agricultural performance.

No policy interventions were proposed for the first year because of the need to study thoroughly which specific areas offered the most opportunity for increased productivity.

B. Program Description

Despite a certain reluctance to describe it as such, this program is a Commodity Import Program or CIP. The first tranche of $60 million in ESF for FY 1982 was obligated in May 1982. These funds are to be used to import fertilizer ($34 million loan) and equipment ($26 million grant). The equipment is to be used to support a GOP/World Bank Canal Rehabilitation Project. Future tranches will be used for more fertilizer, agricultural machinery for farm use and some additional equipment for the Canal Rehabilitation Project.

SECTION 4

PURPOSE AND METHODOLOGY OF THE EVALUATION

A. PURPOSE OF THE EVALUATION

With the design of the second tranche due to begin in February 1983, an evaluation of activities covered by the first $60 million tranche was scheduled for December 1982. The purpose of such planning was to ensure that lessons learned within the first nine months of program implementation would be taken into account during the design of this second tranche.

Specific areas to be addressed are delineated in the Scope of Work (See Appendix A). However, in essence our charge was:

- To identify the lessons learned from implementation experiences in order that they can be applied to the design of activities as well as to the selection of commodities, mechanisms and procedures for subsequent tranches.

- To assess progress made towards planning, developing and executing policy studies.

- To identify mechanisms established for monitoring use of local currency generated by sales of imported commodities.

- To identify (to the extent possible) potential indicators and methodologies that will be used to monitor and evaluate program impact on increasing agricultural sector productivity.

- To make recommendations for enhancing program effectiveness and efficiency.

In total it is intended that this design and process-oriented evaluation will provide USAID/Pakistan and AID/W with an assessment of accomplishments to date and potential areas of improvement and reformulation which can be used to direct the inquiry of the team that will be sent to Pakistan to assist in the design of the second tranche.

This evaluation elucidates areas of program design and performance which demand greater attention and revision. Problems and issues identified along with solutions and recommendations suggested are not exhaustive. This would be impossible given the two and a half weeks allotted for the evaluation.

B. METHODOLOGY

The evaluation team relied on three sources of data to formulate recommendations and reach conclusions. These were:

1. A review of the Program Assistance Approval Document, relevant USAID program files, notes from SER/COM files, and various reports and documents relating to the policy studies.

2. Meetings and discussions in Islamabad, Lahore and Karachi with concerned Mission staff and various GOP officials at both the federal and province level (see Appendix B).

3. Field visit to Karachi port.

SECTION 5

PROCUREMENT OF AGRICULTURAL COMMODITIES AND EQUIPMENT

A. Fertilizer Procurement

1. The Procurement Plan

The PAAD allocated 34 million in program loan funds for fertilizer procurement. The plan to effect that procurement was as follows:

> "Fertilizer will be procured by the GOP through the Federal Directorate of Fertilizer Imports (FDFI), an agency for the Ministry of Food, Agriculture, and Cooperatives, in accordance with GOP procurement procedures as modified by A.I.D. to comply with A.I.D. regulations. FDFI will be responsible for finalizing specifications, preparing an invitation for bids (IFB), developing delivery schedules, evaluating offers, making awards, and monitoring delivery, receipt, and utilization. Official(s) responsible for these functions within FDFI will be desingated prior to the initiation of the procurement process. Actual tendering will take place in Washington, D.C. because of the necessity of marrying promptly fertilizer awards with freight availabilities. Tendering in Washington will also result in shorter bidding/award period and will enable suppliers to offer lower prices than would be the case with in-country tendering where extended bid validities are required to accommodate bid transmittal and approval time."

> "Specifications will be mutually agreed upon prior to tendering. IFB and shipping terms will conform to A.I.D. regulations. To this end, the GOP will submit to A.I.D. within thirty (30) days after the signing of the Program Agreement a proposed IFB and a proposed designator of charter party for A.I.D. review and approval. Subject to GOP and A.I.D. agreement, fertilizer procurements will be conducted on an FOB or FAS basis. Upon approval by A.I.D. of the IFB and designation of charter party, FDFI will inform A.I.D. of the proposed delivery schedule and request advertising of the tender in appropriate U.S. publications. The tender will be issued in Washington, D.C. by the Embassy of Pakistan.

Arrangement will be made to have available at the Embassy 50 copies of the IFB for distribution to interested suppliers. The tender will specify a bid closing date 30 days after advertising and require a bid validity period of 15 days. Bids are to be submitted to the Pakistan Embassy in Washington, D.C. Bid opening and bid evaluation will take place at the Pakistan Embassy in Washington, D.C. and will be attended by A.I.D. (SER/COM) and GOP representatives. GOP participation will be through a representative with authority to make awards."

"Awards will be made by the GOP subject to the approval of A.I.D. Freight tenders will also be floated by the Pakistan Embassy in Washington, D.C. Freight offers will be married to commodity offers and will be evaluated jointly by GOP and A.I.D. representatives in Washington, D.C. Upon the issuance of award notices by the GOP, FDFI will submit to USAID/Pakistan financing requests which will serve as the basis for letters of commitment issued by AID/Washington in favor of selected suppliers."

2. Plan Rational and Assessment

This is the usual method of fertilizer procurement under A.I.D. financing. While it offers nothing unusual or innovative, it has generally proven to be a successful procedure.

3. Alternatives to Plan

A.I.D. has, on occasion, procured fertilizer for a host country through GSA. This works fairly well if done on a C & F basis where the supplier arranges the freight. FOB procurements, which have a number of advantages are more problemmatical as the GSA is not generally familiar with chartering vessels. However, the major problem with this approach is that the host government must understand that by turning the procurement over to GSA they abdicate virtually all control over the process. The GSA will not discuss or divulge offers received or discuss the progress of negotiations prior to award. From discussions with FDFI, we do not believe this would be (or would have been) an acceptable procedure. FDFI seeks more, not less, control over procurements.

4. Implementation Progress and Problems

a. IFB and Charter Party Terms and Conditions

An A.I.D. approved fertilizer IFB and charter party (freight contract) were required as a condition precedent in the loan agreement. For the commodity tender, a previous A.I.D. financed GOP fertilizer tender was used as starting point and agreement on changes came fairly rapidly and easily. Reaching agreement on the charter party terms was more difficult. FDFI desired a number of modifications to the charter party terms and these required long, complex negotiations with SER/COM. The USAID was unable to assist in these highly technical negotiations and served mainly to relay the views of the interested parties back and forth. While agreement was eventually reached, neither party was completely satisfied with the results. Both FDFI and SER/COM have a number of changes they would like to make for the next procurement. Accordingly, it would be advisable to initiate negotiations on charter party terms well in advance of tendering.

b. Tendering and Award Process

No significant problems were encountered. A last minute change in the fertilizer specification desired by the U.S. fertilizer industry was agreed to by the FDFI, and was accommodated without delaying awards. The implementation schedule in the PAAD called for awards by July 15 and awards were, in fact, completed on that date.

The PAAD projected that the $34 million made available for fertilizer and freight would provide about 113,000 MT of product delivered. Because of the very soft fertilizer and shipping markets, however, the GOP was able to secure 130,000 MT delivered for a price of $33.1 million.

c. Shipping

There were a number of shipping or shipping related problems. The more-or-less world wide economic slumps caused a serious depression in the shipping industry with many ships lying idle. The more volatile foreign flag rates plummeted in some cases to less than half of what they had been previously. The GOP was the beneficiary of this decrease, paying only about $22

per ton for foreign flag freight. At the same time, the U.S. shipping industry, possibly knowing it was guaranteed at least 50% of the cargo by law, maintained their rates at or near what they had been (somewhere around $100 per ton). This development threw the U.S./foreign flag shipping differential and the costs of the Cargo Preference legislation into stark relief. While the Maritime Administration held the U.S. flag rates to be "fair and reasonable" the GOP view (and the A.I.D. view for that matter) was that a five-fold difference was unreasonable on its face. The GOP demanded some relief. A.I.D. was unable to offer any immediate relief but has held out the hope that in the future the shipping differential can be grant financed.

A second problem, also resulting largely from economic conditions, was that many vessel operators who had leased vessels on a long-term hire basis from vessel owners were unable to make their hire payments to the owners. When that occurred, the owners, in order to protect their interest, would attempt to place a lien on the freight, cargo, vessel fuel, etc., to satisfy the hire. This problem was encountered with two of the vessles chartered to transport fertilizer under this procurement. These problems were notable for their complexity and the number of parties to the dispute if for no other reason. One case involved a Panamanian flag vessel (MV Cebu.) on long-term hire to a Liberian firm, which was itself owned by a firm in London. The German owners ordered their agents not to release the bills of lading to the U.S. supplier until the hire had been paid (the owners were able to do this because their agent was also, coincidentally, the agent of the vessel operator empowered to issue the bills). As the supplier could not be paid by A.I.D. without the bills, he threatened to file suit against the GOP which was contractually obligated to provide them. The bills were eventually released but as payment to the supplier was delayed 10 days or so the supplier is, not unreasonably, demanding interest (about $25,000). For future procurements, some procedure should be set up to assure that hire payments are met. Presumably this could be a payment bond or similar instrument. Despite the above problems, shipments were largely completed, and products were delivered, on schedule. The last shipment arrived at Karachi in mid-November. While this was two weeks later than planned in the PAAD, the extension was deliberate in order to assure proper spacing of vessel arrivals.

d. Disbursements

As of October 31, 1982, a total of $30.6 million had been disbursed out of $33.1 million committed for product and freight. The outstanding balance as of that date included a freight payment being held by A.I.D. pending resolution of a dispute over charter hire. The bulk of the remaining amounts represents 10% freight balances which are due upon submission of shipping outturn reports. These disbursements should be completed shortly. Disbursements are the traditional measure of balance of payments effect. While there are certain problems with this concept and it can be argued that the balance of payments support occurs much earlier, it certainly does not occur later. Disbursements are easily monitored and in our view are probably as good a measure as any.

