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USAID/MADAGASCAR

FY 1988 PL 480 Title II Section 206 Program

EVALUATION REPORT

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EXECUTIVE SUMMARY

U.S. program food aid to Madagascar in fiscal 1988 consisted of a one year Title II Section 206 program to supply 5,000 metric tons of crude vegetable oil for open sale to Malagasy refineries. Although a different form of program food assistance than used in the past in Madagascar, the Section 206 program rationale was consistent with the Mission strategy of support for agricultural policy reforms and sought specifically to address concerns related to the impact of the structural adjustment process upon Malagasy consumers. The program followed on previous year Title I and Food for Progress programs that supplied wheat, rice, and vegetable oil in conjunction with reform measures being taken in the production and marketing of rice, Madagascar's primary staple food.

A new focus on marketing reforms and rehabilitation of the edible oils sub-sector was envisaged for a multi-year Section 206 program beginning in FY 1988. However, the option of a single year program was adopted in recognition of the fact that the government had not completed the necessary studies and planning to frame reform and technical assistance measures for the sub-sector. Designed in this transitional context, the 1988 program sought to (a) provide continuing balance of payments support; (b) encourage continued market liberalization; (c) support government efforts to plan the reform of the vegetable oil sub-sector; and (d) supply a nutritionally significant commodity at non-scarcity market prices for Malagasy consumers.

Key elements of the program were (1) provision (in combination with existing stocks and local production) of sufficient crude vegetable oil to meet refining and market demand through the middle of calendar year 1989; (2) negotiation of self-help measures aimed at reinforcing reform of the edible oils sub-sector; and (3) use of local currency generations to support agricultural research, small farmer infrastructure and environmental protection activities previously funded through Title I and other program local currency generations.

The 1988 Section 206 Program Document calls for an early evaluation of the program in fiscal 1989 timed to coincide with the completion of a national Master Plan for Vegetable Oils and a National Agricultural Research Plan. The purpose of the evaluation and the significance of the two governmentr documents are described as follows:

"The evaluation is expected to include review of the National Vegoil Master Plan and the FOFIFA National Agricultural Research Plan, as input to the design of FY 89 and beyond food aid programs. It is still not clear whether, in fact, vegoil self-sufficiency is an economically efficient use of Madagascar's agricultural and industrial resources. The evaluation will reassess national vegoil strategy and goals after the products of self-help measures come on line to assist with decisions on investments in this sub-sector." -- FY 88 Madagascar Section 206 Program Document (p.39)

At the time the evaluation was undertaken - February 23 through March 6 - the FY 1988 Section 206 program had been implemented to the point where all 5,000 MT of the U.S. vegoil had been imported, a first auction of 1,840 MT had been held, three of the five self help measures had been met at least in part, and local currency generations up to this time were deposited as stipulated in a special account.

Commodity management under the Section 206 program has been fully satisfactory to date. The 5,000 MT of crude soya oil was brought into Tamatave port in two shipments toward the end of calendar 1988. It was transported from the port and stored by the consignee refinery without difficulty. Losses have been minimal and reporting is complete to this time. With end of year sales of the residual FY87 Title I oil stocks, the release of the first portion of the 206 vegoil through auction to the refineries in January 1989 met an immediate need to keep the refineries operating and to maintain the supply of refined vegoil to Malagasy consumers - a marked political priority as campaigning began with the new year in preparation for presidential elections scheduled in March.

In the short term, therefore, the 206 program has succeeded in preventing an imminent market shortage of vegoil and further reductions in already sub-minimal per capita consumption levels. For the full 1989 calendar year, projections indicate that with the 206 commodities Madagascar will have a negligible vegoil deficit, assuming status quo consumption levels.

A measure of balance of payments support - slightly under $3 million at CIF world market prices to Madagascar for the vegoil - has been provided by the program. While not a large amount in absolute terms, this also can be viewed as a positive offset against drawdowns within the Open General Licensing (OGL) system for investment rather than consumption purposes.

The auction procedures adhered to by the GDRM in January permitted equal access to parastatal and private refineries alike, a key element within the market liberalization agenda of the 206 program. Similarly, self help measures incorporated by the program agreement for preparation of the national vegoil master plan and the national agricultural research plan have been satisfied at least in part with the release of these documents since the Transfer Authorization was signed in June 1988. Local currency deposits appear to have been completed for the FY87 Title I program, and payments have been made to the 206 account for approximately 60 percent of the commodities auctioned up to this point in the FY88 Section 206 program.