B. Equipment Procurement

1. The Procurement Plan

The PAAD allocated $26 million in program grant funds for equipment procurement. The plan to effect that procurement was as follows:

"The GOP will contract with qualified U.S. firm(s) to serve as procurement services agent (PSA) for procurement of all equipment in the first year of the program. The use of PSAs was determined by USAID/Pakistan and the GOP to be the most efficient, expeditious, and cost effective way of procuring this equipment in order to maximum the balance of payments impact of the program. Both the GOP and USAID/Pakistan feel that the considerable savings in time, cost, and manpower will more than offset the PSA's fees. These savings are obtained in:

(a) Considerably reduced procurement time which, in turn, offsets possible inflationary increase in equipment costs which could be at least as high as 10-15 percent annually;

(b) Noting and rectifying shortages prior to shipment;

(c) Ensuring suitable export packing, thereby reducing the risk of damage and pilferage; and,

(d) Consolidating shipments from multiple suppliers.

In order to facilitate the timely and efficient execution of the entire procurement process, the GOP has agreed that USAID/Pakistan will act as its Agent for this procurement. This Provision will be included in the Program Agreement. The following procedure which outlines the roles and relationships between the GOP, USAID/Pakistan, and the PSA(s) will be followed:

(a) As the Agent of the GOP, USAID/Pakistan will place an advertisement in appropriate U.S. publications, requesting proposals from interested U.S. firms to serve as PSA(s) under the program.

(b) As the GOP's Agent, USAID/Pakistan will receive and evaluate offers and make recommendations for award(s) to the GOP. USAID/Pakistan will review the selection process with and obtain concurrence in the selection(s) from the GOP.

(c) As the GOP's Agent, USAID/Pakistan will prepare one or more project implementation orders for commodities (PIO/Cs), depending on the number of PSA's selected. Each PIO/C will include the type/specifications of the commodities to be procured, the name of the authorized PSA who will act on behalf of the GOP, a description of the services the PSA will provide, and the total cost of the commodities and the services of the PSA including his fee. One of the services the PSA(s) will be called upon to perform will be to work with appropriate GOP technical personnel and USAID/Pakistan to finalize equipment specifications. The PSA(s) contract may also include a training component whereby training in management, U.S. commercial practices, and A.I.D. procurement regulations will be provided to selected GOP procurement officials.

(d) The GOP and USAID/Pakistan will both sign the PIO/C(s), thereby confirming agreement to the type/specifications and cost of the commodities to be procured, the use of the selected PSA(s), the scope of work to be performed by the PSA(s), and the cost of his/their services.

(e) The PIO/C(s) will confirm that USAID/Pakistan as the Agent of the GOP will handle all direct communications with the PSA(s) on behalf of the GOP and that the commodities are to be consigned to USAID/Pakistan.

(f) USAID/Pakistan will request A.I.D./Washington to issue a letter(s) of commitment to the PSA(s) which will be signed by both A.I.D./Washington and the PSA(s).

(g) As the GOP's Agent, USAID/Pakistan will keep the GOP informed of progress and likely date of receipt of commodities. USAID/Pakistan will consult as necessary with appropriate GOP officials to finalize equipment specifications and to review all documentation submitted for approval by the PSA(s) such as invitations for bids to suppliers and quotations received by the PSA(s) from suppliers. USAID/Pakistan, after consultation with appropriate GOP officials, will also authorize the PSA(s) to proceed to issue purchase orders to the selected suppliers.

(h) USAID/Pakistan, as the GOP's Agent, and A.I.D./Washington will handle all financial transactions with the PSA(s).

(i) Commodities will be received at Karachi and cleared through customs by USAID/Pakistan, acting as Agent for the GOP.

(j) As the GOP's Agent, USAID/Pakistan will make arrangements with provincial authorities for delivery of the equipment to the appropriate sites.

"Selection of one or more qualified U.S. firms to serve as PSA(s) will be undertaken in accordance with competitive procurement procedures. The contractual arrangements worked out between the PSA(s) and the GOP will conform to A.I.D. policies and procedures on host country contracting and procurement in accordance with A.I.D. Handbook II. Immediately upon approval of the PAAD, advertisement will be placed in appropriate U.S. publications to request proposals from interested firms to act as PSA for the equipment portion of the program. The advertisement and RFP will clearly indicate that proposals are requested in advance of a Program Agreement and that no appointments can be made by A.I.D. or the GOP before the Program Agreement is signed and all Conditions Precedent are met. The advertisement will also reserve the option to select and appoint one or more PSA(s). Offers received will be evaluated by USAID/Pakistan with the assistance of the Regional Contracts Officer (RCO) and the Regional Commodity Management Advisor (RCMA), who will also

assist the Mission in notifying and preparing necessary documentation for the appointment of the selected PSA(s), which will be reviewed and signed by the GOP."

"PSA(s) will be appointed on a cost plus fixed fee (CPFF) compensation basis. It is anticipated that fees will range from 5 to 7 percent of the FOB/FAS cost of the commodities. However, depending on the composition of the final equipment list, lower fees may be obtained. Payment of fees will be as follows: 50 percent of the fee payable for each contract award to be paid upon authorization by USAID/Pakistan as the Agent of the GOP of that contract award under the program, and 50 percent to be paid upon receipt and satisfactory inspection of the equipment, on the basis of each shipment received."

"Upon the appointment of one or more PSA(s) USAID/Pakistan, as the Agent of the GOP, will request A.I.D./W to issue direct letters of commitment (L/COMs) to the PSA(s) for the anticipated amount of the purchases to be transacted, the PSA(s) fees, inspection costs, and forwarding, shipping and insurance charges. The PSA(s) will draw upon these L/COMs as needed to pay the above cost, subject to the concurrence of A.I.D. PSA(s) will open irrevocable letters of credit (L/Cs) in favor of selected suppliers. Payment to suppliers of commodities will be subject to satisfactory inspection and presentation of documents. Detailed procedures to implement these steps will be negotiated with the selected PSA(s) and included in the contractual documentation."

"Responsibility for monitoring this program will be in the A.I.D./Pakistan Office of Agriculture and Rural Development (ARD). ARD will draw upon the resources of the Mission's Office of Project Development and Monitoring (PDM) for contracting and procurement tasks and Mission's Executive Office (EXO) for customs clearance and, where appropriate, delivery of commodities. Assistance will also be solicited from the A.I.D. Regional Commodity Management Advisor in Bangkok and the A.I.D. Regional Contracts Officer in Jakarta. In addition, the Mission will require the services of the Office of Financial Management (SER/FM) in A.I.D./Washington to issue letters of commitment (L/COMs) and other financial implementing documents. At a minimum, USAID/Pakistan monitoring responsibilities will include the following:

(i) Obtain GOP approval of the equipment lists and confirmation of priorities.

(ii) As Agent for the GOP, advertise for, obtain and evaluate offers, and select PSA(s).

(iii) Issue PIO/C(s) for commodity procurement and the services of selected PSA(s) and request A.I.D./Washington to issue L/COMs in favor of selected PSA(s).

(iv) Review with PSA(s) and GOP equipment specifications.

(v) As Agent for the GOP, handle all communications with selected PSA(s) and review with appropriate GOP officials documentation submitted by PSA(s) such as IFB(s) and bids submitted by suppliers, and authorize PSA(s) to make awards to suppliers.

(vi) Monitor equipment shipments.

(vii) Clear and receive equipment at Karachi, and make arrangements with Provincial Irrigation Departments for in-country transportation to appropriate sites.

2. Plan Rationale and Assessment

a. General

There are a number of innovative and unusual aspects to the above plan which deserve note. First is the use of a PSA to accomplish a large procurement of this type. PSA services typically involve $1 million or less in procurement and do not include heavy equipment. Second is the designation of USAID as the agent of the GOP to handle major aspects of the procurement including the PSA selection process, PSA contract negotiation, PSA contract administration and even clearing goods received through customs. Finally the PSA contract terms specified in the plan provide for a fixed fee arrangement whereas the typical PSA contract previously has been based on percentage of cost. Also the PSA fee payment provisions in the plan are much more advanced than usual at the outset (50% upon contract signature) but call for no further payments until all commodities are delivered.

Most PSA contract spread the payments out in much smaller increments over the life of the contract.

b. USAID/Pakistan as Agent of the GOP

This aspect of the procurement plan serves to reduce GOP participation in the procurement process to a minimum. The intent was to facilitate program implementation and proceeds from the unspoken assumption that GOP involvement would result in problems and delays. This assumption is not supported in any documents we reviewed. AID has had a long association with Pakistan and Pakistan has a relatively sophisticated commercial infrastructure and many people familiar with international trade. It is, therefore, somewhat surprising that the mission should assume that the GOP was incapable of implementing an AID program quickly and efficiently. However, it must be noted that the GOP implementing agency, agreed with the arrangement and, thus, implicitly with the underlying assumption.

The agent role places an unusually heavy burden on the USAID but there was no reason at the time to believe the arrangement would not work acceptably well given sufficient and proper manpower to implement it -- specifically the full-time supply advisor mentioned in the PAAD.

One drawback of USAID's role as agent is that the Arrangement increases the risk to the Agency in the event of a serious problem. The agent relationship brings with it an undeniable fiduciary responsibility to the GOP. In addition, it is A.I.D. not the GOP performing procurement actions, it weakens the usual protection enjoyed by A.I.D. The PAAD does not weigh potential risks against the projected benefits of the agent role.

c. Use of PSAs

While PSA's had not previously been utilized for such a large scale procurement and only rarely for heavy equipment purchases, there was no reason to believe PSA's would be unable to perform as required. The size of a procurement does make a difference in some areas. The smaller PSA firms typically consisting of one to three persons would probably not have the ability to undertake the

procurement without hiring more people. However, such firms regularly staff up or cut back to meet requirements and we, therefore, see no reason why even some of the smallest firms could not handle the procurement if a sizeable advance was provided. There is nothing intrinsically more difficult in handling a large procurement than a small one. Likewise, while PSA's are rarely asked to buy heavy equipment (primarily because host country procuring authorities usually take a proprietary interest in obtaining such relatively expensive items) it is not necessarily more difficult to procure a bulldozer than a tool kit.

3. Alternatives to Plan

There are any number of ways to procure the needed equipment. The usual method of handling large equipment purchases is procurement by the host country with A.I.D. assistance. Under this procedure, SER/COM and USAID assist the GOP procuring agency in developing equipment specifications and IFB terms and conditions. The IFB is then issued through the GOP Embassy in Washington. Bids are evaluated either by Embassy or by a team from the GOP procuring agency. SER/COM monitors evaluation process and approves proposed awards. This process has been found to work well for items such as fertilizer. The record is more mixed when equipment procurements are involved. Procurements are generally successful if the host country procuring authority possesses some procurement experience, is receptive to SER/COM and USAID advice and if authority to conclude contracts is properly delegated. This method was not used because of the assumption that it required a prominent host government role which would cause problems and delays. As will be discussed below, it is unclear whether the PSA approach will, in practice, mean a significantly diminished host government role. In any case, the assumption is largely incorrect in that the procurement procedure described above can be varied to provide virtually any degree of host country involvement. SER/COM often assists host country agencies to such an extent that the procurement is host country in name only.

4. Implementation Progress and Problems

a. USAID AS GOP AGENT

The benefits of the agent role are based on the assumption, noted previously, that GOP involvement would cause problems and that USAID could perform the procurment function itself much more efficiently. However, in practice, the GOP has maintained approval rights or asserted control at certain critical points in the process and it is, therefore, not clear what actual benefits have been realized, even granting that the underlying assumption is correct. For example, the USAID reviewed PSA proposals and selected two firms. The selection was then approved by the GOP. With the exception of the fact that in this case the USAID explicitly assumed the role of agent, this is essentially how the selection process works in many other countries where the USAID is not the official agent of the host government. Typically, the USAID will prepare a request for proposals (in the name of the host country) and may even receive the proposals (addressed to a host government agency in care of the USAID). The host country agency then asks the USAID to assist them, informally, in selecting the PSA. Accordingly, the end result is the same--the USAID exercises a strong voice in the selection.

The risks, however, are not the same. They are significantly increased where the USAID acts as agent. It is not inconceivable that a disappointed PSA could have charged that the USAID selection process was fatally flawed in some manner and brought pressure on AID to reverse the selection and resolicit. It is considerably easier to resist such pressure (though still not always possible) when the selection decision is made at least nominally by the host country. Further, the risk proceeds largely from the agent role itself and may not decrease significantly with increased GOP involvement. For example, the USAID will be listed as consignee of all commodities in order to facilitate port clearance. Even if the GOP does all the actual work associated with customs clearance, the USAID as consignee has title to the commodities and is to some extent at risk.

b. Use of PSAs:

As noted previously, the stated purpose of utilizing PSAs was to facilitate program implementation. The

PSA not the GOP does the procurement thus avoiding the GOP bureaucracy. In practice, however, and as with the USAID's agent role, the GOP has certain approval rights at the critical points in the procurement process. For example, the equipmentspecifications and all awards must be approved by the GOP. As such, it is not yet clear how much GOP non-involvement has been achieved. In the final analysis, it may be minimal and serve only to complicate the procurement process by bringing in an additional party.

c. USAID Staff Requirements

One aspect of the implementation process that deserves note is the decision not to obtain the full-time procurement specialist anticipated in the PAAD. The reasons behind this are complex and outside the scope of this evaluation. Suffice it to say we know of no other A.I.D. commodity import program of similar size and complexity that has been attempted without the services of a procurement specialist.

In this regard, the Mission Director expressed the view that program assistance is supposed to be easy to implement but that this program has required more time and effort than any project. His comments were echoed by other mission staff. Program assistance is normally much easier to implement. However, normally there is also a procurement specialist who is familiar with implementing program assistance and normally the host government, not the USAID takes the lead. The combination of a small, inexperienced staff combined with the highly active role chosen may be responsible for these views. This is not intended to derogate Mission efforts -- they have done remarkably well to date. However, we believe this situation increases the risk to the Agency associated with the agent role by making a major blunder much more likely.

The Mission at first vigorously pursued obtaining a procurement specialist but has since decided that a Contracting Officer is a higher priority. The Mission further believes that if the Contracting Officer (now scheduled to be on board in January 1983) can be given some procurement training, this will be adequate. While we do not necessarily disagree with USAID's priorities, we believe the USAID is mistaken if they expect in depth

procurement assistance from the Contracting Officer. Three months training in procurement will not provide the depth of experience necessary to implement this program efficiently or to significantly lower the risk profile.

d. Choice of PSAs

There were a number of problems involved in the PSA selection process. First was the omission from the Request for Proposals in the PAAD of evaluation criteria for selection. This omission was not noted by SER/COM prior to publication and distribution of the RFP. When the omission was pointed out by one of the proposing firms, it was immediately recognized that this was a serious problem that could jeopardize timely selection. A.I.D./W quickly provided a set of evaluation criteria used for PSA selection in the Burma Maize and Oilseeds Projects. The USAID made minor changes to these and adopted them. There were a number of problems with these criteria. For example,many firms complained that a relatively large number of points was given for previous experience as a PSA in A.I.D. financed procurements. Related problems were also encountered because points were awarded for a firms capacity to perform certain A.I.D. required functions. If they had not served as a PSA for A.I.D. financed procurements previously, how should they be rated? In retrospect, more time and effort should have been expended in developing criteria and there should have been less emphasis on speed.

A second problem area was the logistics of getting proposals to Islamabad. Expensive courier services were required and even then a number of proposals were lost in transit. It would have been far easier to have the firms submit proposals to A.I.D./W and to have A.I.D./W pouch the proposals to USAID The USAID has stated that the method of delivery was mandated by AID/W.

Lastly, the decision to hire two PSAs instead of one (one for the heavy equipment and one for the shop equipment) combined with the fixed fee arrangement has greatly restricted USAID's flexibilty concerning changes to the procurement list. The problem arises because the GOP desires more heavy equipment and less shop equipment than originally anticipated. The addition of a few pieces of heavy equipment to the heavy equipment PSA (Connell Brothers) contract

does not significantly effect that PSAs' level of effort. However, if funds come from the shop equipment PSA (AEGIS) contract which is comprised of many smaller items, the change would result in a major decrease in the AEGIS level of effort. Under a fixed fee arrangement, this requires USAID to reopen negotiations on the fee which might possibly jeopardize the whole procurement. There is no easy solution. It may be possible to decrease temporarily the shop equipment contract by the amount required in exchange for a promise to increase it back to its original level when next tranche funds are available. Alternatively, we suggest making an attempt to secure agreement of both PSAs to a modification of the "change order" provision of the contract which would permit percentage adjustment in fees based on percentage change in procurement value or line items.

e. PSA Contract Negotiation and Signature

A number of problems show up at this point all of which are traceable to the failure to have a person familiar with PSAs and A.I.D. procedures for dealing with them on hand during the negotiations. This would have been someone from SER/COM. The mission in fact sought guidance and requested a specific SER/COM representative to participate in the negotiations. However, for reasons related to vacations and other factors, there was no SER/COM participation.

The major problems involved the payment provisions and the fee structure. The payment provisions which were negotiated were at variance with the provisions in the plan. They provided that the PSA would receive a bank letter of credit covering both the fee and the anticipated equipment purchases.

For equipment purchases the PSA would order the equipment from the successful bidders and take the invoices to the bank for payment. After receiving payment from the bank the PSA would pay the supplier.

The AID/W Controller (and SER/COM) raised a number of objections to this procedure and refused to proceed. First there was no requirement for such standard A.I.D. documentation as a Supplier Certificate or evidence of shipment. The Controller felt that permitting a PSA to obtain payment simply by submitting a suppliers invoice exposed the agency to serious danger. Secondly, there was not

necessarily any connection between payment to the PSA and payment to the supplier. While A.I.D. has permitted arrangements where the PSA is paid first by A.I.D. and in turn pays the supplier, such arrangements have involved much smaller sums and more host country participation. Here it was felt that USAID's agent role required A.I.D. to proceed with extraordinary care. These problems were eventually resolved after discussion with the PSAs by revising the payment mechanism. The revised mechanism provided for the PSA to open Letters of Credit in favor of the selected suppliers. Under this procedure the supplier is paid directly by the bank upon submission of required documentation. The fee structure provided a much more difficult problem and has yet to be resolved. The fee structure that was negotiated with the PSAs differed considerably from that in the plan. The plan called for a 50% advance whereas the PSA contracts call for 20% advance. However, the plan called for no further payment until equipment delivery where as the structure negotiated provided, in one case, for payment of 90% of the total fee upon IFB issuance for 50% of the items. According to the Regional Contracting Officer who negotiated the fee structure, this schedule was meant to reflect payment for work actually performed. He also stated that the structure had been discussed with and agreed to by the Regional Commodity Management Advisor.