There are present and potential deficiencies in program performance. Although the GDRM agreed that import duties should not be levied on the 206 vegoil, the consignee has paid such duties on at least some of the vegoil and is passing these charges along to the refineries which bid successfully in the first auction. Review of the January 1989 auction results suggests that the refineries colluded in their bids, and thus undermined the program's intent to promote competition in the sub-sector. Furthermore, the refinery which bid for and received the largest portion of the auctioned commodities has failed to pay for them within the stipulated deadline. Neither the vegoil master plan nor the national agricultural research plan has been jointly reviewed by A.I.D., the GDRM, and other donors specifically for the purpose of assessing Madagascar's comparative advantage for long term self-sufficiency in edible oils. Representatives of other principal donors involved in this sub-sector, such as the EC and France, indicated to the reviewers that they also remain uncertain of how to proceed with their assistance programs. And it is unlikely that either of the planned studies - for analysis of artisanal oils production and privatization of the SOAVOANIO refinery - will be completed within the timeframes prescribed by the Transfer Authorization and the Memorandum of Understanding. *

Finally, this evaluation cannot fulfill the requirements of the original program design. It was assumed at the time the 206 Program Document was prepared that critical information gaps relating to the edible oils sub-sector would be filled in during the intervening period to the time of the evaluation. This would have permitted the reviewers to judge the viability and policy utility of a multi-year food aid program targeted on the edible oils sub-sector. Yet without significantly greater donor and GDRM attention to analytical review of the master plan and the agricultural research plan than has so far occurred, or completion of the technical studies identified in the program agreement, it is not possible to extend the present evaluation to definitive recommendations for a multi-year program. Assuming that the necessary information becomes available within the next six months, this task will properly be charged to the end of fiscal year food programming and strategy exercise planned by the Mission.

The evaluation team's recommendations are both procedural and programmatic. The recommendations suggest ways in which the Mission can take remedial actions where procedures have not followed or can act now to prevent future difficulties. The programmatic recommendations include (1) the evaluation team's suggestions for remedying the irregularities that occurred under the first auction of FY88 soybean oil, and (2) the evaluation team's suggestions of ways in which future policy-based PL480 programs can be more effectively designed.

0 <u>USAID/M should request that the GDRM, using the local currency generations under the program, immediately initiate a local audit of the auction process.</u>

Because of the apparent irregularities in the first auction, this should be done prior to any subsequent auctions of commodities under the program. In the absence of such an audit prior to the next auction, AID will be hard-pressed to determine whether mid-course corrections in the program need to be made to ensure that the intended objective of the auction process is attained. Such an audit should be possible to design and conduct within one month. (It should be noted that an audit of the auction process was included in the design of the program, but the reviewers believe a mid-program audit of the first auction is now critical.)

0 <u>USAID/M should respond at the earliest possible moment to the GDRM request for suggestions on appropriate terms of reference for the survey of artisanal vegoil production and consumption.</u>

This survey should be carried out as expeditiously as possible in order to provide results well in advance of the PL480 program planning effort scheduled for the end of this fiscal year.

0 <u>USAID/M should immediately convey the evaluation team's preliminary findings regarding the irregularities in the auction process payments to the Auction Commission and call for a meeting of the Commission to discuss the matter.</u>

This could be done prior to the results of the auction audit (recommended above) in order to alert the Commission. The team also suggests that USAID/M propose to the Auction Commission that no further auctions of the Section 206 oil be announced until the Commission has an opportunity to examine the audit results.

0 AID should design a multi-year Section 206 program during the final quarter of FY89 for early approval in FY90.

The evaluation team fully agrees with the Mission's position that no Section 206 program should begin until at least FY90. As pointed out in 88 Antananarivo 5344, there appears to be no requirement for vegoil imports during calendar year 1989. In addition, sufficient analytical information on the vegoil sub-sector is not available now to permit the development of a multi-year vegoil program beginning in FY89.

0 AID should immediately engage the IBRD and the GDRM in a dialogue concerning AID's belief that any national goal of vegoil self-sufficiency should be based on adequate analysis of Madagascar's potential comparative advantage in the subsector.

The evaluation team believes that there is an urgent need for the GDRM to buttress its goal of self-sufficiency in vegetable oil production with adequate analysis of supply and demand factors in the sub-sector. Such an analysis should be considered a prerequisite to designing a multi-year Section 206 program in vegoil.