The rationale for the proposed fee structure is not stated in the PAAD. It is our understadning that the fee structure was proposed by the Regional Commodity Management Advisor Bendeguz Viragh. We were unable to interview Mr. Viragh for this evaluation but we believe he felt that the more typical PSA arrangement paid fees too slowly which discriminated against smaller firms. In this case in particular he felt that because of the size of the procurement, smaller firms (who might be otherwise qualified) would be a serious disadvantage without a sizeable advance. On the other hand, given a sizeable advance, he felt that the remainder should be held to assure performance.

A good fee structure should relate payments to work completed as closely as possible. The structure proposed in the procurement plan provides too much up front while at the same time providing an exceptionally large holdback. However, it does

provide the intended (we believe) advantage of permitting participation by smaller firms on an equal basis. Assuming that the advance could be justified under the Agency's Cash Management Guidelines and was secured with a performance bond as required by Handbook 11, we have no serious problems with it.

f. PSA Contract Terms

1. Cost Plus Fixed Fee.

PSA contracts are typically based on a cost plus percentage of cost basis. While Handbook 11 Chapter 1 does not permit "cost plus" percentage contracts, the agency has previously tolerated them for PSA services. This is because it is often not possible to determine at the outset what and how many items the PSA is to buy. If significant changes occur in a procurement list under a fixed fee arrangement, contract negotiations on the fee amount must be reopened. This can delay and jeopardize implementation. Changes in the list do not usually cause a problem if the fee is based on a percentage of cost as the fee then varies with the size of the procurement. The decision to proceed on a fixed fee basis in this case was based on the understanding that the procurement list was more or less fixed. That is, while some changes were anticipated, those changes would not significantly affect the PSA's level of effort. That understanding which has to some extent proven erroneous, was based on the fact that the equipment list had already been thoroughly reviewed in a World Bank Study.

2. Fee Structure

The proposed fee structure in the procurement plan is 50% upon contract signature and 50% upon receipt of the commodities. While at the time of procurement plan preparation there was no published guidance on PSA fee structures, the proposal is unusual. A more typical arrangement at the time would not provide for any payment upon contract signature, would provide smaller incremental payments at such milestone as IFB issuance, purchase order issuance, submittal of award recommendations, etc., and would either permit final fee payment on shipment of commodities or hold a small amount (10% or less) pending receipt and inspection.

This was later confirmed by the RCMA in a cable to SER/COM defending the structure. In any case, SER/COM and GC/CCM expressed serious reservations about the fee structure and as a result, USAID is attempting to renegotiate it. This is, understandably, no easy task as the fee amounts quoted by the PSAs were undoubtedly predicated on the structure given.

A final difficulty was encountered in obtaining a GOP signature on the PSA contract. While it may seem that as USAID had already been appointed the agent of the GOP to effect the procurement, a GOP signature was not necessary. This was, in fact, the GOP and USAID feeling. However, A.I.D./W insisted on a GOP signature. The A.I.D./W view is that without it, the contract would be a U.S. Government contract subject to U.S. Government procurement regulations, such as a minority (Section 8A) set aside and to other requirements applicable to large direct contracts.

g. Other

It was originally intended to have the PSAs draw up the specifications for the required equipment. In fact, considerable weight was given to the PSAs' ability to do this in selecting the PSA. In the final analysis, however, the price quoted to accomplish what the PSAs' considered to be a possibly open ended task was too high and USAID and the GOP decided it would be cheaper to hire their own specialists under a Personal Services Contract (PSC) to accomplish that portion of the work. This has, of course, added to the administrative burden faced by USAID. More importantly, this factor may also have resulted in paying more than necessary for PSA services. Preparation of specifications is not part of the normal PSA repetoire. Firms that can do this are larger, more sophisticated and invariably charge more. In short, the Mission may have selected and paid for a brain surgeon to do work which could have been easily handled by a G.P.

A separate but related problem has been delay in determining the precise composition of the equipment list. As noted previously it was originally thought that this list was more or less fixed. However, partly because of the GOP desire to import more heavy equipment and less shop equipment (the USAID

is reluctant to shift too much as the shop equipment is necessary to assure proper maintenance) and certain changes proposed by the USAID's PSC equipment expert, the list was not completed until on or about December 1.

h. Current Status

The amount and type of heavy equipment to be purchased and the equipment specifications have now been determined. Instructions were recently sent to the heavy equipment PSA to initiate procurement. Assuming that IFB's for this equipment can be issued expeditiously, the heavy equipment portion of the program can be considered approximately six months behind schedule at this point. However, because of the depressed state of the heavy equipment industry in the U.S., we believe orders will be filled quickly when placed and that final deliveries can take place as scheduled by September 1983. The shop equipment list and specifications are still in preparation (a USAID PSC will assist in this task). However, the shop equipment is mostly shelf items and we see no reason why deliveries cannot be completed by the September 1983 target date.

C. Major Conclusions and Recommendations

1. Fertilizer Procurement: Procurement went smoothly and according to schedule. There were no major problems. Minor problems in shipping were encountered.

Recommendation: To resolve the shipping issues, Mission should encourage and assist early discussions between FDFI and M/SER/COM on Charter Party terms.

2. Equipment Procurement: The major feature of the procurement plan are the use of Procurement Agents and USAID's role as agent of the GOP. It is too early to make a definitive judgement on these arrangements. However, we have the following recommendations/observations:

The Agent arrangement brings with it a fiduciary responsibility to the GOP and since, in many cases, it is AID not the GOP performing procurement actions, it weakens the usual protection enjoyed by the Agency. Thus, there is an increased risk of damage to AID if serious problems develop.

Recommendations: We do not necesarily believe the agent role should be abandoned. However, the USAID should move cautiously in determining what functions

it will perform. A specific area to avoid is physically taking possession of any equipment. We also note that the potential dangers of the agent role were not discussed or weighed against projected benefits in the last PAAD. Future PAADs should address this question.

The rationale for the USAID's agent role and for the use of PSA's was to expedite the procurement process by reducing the GOPs role in that process to a minimum. In theory, it is the USAID and the PSA not the GOP, that does the procurement, thus avoiding the GOP bureaucracy and achieving rapid implementation. In practice, however, the GOP has retained approval rights at the most critical points in the procurement process. For example, the equipment specifications and all awards must be approved by the GOP. As such, it is not yet clear what specific benefits have been or will be achieved. With regard to writing equipment specifications, it did not appear to us to be very much. The GOP asserted a major role in the process.

Recommendation: The USAID should consider experience to date in deciding whether or not to continue the present arrangements. If USAID determines that the GOP has asserted and will continue to demand a major role in the procurement process, USAID might wish to consider moving to more traditional procurement procedures. Under these procedures, SER/COM and USAID assist the GOP procuring agency in developing specifications and IFB terms and conditions. The IFB would then be issued through the GOP Embassy in Washington. Bids would be evaluated and awards made by a team from the GOP procuring agency. SER/COM monitors the evaluation process and approves proposed awards. This process has been found to work well for items such as fertilizer. The record is more mixed when equipment procurements are involved. Procurements are generally successful if the host country procuring authority possesses some experience, is receptive to USAID and SER/COM advice and if the authority to conclude contracts is properly delegated. USAID rejected this procedure largely on the assumption that it required a prominent host country role. This is incorrect in that the procedure described above can be varied to provide virtually any degree of host country involvement. SER/COM often assists host country agencies to such extent that the procurement is host country in name only.

Recommendation: No matter which approach the USAID chooses, we believe an experienced full time procurement specialist should be brought on board if at all possible. The current approach which combines a highly active role in the procurement process with relatively little experience is relatively "high risk". We know of no other Commodity Import Program of similar size and complexity that has been attempted without the services of a procurement specialist.

Recommendation: After current PSA procurement actions have been completed, the USAID should conduct a thorough review to provide more definitive findings on the procurement arrangements.

SECTION 6

PROGRESS MADE TOWARDS PLANNING, DEVELOPING AND EXECUTING POLICY STUDIES

A. Description of Program Activity

Despite improvements in agricultural production performance during the past four years, Pakistan's agriculture sector continues to be plagued with serious problems of low cropping intensity and low productivity. In addition to a lack of sufficient, timely and appropriate use of inputs, agricultural productivity remains below potential because of existing policy constraints. With an awareness of the problems and conditions plaguing agricultural performance, the GOP announced the National Agricultural Policy in February, 1981. According to the PAAD, "the policy is directed toward improving the 'quality of life of the Pakistani people' by: (1) increasing agricultural production for domestic self-reliance and export; (2) expanding employment opportunities; (3) ensuring equitable access to productive resources; (4) providing basic amenities in rural areas such as water and sanitation; and (5) preserving national environments. The policy also recognizes that the transformation of the agriculture sector hinges not only on the provision of additional physical (inputs) and human (skills) assets but also on the overall economic environment that permits higher private and social returns on additional assets." In this regard, the GOP has developed a strategy that "continues to be supply oriented, along with upward adjustments of output prices, reduction in subsidies, and increased private sector participation in marketing and agro-industrial activities". (PAAD P-13).

As part of the policy dialogue associated with the Agricultural Commodities and Equipment Program, A.I.D. will have an opportunity to reinforce and encourage macro-policy decisions and structural changes designed to promote long-term growth in agriculture. The PAAD states that during the five-year program at least three major policy areas in agriculture will be examined: financial (subsidy, tax, pricing and credit); physical (water, fertilizer, seed, pesticide and mechanization); and institutional planning capabilities (balance between public and private sectors, land reform, and policy planning capabilities). To facilitate this dialogue, special studies will be commissioned to explore policy implementation options

which should promote more favorable agricultural performance. These studies could in their own right lay the groundwork for the design of future project. The PAAD suggested the following areas as candidates for policy studies:

1. Edible Oils

2. Fertilizer

3. Mechanization

4. Food Security

5. Resource Mobilization

6. Water Management

To accelerate disbursements, the first tranche was developed without requiring any specific agricultural policy adjustment. It was, however, stated in the PAAD that "PL-480 and other assistance activities will deal with policy and institutional matters in FY 82". Although policy impacts are not expected during the first tranche, it is PPC's expectation that prior to the obligation of subsequent tranches, proposed policy changes will be defined and negoitated with the Government of Pakistan. Thus, it was PPC's understanding that the Mission will cable A.I.D:/W by December 31, 1982, designating the strategy for policy dialogue along with an outline of specific areas where changes in policy definition and implementation will be warranted.

B. Progress Made on Policy Studies

Policy studies are chosen on the basis of their potential to support those policy changes currently under consideration by the GOP that are most likely to have a maximum impact on increasing performance in the agricultural area. If after examining a prospective policy study area and its potential ramifications it seems unlikely that it will facilitate the implementation of policy change because of existing political constraints, the undertaking of the study will be deferred until a time in which the political conditions appear more conducive to implementation. Theses studies will be designed to support the implementation of policy changes, with the resulting report designating strategies for actual implementation. By taking this approach, the Mission believes their opportunity to affect macro-policy decisions and structural changes designed to promote agricultural performance will be maximized.

The following discussion will offer a description of the prospective policy studies and the progress made towards planning, developing and executing them.

1. Edible Oil

a. Description

Edible oil is the primary focus of the PL 480 Title I program and the Agriculture Production, Distribution, and Storage Project (391-0476). Unless domestic oil production can be increased significantly to meet the country's rapidly increasing edible oil consumption requirements, Pakistan will be forced to spend an increasingly large amount of scarce foreign exchange on edible oil imports.

In addition to the technical requirements needed to expand production, the GOP will have to address broad policy areas affecting the marketing and processing of oilseeds and by-products. The proposed edible oil study will provide the necessary analyses to enable the GOP to adopt a comprehensive oilseed policy which cuts across the "agricultural" and industrial dimensions of oilseed production. To adequately support such policy changes, the study will cover agronomic analysis of oilseed production options, price and income elasticity of demand for edible oil,and the interdependence of the poultry and dairy industries with domestic edible oil production.

b. Progress

Design of the edible oil studies was initiated in August 1982 with the arrival of a USDA Contractor working under a PASA arrangement. His mission was to orchestrate the services of agricultural experts to assist USAID/Pakistan in formulating, designing and preparing appropriate documentation for the proposed oilseeds project. The first group of consultants arrived in October to undertake an in-depth assessment of edible oil industry to determine the feasibility and the long-term comparative advantage of significantly increasing the domestic production of edible oils. The findings from this study are contained in a report entitled, The Policy Setting of the Oilseeds Sector in Pakistan.

The second group of consultants arrived in November. This team was charged with examining the interrelationships prevailing in the poultry and livestock industries with respect to demand for energy and protein. There is a concern that inadequate sources of high quality feeds for these industries will delay their development and create unnecessarily high prices. With the development of an oilseeds program, the cake and meal by-products may be efficiently utilized by both industries as a reliable source of protein and energy. Thus, in exploring the economic interdependence and linkage between the edible oilseeds industry and the poultry and livestock sectors, appropriate policy measures will be identified which could improve the economic efficiency of by-product utilization for poultry and livestock. his effort was still in progress while the evaluation team was in Pakistan.

Several other teams and individual experts are scheduled to arrive in the forthcoming months to examine other aspects of the edible oil issue. During March and April, a final group fo consultants is scheduled to arrive for the purpose of synthesizing findings and recommendations generated from previous teams into a comprehensive program for the edible oilseed industry. Essentially, this team will address the question of whether or not Pakistan has sufficient and appropriate resources to significantly increase the domestic production of vegetable oils and whether Pakistan can develop a comparative advantage in the oilseed industry. If a program appears feasible, the team will propose a recommended action program for implementation of an integrated program under which a major effort will be mounted to improve oilseed production, storage and distribution. The target date for completion of this report on edible oils is April 10, 1983. If an action program is recommended, the team will prepare a project for submission in early June 1983.

2. Fertilizer

a. Description

Fertilizer is the major component of the Agriculture Commodities and Equipment Program. The fertilizer

sector suffers from several deficiencies in areas ranging from farm level application practices to the delivery mechanism. The PAAD suggests the following two areas for study:

(1) Privatization of Marketing

Fertilizer imports are presently handled exclusively by the Government. The public sector also plays a significant role in domestic marketing, particularly of the large amount of imported phosphatic fertilizer. The private fertilizer companies are interested in the importation of fertilizer and in an expanded role in the distribution of fertilizer in the domestic market. The purpose of study is to explore the implications of increased private sector participation in marketing (including international buying) and suggest an appropriate mix of public and private sectors for the fertilizer market.

(2) Domestic Production

Current nitrogen production capacity is 737 thousand NMT (against a demand of over 900 thousand NMT) and is likely to increase to 1,038 thousand NMT shortly. The country will, however, continue to import over 70% of its phosphatic requirements. At the present time, total phosphate production capacity is 89,000 nutrient tons and is projected to remain at the same level at least during the 1980s. All of the phosphatic and 68% of the nitrogen production capacity exists at the semi-governmental National Fertilizer Corporation. Operating rates in the public sector plants are generally low. The purpose of this area of study is to examine the long range options for increased domestic production, identify constraints to increased private participation in plant construction and/or modernization and balancing of existing plants.

b. Progress

A study of the privatization of fertilizer marketing in Pakistan was executed in October 1982 with the assistance of three direct-hires from SER/COM. Their charge was to research possibilities of maximizing distribution of fertilizers to the farmers of

Pakistan, while at the same time making it possible to improve efficiency of the distribution network through greater involvement of the private sector. On the basis of discussions with officials of the fertilizer trade at both the public and private sector levels, the team formulated several recommendations which are contained in a discussion paper entitled, Pakistan Privatization of Fertilizer Marketing.

A Scope of Work is currently being developed for the purpose of procuring the services of a contractor to formulate the policies which need to be implemented to achieve a more viable and economically efficient fertilizer industry in Pakistan. The work will include, but not be limited to issues surrounding domestic production.

3. Food Security

a. Description

Food security in Pakistan relates principally to the supply of the staple wheat at reasonable prices. Since Pakistan's inception, the GOP has practiced wheat rationing, procuring 20-30% of the wheat crop and marketing wheat flour to largely urban consumers at subsidized prices. The consequences of this policy have been lower producer prices and a burgeoning consumer subsidy.

In the last several PL 480 Title I program, A.I.D. has attempted to limit the GOP rationing system and encourage private grain trade. However, low production levels along with the political sensitivity attached to an assured supply of cheap wheat flour have restricted progress.

Now that Pakistan has registered three successive record wheat harvests and is on the threshold of wheat self-sufficiency, the time is ripe to examine the rationing system. The study envisaged will cover production base, procurement operations, stock policies, consumers' subsidy, and beneficiaries. The study will also address the possibility of using Government wheat stocks as an effective instrument to dampen wheat price fluctuations. Findings and recommendations resulting from these studies will, in conjunction with the edible oil studies, lay the groundwork for the Agricultural Production, Distribution and Storage Project (391-0476) in FY 1983.

b. Progress

USAID is currently in the midst of defining with the GOP potential areas of policy change and selecting studies that would be most effective in supporting their implementation. Discussions are also focusing on the identification of appropriate institutions in Pakistan and the U.S. to carry out the studies to be proposed.

4. Mechanization

a. Description

Several researchers have argued the existence of a "farm power gap" and have pleaded for a dynamic mechanization policy. The GOP has recently established a Farm Mechanization Board to advise on mechanization policy.

Use of machines on farms is a complex and controversial issue. It is complex because it is hard to identify a unique package of machines most suitable for increased efficiency on all types of farms. It is controversial because machines can significantly affect employment of labor, tenancy relations, and income distribution without necessarily bringing about increased efficiency. Studies in this area could provide the necessary empirical evidence to develop an appropriate mechanization program. Areas to be considered for study are: the income distribution; type of machinery suitable for small holdings; and domestic manufacturing and manufacturer capacities and potentials.

b. Progress

PIDE, a Pakistani institution is planning to initiate a study on tractorization. USAID/ARD is considering some level of participation in this study. Due to time constraints, no further progress has been made.

5. Resources Mobilization

a. Description

The critical issue currently facing policy planners is the formulation of pricing and trade policies for agricultural commodities and inputs that are consistent with the objectives of increased farm productivity and equitable income distribution, on the

one hand, and the need to generate sufficient financial resources for large-scale public sector investment programs on the other. Since resource mobilization in agriculture is necessary for infrastrucutral and other investments, studies could be used to identify potential alternatives that may improve the financial contribution of agriculture to government revenues without adversely effecting production and income distribution. Investigations would also be needed to develop ways to improve private capital formation in agriculture, especially in view of the availability of increasing home remittances.

b. Progress

Due to existing political constraints in this policy area, USAID/ARD is concerned about the extensive time and efforts that would have to be expended in securing GOP agreement to consider policy changes and implementation in this area. Due to Mission time constraints, no progress has been made to date and it is possibile that this proposed study area may eventually be rejected.

6. Water Management

a. Description

Pakistan's irrigation system operation in the past has involved essentially surface water routing with very little attention to crop requirements. Attention, however, is now being focused on regulating water supplies with crop demands. Transformation of the demand-oriented system would require extensive investigations to develop operation guidelines for managing the irrigation system at the marco, canal and the farm level. The study would describe the engineering, economic, and administrative dimensions of the irrigation system, identify currently-used management approaches, examine the role of computer modeling, and develop a plan for integrated water management to maximize agriculture production.

b. Progress

Broadly speaking, the issues identified above have been examined by the On Farm Water Management Project and the design efforts involved in the Irrigation Systems Management Project. The Command Water

Management Feasibility studies began in July 1982. These UNDP-funded studies focus on delivery of water on a timely basis. If findings are favorable, pilot projects will be implemented in each of the provinces. During project implementation, these issues will be further examined.

C. Progress Made on Policy Analysis

As stated earlier in this section, it is A.I.D./W's understanding that the Mission will send a cable by December 31, 1982 describing the strategy for policy dialogue as well as an outline of specific areas where changes in policy definition and implementation will be warranted. To complete this assignment, USAID/Pakistan hired a consultant for the first three weeks of December 1982 to assist them in reviewing current trends in the GOP's agricultural development policy and identifying critical policy areas that constrain agricultural development. In addition to analyzing relevent documents, this effort has involved extensive discussions with Government officials at various levels. The contractor was also charged with examining a range of issues related specifically to fertilizer. These issues are:

1. Review of the efficiency of the fertilizer distribution system.

2. Review of the suitability of fertilizer formulas now offered to farmers.

3. Review the role of the private sector in the importation and distribution of fertilizer.

A report containing findings and recommendations from this policy analysis has been produced and will form the substance of the cable requested by A.I.D./W.

D. Summary of Findings

With consideration to the time and effort required in planning, development and executing the studies proposed in the PAAD along with the staffing constraints under which the Mission currently operates, it is the opinion of the evaluation team that considerable progress has been made to date. Studies in three of the six proposed policy areas have already been executed and the initial planning stages

of developing studies in two other areas have begun. Evaluation of the quality of the policy studies planned and executed was beyond the scope of work for this team due to time constraints and a lack of expertise in agricultural economics.

Recommendation:

The scope of work for the next evaluation should include an examination of the quality and usefulness of the policy studies being conducted. If this type of examination would benefit USAID/ARD before the next planned evaluation is scheduled, consideration should be given now to developing a scope of work and determining when an evaluation of the policy studies would be most helpful.

SECTION 7

MONITORING AND EVALUATION OF PROGRAM PERFORMANCE AND IMPACT

A. Distribution and End Use of Commodities

The process of distributing commodities is set in motion when FDFI informs the four provincial distributers of the arrival date of a fertilizer shipment and the portion of fertilizer which has been allotted for their province. With receipt of this information each of the four provincial distributors issues an advance notice to their representatives in Karachi, detailing the anticipated date of the shipments' arrival as well as an allocation plan designating the quantities intended for the various bulk depots in their province. Some portion of each province's allocation is destined for distributers in the private sector. The allocation plan is based on a fixed quota system which is in turn based on population/consumption patterns. If, however, a province needs more than allocated from a particular shipment, adjustments can be made. Each province representative will then forward this information to the National Logistic Cell (NLC) which is an Army-run Federal Agency responsible for monitoring all port activities and arranging onward transportation of commodities.

According to plan, A.I.D. fertilizer, which arrives in bulk, is to be transferred directly from the ship into A.I.D. marked bags and placed on transporting vehicles furnished by NLC. This operation works smoothly providing that the amount of fertilizer arriving at any given time can be accommodated by the number of NLC vehicles available. Sufficient coverage, however, is a problem when very large shipments arrive at once. Attempts are made to load the remaining fertilizer on trains. This, however, is not a particularly desirable option since the train system is considered undependable. Using private trucks is another option but because it is more expensive, it is generally not considered a viable alternative. In some instances, temporarily warehousing of fertilizer has been required until transport vehicles are available. It was noted, however, that if fertilizer that is temporary warehoused in Karachi is needed immediately for distribution purposes during peak season, NLC will make special arrangements to get it to its destination. Whether this always occurs is questionable, however, since one regional manager indicated that some farmers are waiting for DAP that has yet to be delivered. According to FDFI, all the

fertilizer shipments for the first tranche arrived in Karachi in mid-November and all but 4,000 tons have been transported to the various bulk depots in the four provinces. Thus, since mid-November 4,000 tons of fertilizer which only amounts to 3% of the total amount shipped still remains in Karachi but has been moved from the port to warehouses. Although the evaluation team was unable to visit the Karachi warehouses where fertilizer was being temporarily stored, the team did visit the Karachi port and did not see any A.I.D. fertilizer in the port area.

When the transporting vehicles arrive at the various bulk depots, the fertilizer is transferred into warehouses. The amount of time that the fertilizer remains in the bulk depot warehouses depends on the season. During peak months (November, December, January, May, June, July and August), the fertilizer generally remains in the warehouses between 7 and 10 days. During off peak months, fertilizer can remain up to 3 to 4 months. To minimize need for warehousing A.I.D. shipments are scheduled to arrive before or during peak months. Some portion, however, is kept in the warehouse to maintain a reserve level. According to provincial distributers in the Punjab and Sind, the problems of pilferage and loss of fertilizer due to moisture while in the bulk depot warehouses are minimal. These warehouses are apparently subject to surprise checks by the Directorate of Inspection to ensure proper care of the fertilizer. Nevertheless, some individuals interviewed expressed concern that the storage facilities in some depots were unsatisfactory. Although, the distributers chose not to expound on this issue, there does seem to be some concern on their part. The magnitude of this problem is unclear to the evaluation team and due to time constraints they were unable to make selective checks. Currently, USAID/ARD monitors fertilizer utilization by receiving information from various publications and reports from liaison officers. There may be a misconception in USAID/ARD that the fertilizer was imported in bulk and bagged by FDFI in their own bags so that A.I.D. fertilizer is no longer identifiable. This, however, is not correct, since A.I.D. fertilizer is placed in A.I.D. marked bags and the bulk depot for which the fertilizer is destined is designated in the allocation plan.

> Recommendation: USAID should institute a system of selective monitoring of the warehousing of A.I.D. fertilizer to assure that fertilizer is cared for properly and is being delivered in a timely manner.

The fertilizer is then distributed from various bulk depots into a network of both public and private dealers according to consumption requirements submitted by the dealers themselves. The retail outlets from which the dealers operate are strategically located throughout each of the provinces to insure that even farmers in remote areas have access to fertilizer. For small farmers that have difficulty paying the transport costs involved in getting the fertilizer from the retail outlet to the farm, the public dealers will often deliver the fertilizer to the farmer or offer compensation to cover his transport costs.

According to USAID/ARD, recent studies have shown that due to increased fertilizer supplies and improved distribution systems, small farmers are now participating more equitably in the market, using as much or more fertilizer per unit of land as the larger farmers. USAID/ARD stated that maintaining such a momentum of fertilizer consumption on an equitable basis is an important element of this project and indicated that continued monitoring of studies reporting on this phenomenon would be sufficient for them to affirm that equitable participation was a sustaining outcome.

A final point to be mentioned in this section is the issue of appropriate use of fertilizer. According to the PAAD, agricultural productivity in Pakistan is low due to a lack of sufficient, timely and appropriate use of inputs. Presumably this program will address the issues of sufficiency and timeliness in that the program is financing large amounts of fertilizer and delivery is planned according to peak months. Although this program will not be addressing appropriate use, GOP officials at the province level assured the evaluation team that farmers are instructed on how to use the fertilizer properly through their Agricultural Extension Service which assigns each of their officers a number of farm families which they visit routinely. According to the provincial distributers, the farmers receive additional instruction from the dealers when a fertilizer purchase is made. In the end, the adequacy of this instruction on appropriate use of inputs will be reflected in the farmer's agricultural performance.

B. Distribution and End Use of Equipment

According to design plans, the equipment for the first tranche is to be used to assist the GOP and World Bank to carry out the Canal Rehabilitation Program. Delivery of equipment is expected by October 31, 1983. Although the World Bank Project has yet to be approved, preparatory work is currently underway by the GOP. According to officials in the Provincial Irrigation Ministry, equipment furnished by A.I.D. can be used as soon as it arrives since it will essentially supplement the old equipment currently being used in this project.

After the equipment arrives and is processed through customs, A.I.D. may handle the costs involved in transporting the items to the four provinces. According to discussions with the Provincial Irrigation Ministry, an agreement has been established with A.I.D. delineating procedures for getting the equipment to the four provinces. The official interviewed however, could not recall the details of the procedures established in the agreement and it was unclear to the evaluation team whether this agreement does, in fact, establish procedures for handling the equipment beyond customs or that it simply states that A.I.D. will finance transportation costs.

> Recommendation: If procedures for getting the equipment from customs to the provinces have not been established, it is advisable to do so with the GOP at the soonest possible time since equipment could arrive at any time. To simplify the process of transporting the proper equipment to the appropriate province, arrangements should be made, if they have not as yet, to have the name of the province for which the equipment is destined clearly marked on each package prior to being shipped.

C. Effect of Program on Balance of Payments and on Performance of Agricultural Sector

A major priority of the Agricultural Commodities and Equipment Program is balance of payments assistance. Dollar assistance addresses Pakistan's serious short and medium-term foreign exchange problems. The financing of imported commodities and the rupees generated by their sale will lessen the budgetary burden created by Pakistan's increased defense expenditures, a burden that could sharply curtail the GOP's expenditure for development. While the program is primarily designed to provide maximum balance of payments impact, it will also directly address specific constraints to agricultural development through its support of relvant policy changes and through the importation of needed commodities and equipment. Thus, in addition to having an impact on balance of payments, the program has also been designed to have an impact on agricultural performance.

While the purpose of this current evaluation is basically to provide the Mission and A.I.D./W with an assessment of accomplishments to date, the PAAD evaluation plan discusses the measuring of impact in future evaluations. Specifically, the plan states,"evaluations in subsequent years will be more intensive in scope and are likely to focus on such issues as the estimated impact of imported commodities on the performance of the agricultural sector and the estimated marginal contribution to GNP of the foreign exchange provided under this program".

With impact evaluations planned for the future, the Mission evaluation plan suggests that the FY 1983 and FY 1984 evaluation should "to the extent possible, begin the process of quantifying the indicators for later measurement of the program impact on increasing agricultural sector productivity".

During discussions with USAID/ARD, however, the evaluation team was informed that because this is a Commodity Import Program (CIP), impact of this program on agricultural sector productivity will not be measured. Impact on the agricultural sector will, however, be measured for other Mission agricultural projects according to USAID/ARD.

There was, however, not enough time for the evaluation team to review evaluation plans for other agricultural projects, so it is difficult to conclude that adequate monitoring is planned. (i.e. do the evaluation schemes of other projects plan to monitor agricultural productivity in a way that can offer this program as well as other agriculture projects feedback on such critical issues as the validity of assumptions, performance, effectiveness of strategies etc). At the same time, there remains a discrepancy between the evaluation plan in the PAAD and USAID/ARD's intentions regarding the measurement of impact of this particular program. The evaluation team believes that a definite position should be taken to resolve this difference of opinion.

Clearly, measured improvements in Pakistan's agricultural sector would reflect the efforts of many of A.I.D.'s projects in addition to other external factors. Assuming that the development of projects in the agriculture sector has been based on some assessment of needs then it follows that improvements in agriculture will depend on an effective combination of many if not all of the projects rather than on just one. Thus, it is possible that a well designed evaluation system monitoring various indicators reflective of improved agricultural productivity in addition to individual project performance indicators would serve USAID's monitoring and evaluation needs in the agriculture sector in that the expected changes to which all project activities are directed would be monitored. Although attribution to any one particular project could not be proven if agricultural productivity improves (since in addition to other methodological limitations, most of the projects are directed towards the entire country as opposed to just certain areas), the lack of a change in agricultural performance or a nominal change (compared to what was expected) could promote further investigation into why performance has not changed. Further investigation could reveal: critical areas that are not being addressed by the current projects as designed; inadequate project performance; that underlying assumptions on which a project is based are no longer valid; inadequate support by

host-country counterparts; inadequate support or participation of target population, etc. If such data were processed and analyzed early enough in the life of projects, the findings could be invaluable in offering guidance on areas needing more attention, reformulation or those worthy of elimination. Furthermore, these findings could help formulate the basic elements upon which new projects are designed.

> Recommendation: With A.I.D.'s emphasis on measuring impact, in particular beneficiary impact, the monitoring and evaluation plans for measuring changes in agriculture performance should be further examined to ensure that the expected changes to which this program as well as other agricultural projects are directed will be adequately monitored.

With regard to impact on balance of payments to date, the effect was essentially felt as soon as the contracts for $34 million were awarded for fertilizer during FY 1982. If A.I.D. had not financed $34 million of fertilizer in FY 1982, the GOP would have had to use part of their own scarce foreign exchange reserve. Thus, it can be said that this program has already made progress in providing the GOP with balance of payments support.

SECTION 8

GENERATION AND USE OF RUPEE PROCEEDS ACCRUING FROM SALES OF IMPORTED COMMODITIES

A. DESCRIPTION OF PROGRAM ACTIVITY

According to the Program Assistance Approval Document, the Agriculture Commodities and Equipment Program will result in the accrual of rupee proceeds to the Government of Pakistan when commodities provided by A.I.D. under this program are sold or charged against the budgets of autonomous agencies and Provincial Governments. In accordance with procedures established for the FY 1981 PL-480 Title I Program, all rupee generations are to be deposited in a special account and mutually programmed by the GOP and USAID/Pakistan.

B. PROGRESS

1. Generation of Counterpart Funds

Prior to the arrival of a shipment of fertilizer in the Karachi port, each of the provincial distributors issues an advance notice to their representatives in Karachi, detailing the anticipated date of the shipment's arrival and an allocation plan designating the quantities intended for the various bulk depots in their province. The representative will then forward this information to the National Logistic Cell which is the organization responsible for clearing the port and transporting most of the fertilizer to the various bulk depots in the provinces. The remaining fertilizer is transported to the provinces by train or private sector vehicles or stored temporarily pending shipment. The fertilizer purchase is charged against the budgets of the Provincial Governments when the fertilizer is transferred from the ship to the transporting vehicles in the Karachi port. It is, therefore, at this point that the generation of counterpart funds is considered to occur.

All fertilizer shipments designated for the first tranche were completed by mid-November and according to FDFI, all but 4,000 tons (representing only 3% of the total) have been sold or charged to the provincial distributers. Thus, most of the rupee proceeds resulting from $33.1 million of fertilizer purchased have now been generated.

The amount of rupees generated from fertilizer sales is based on a formula established by the GOP. According to the GOP sources, the actual amount generated equals what the GOP consideres "recovered" which is the amount the GOP spends for purchasing the fertilizer minus incidental costs (operating expenses) and subsidies to the farmers. More specifically, the GOP purchases fertilizer at the rate of approximately 3,680 rupees per ton of fertilizer but recovers only 2,190 rupees per ton through the sale of fertilizer to Prinvincial Governments. Thus, the amount of rupees accruing from this first tranche will equal approximately 60% of the equivalent dollar amount disbursed by A.I.D. to finance the foreign exchange and local costs for the importation of commodities (approximately $22.6 million).

2. Counterpart Deposit

According to the PAAD, rupee proceeds will be deposited in the Federal Consolidated Fund of the GOP. The GOP will then credit these proceeds to a special subsidary account to be named "USAID Program for U.S. FY 1982". The USAID Program Ofice has been charged with monitoring this special account by reviewing reports from the GOP. A schedule for the receipt of reports has been established and the first report is due in mid-December 1982.

3. Use of Rupee Proceeds

Rupee oroceeds deposited in this special account are to be mutually programmed by the GOP and USAID/Pakistan for use in development activities. According to the PAAD,these funds may be allocated for development activities in the following area: agriculture; rural development; water resources; population; education; health; energy; and where appropriate may be used to reduce opium poppy production.

Although initial collaboration efforts in the programming of sale proceeds from commodities financed under this program are progressing satisfactorily from USAID's point of view, in the past similar PL-480 I agreements have resulted in nominal A.I.D. control and participation in the use of rupee proceeds. According to USAID dicussion paper dated September 23, 1982, on programming rupee proceeds, "the GOP has in the past been most reluctant to develop collaborative projects funded from the sales proceed". With consideration to the implications of this position the paper suggests that, "there has been the danger that in its quest for perceived independence in the management of economic resources, the GOP would thwart A.I.D.

participating efforts (interpreted as 'intervention' rather than 'participation') by leaving the sales proceeds balance unspent . . ."

Acknowledgement of such past "participatory" programming experiences has led to adopting a cautious approach to increasing USAID participation during the current negotiation process. There will be a continuation of the current practice of requiring the GOP to convene periodic meetings for consulting on the agreed purposes for which sales proceeds may be used and to review actual disbursement. However, USAID believes that by seeking GOP concurrence on a list of specific activities to be funded out of sales proceeds before these meetings are held, mutual programming will be more likely to occur. Besides providing more sanctity to the use of sales proceeds, the Mission believes that this approach would facilitate the monitoring of releases as well as the Missions' capability to ensure that the releases are timely.

A document listing a preferred order to development activities has been prepared by the Mission. This document will represent USAID's interests during a series of collaborative meetings to be held between the GOP and USAID to negotiate programming of sales proceeds. As already indicated, these negotiations have begun and at this point seem to be progressing in a manner that is satisfactory to the Mission.

C. Summary of Findings and Recommendations

Discussions with USAID and GOP staff revealed that progress is being made towards the development of mechanisms for monitoring the generation and deposit of rupee proceeds accruing from fertilizer sales and the mutually agreed upon programming of these rupees.

With regard to rupee generation, the GOP has already established a formula designating the amount of rupees generated per ton of fertilizer sold. During discussions with Mission staff, it appeared that some were uniformed of the particulars of the formula which defines the amount of rupees generated from the sales.

> Recommendation: The Program Office, which will be monitoring rupee proceeds, should be aware of the particulars of this formula and ensure its conformity to any regulations or agreement that may exist.

To date, 97% of all rupees resulting from the first tranche have been generated and should have been deposited in the special account. According to a schedule established for the receipt of reports, the first report detailing deposits from the first tranche is due in mid-December 1982.

Negotiations for use of rupees proceeds have been initiated and are running on schedule. The GOP is aware of USAID's programming preferences and according to the Project Officer, negotiations are, at this point, progressing satisfactorily.

APPENDIX A

AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM SCOPE OF WORK FOR PROGRAM EVALUATION

I. The Program. During negotiations between a U.S. Economic Negotiating Team and the Government of Pakistan on the size and general content of a six-year program of economic support, the Agricultural Commodities and Equipment Program was identified as one of the major components of the total assistance package. This proposed $300 million, five-year program was designed to accomplish two objectives:

Provide balance of payments support

Increase productivity of the agricultural sector

Accomplishment of these two objectives was based on successful implementation of the following strategies:

Financing of needed agricultural commodities and equipment

Examination and influence of policy issues important to and capable of improving agricultural sector performance

The first tranche of the Agricultural Commodities and Equipment Program (391-0468) was approved in March 1982 for $60 million. This first tranche, consisting of $34 million in loan funds and $26 million in grant funds, was designed to finance the foreign exchange and local costs for the importation of:

$34 million worth of diammonium ph sphate (DAP) fertilizer, representing approximately 30 percent of Pakistan's phosphate fertilizer requirement for the 1982/83 crop year; and,

$26 million worth of equipment to assist GOP and World Bank to carry out the canal rehabilitation program.

According to the implementation schedule in the PAAD, fertilizer deliveries to Karachi were to be completed no later than October 31, 1982. Receipt of final shipment of equipment is expected no later than September 1, 1983.

Because there was a need to move rapidly during the first year in providing balance of payments support, no policy issues were

to be addressed during the first trancho. It was, however, stated in the PAAD that "PL 480 and other assistance activities will deal with policy and institutional matters in FY 82". Although policy impacts are not expected during the first tranche, it was PPC's expectation that prior to the obligation of subsequent tranches proposed policy changes would be defined and negotiated with the Government of Pakistan. Thus, it was PPC's understanding that the Mission would cable AID/W by December 30, 1982, indicating the strategy for policy dialogue along with an outline of specific areas where changes in policy definition and implementation will be warrented.

II. Purpose and Timing of the Evaluation. In accordance with the PAAD and Mission Evaluation Plans for FY 83, an evaluation of the first $60 million tranche of the Agricultural Commodities and Equipment Program was to be implemented in December 1982. This evaluation effort would be completed within three weeks to ensure that evaluation findings and recommendations are incorporated into the design of the second tranche. The purposes of the evaluation are the following:

To identify the lessons learned from implementation experiences in order that they can be applied to the design of activities as well as the selection of commodities, mechanisms and procedures for subsequent tranches.

To assess progress made towards planning, developing and executing policy studies.

To identify mechanisms established for monitoring use of local currency generated by sales of imported commodities.

To identify (to the extent possible) potential indicators and methodologies that will be used to monitor and evaluate program impact on increasing agricultural sector productivity.

To make recommendatins for enhancing program effectiveness and efficiency.

III. Questions the Evaluation Team Will Address. The evaluation team will produce a report tentatively entitled, "Evaluation of Agricultural Commodities and Equipment Program". This report will respond to each of the questions included in this section specifying

indicators of progress and concrete evidence. The organization of the report will conform to the following outline:

i. Table of Contents

ii. Program Identification Data Sheet

iii. List of Abbreviations

1. Executive Summary

2. Major Conclusions and Recommendations

3. The Agricultural Commodities and Equipment Program Context

   A. Problem and Overview

   B. Description of Program

4. Purpose and Methodology of Evaluation

5. Procurement of Agricultural Commodities and Equipment

   A. Fertilizer Procurement

      What was the procurement plan? Why was this plan chosen?

      Was the chosen plan realistic? Was this plan the best choice?

      Was the chosen plan followed? Any changes? If so, why?

      What was the scheduling plan?

      Was the schedule realistic?

      Was the schedule followed?

      What problems were encountered? Why did they occur?

      What actions can be taken to improve fertilizer procurement in subsequent tranches, thereby circumventing problems encountered during the first tranche or anticipated for future tranches?

B. Equipment Procurement

What was the procurement plan? Why was this plan chosen?

Was the chosen plan realistic? Was this plan the best choice?

Was the plan followed? Any changes? If so, why?

What was the scheduling plan?

Was the schedule realistic?

Was the schedule followed?

What problems were encountered? Why did they occur?
How were the problems resolved?

What action can be taken to improve equipment procurement in subsequent tranches, thereby circumventing problems encountered during the first tranche or anticipated for future tranches?

C. Rapidity of Disbursements

What is the current status of disbursements? Is the level of disbursements significant to the objectives of the program?

What steps are involved in disbursements?

Have disbursements for fertilizer occurred as rapidily as planned? What problems were encountered? What actions can be taken to circumvent such obstacles prior to subsequent tranches?

What mechanisms are planned to issue quick disbursements for equipment? What hurdles exist now or are anticipated that may prohibit quick disbursement? What actions can be taken to circumvent such obstacles prior to arrival of equipment in the current tranche and for future tranches?

D. GOP and AID Collaboration and Role of Various Organizations

In what efforts are the GOP and AID collaborating? How are these efforts progressing? What, if any, problems exist and how can they be improved?

What are the various organizations involved and what are their roles? What, if any, problems exist and how can they be improved?

What steps are being made to further involve the private sector? What, if any, problems exist and what steps can be taken to transform or eliminate them?

E. Monitoring of Supply/Demand Conditions

When the PAAD was written, it was planned that $34 million worth of fertilizer would be imported. The plan also stated that if supply/demand conditions or other factors changed significantly, allocations may vary. Presumably, conditions did not change during this first tranche since allocation did not vary. For subsequent tranches, however:

How are supply/demand conditions monitored?

If conditions change, what may be substituted?

Is there any indication that conditions are changing?

6. Progress Made Towards Planning, Developing and Executing Policy Studies

A. Because of the urgency in initiating the program, consideration of policy issues important to and capable of improving agricultural sector performance was deferred to FY 83-86.

What plans have been made for developing and executing these studies?

For any policy studies planned, discuss

assumptions, expected outcomes, implementation etc. Are those studies that have been planned most appropriate for improving agricultural performance?

Which studies should be initiated as soon as possible to insure positive affect on policies? What political conditions exist in relation to these studies -- even if a policy study done is in a particular area, what is the liklelihood of actually changing the existing policy? What institutions will conduct the studies?

B. The PAAD states that PL 480 and other assistance activities will deal with policy and institutional matters in FY 82. What efforts have been made in this regard.

7. Monitoring and Evaluation of Program Performance and Impact

A. Distribution and End Use of Commodities.

According to a Congressional Notification cable from Islamabad to AID/W, dated Dec 31, 1981 recent studies have shown that due to increased fertilizer supplies and improved distribution systems, small farmers are now participating more equitably in the market, using as much or more fertilizer percent of land as the larger farmers. Is maintaining such a momentum of fertilizer consumption on an equitable basis important to this project? If so, how is end use of commodities being monitored? What target groups have been chosen? How are these groups chosen? Are these target groups involved in determining the "needed " content of commoditiy orders?

According to the PAAD, "agricultural productivity is low due to a lack of sufficient, timely and appropriate use of inputs..." Presumably this program will address the issue of sufficiency and timeliness. What other projects will address the issue of appropriate use of imported fertilizer and equipment?

What happens to fertilizer once it reaches Karachi? What steps are involved in its distribution? What problems have been encountered in getting fertilizer distributed ? How can these problems be eliminated prior to subsequent tranches?

B. Distribution and End Use of Equipment

According to the PAAD, the equipment for the first tranche is to be used to assist the GOP and World Bank to carry out the rehabilitation program.

What is the status of the Canal Rehabilitation effort and will the timing of equipment delivery be appropriately linked?

What are the plans for distributing equipment once it arrives in Karachi? What are the steps involved in the distribution of equipment? What mechanism is in place to ensure timely and smooth distribution flow of equipment? What hurtles exist which may prohibit timely and smooth distribution flow? What actions can be taken to circumvent such obstacles prior to arrival of equipment?

C. Program Impact on Agricultural Sector Performance

According to the PAAD, there should be increased productivity in the agricultural sector as a result of the importation of commodities and equipment and the changes in policies affecting the agricultural sector.

What criteria will be monitored to determine if these strategies are, in fact, having on impact an agricultural productivity?

What methodologies will be employed to measure program success?

Who will collect data?

What questions should be answered by a monitoring and evaluation system?

Develop a time frame for monitoring and evaluation of program performance and impact.

D. Has the Project affected balance of payments yet? To what degree? Is this acceptable? Problems?

8. Use of Local Currency Generated by Sales of Imported Commodities.

According to the PAAD, a special account will be set up for rupees accruing to Pakistan for the sale and transfer of imported commodities and these rupees will be mutually programmed by AID and Pakistan for use in development activities. What mechanism has been established to ensure that:

Rupees accruing from sale or transfer of commodities are in fact, deposited in a special account?

Rupees in special account are used for development activities mutually acceptable to USAID and GOP?

APPENDIX B

GOP AND USAID STAFF INTERVIEWED BY EVALUATION TEAM

GOP

1. Mr. Mian Manzoor Ahmad
   Additional Secretary
   Food and Agriculture Division
   Islamabad

2. Mr. Annear-ul-Hag Raazi
   Joint Secretary
   Food and Agriculture Division
   Islamabad

3. Mr. Chandhy Altaf Hussian
   Chairman, Federal flood Commission
   Islamabad

4. Mr. Anees Ahmad
   Engineering Advisor
   Federal Flood Commission
   Islamabad

5. Brig. (Rld.) Naseem Iqbal
   General Manager
   Federal Directorate for Fertilizer Imports
   Lahore

6. Mr. Chandhy Abdul Saltar
   Director, Marketing
   Punjab Agricultural Development and Supplies Corporation
   Lahore

7. Mr. Muzarmmil Chureshi
   Additional Secretary
   Department of Irrigation
   Government of Sind
   Karachi

8. Mr. Galsher Khan
   Additional Operational Director
   Sind Aricultural Supplies Organization
   Karachi

9. Mr. Mir Asadullah
   Incharge (I&S Wing)
   Federal Directorate of Fertilizer Imports
   Karachi

USAID

1. Dr. Ronald V. Curtis, Chief/ARD
2. Dr. Linda N. Lion, Chief/PDM
3. Mr. Shahid Parwaiz, Project Officer, ARD
4. Ms. Kim Finan, Capital Project Development Officer/PDM
5. Mr. William D. McKinney, Assistant Program Officer/PRD
6. Mr. Victor Amann
7. Dr. Ken Nobe