0 Any future AID-funded analysis leading to a program of PL480 commodity imports that have a balance of payments rationale should carefully consider the effects such a program has on the overall goal of liberalizing Madagascar's balance of payments regime.

Any balance of payments-justified imports under PL480 should come as close as possible to supporting the GDRM's system for a market-clearing foreign exchange regime. The prices set for the imported commodity should as closely as possible approximate those facing importers in a commercial situation.

o USAID/M should give serious consideration to providing refined, rather than crude, vegoil for a FY90 and beyond program.

The design team for the FY88 program noted that the reason for providing crude (as opposed to refined) vegoil under the FY88 program was that significant refining capacity existed in Madagascar. The difficulty with this approach is that it may undercut market factors which would show that Madagascar does not in fact have a comparative advantage in vegoil production in the longer run. (Presumably if such a comparative advantage exists, it can be demonstrated, or at least broadly supported, analytically.) Even if a comparative advantage can be demonstrated theoretically, there is a strong argument for providing Madagascar with refined, rather than crude, vegoil, in order to move the domestic market more rapidly to a point where the comparative advantage can be efficiently exploited. The argument is that heightened competition from external refined oil will stimulate domestic producers to move more rapidly.

I. INTRODUCTION

Following approval by A.I.D. and the Development Coordinating Committee (DCC) of the 1988 Section 206 "Program Document" dated 25 March 1988, the USG and the GDRM (Government of the Democratic Republic of Madagascar) on 30 June 1988 jointly signed a "Transfer Authorization" for the donation of 5,000 metric tons of crude degummed soybean oil to Madagascar under an FY88 Title II Section 206 program. A "Memorandum of Understanding," primarily providing implementation details of the program, was jointly signed by the parties on 30 January 1989. According to the Transfer Authorization, after the first auction of the FY88 commodities, an evaluation of the program would be conducted to determine whether or not to recommend approval of a multi-year Food Aid program for Madagascar beginning in FY89. That evaluation is the subject of this paper.

A. Background on the Program

As noted in the Program Document, food aid programs have figured prominently in USG development assistance to Madagascar in the 1980s, and have varied across the spectrum of available assistance instruments (including 416 sugar quota offsets, regular as well as disaster Title II assistance, Title I assistance, and Food for Progress). Food aid has enabled the USG to actively participate in the economic reform dialogue between the donor community and the GDRM. For example, the FY86 Food for Progress Program provided rice imports to supply a price-stabilizing buffer stock, thereby placing the USG at the center of the dialogue on market liberalization in agriculture.

On the basis of a late 1986 study of commodity and development options for PL 480 programs in Madagascar, USAID/M proposed in 1987 to initiate program food aid for the vegetable oil sub-sector, where there appeared to be serious consumption deficiencies by international standards. The FY87 Title I program provided Madagascar with 12,000 tons of crude soybean oil, and in planning for the FY88 food aid program, USAID/M examined the possibility for a Title II Section 206 grant program that could more specifically target market reforms and rehabilitation of the edible oils sub-sector a multi-year basis.

The March 1988 Section 206 Program Document submitted for Washington approval, however, recommended only a one-year transitional program, due primarily to the lack of sufficient information on demand and supply factors as well as GDRM intentions with regard to the sector. It recommended conditionality under the FY88 program to encourage the GDRM to clarify these intentions and anticipated that sufficient information to permit an informed decision by the USG on a multi-year program would be available in time for design of an FY89 food aid program.At approximately the same time that the Section 206 program was under design and discussion with the GDRM, USAID/M was also designing another policy-based program of assistance for Madagascar. That program, the Madagascar Agricultural Export Liberalization Program (MAELP), was formally initiated with program and project assistance Grant Agreements signed by the USG and the GDRM on 29 July 1988, one month after the Section 206 Transfer Authorization was signed. The program assistance component of the MAELP consisted of $16 million in cash transfer funds to be disbursed to the GDRM in two equal tranches when conditionality had been met. The conditionality in the MAELP program Grant Agreement focused on (a) market liberalization such that all potential exporters of traditional and nontraditional crops were assured of equal competition in terms of ability to export, and (b) the continued functioning of an open and market-clearing foreign exchange allocation process. The dollar resources available under the cash transfer were to contribute to the pool of foreign exchange to fund such an allocation mechanism. The MAELP thus contained conditionality relating to both export and import market liberalization, and can be viewed as conceptually related to the PL480 Section 206 program's market liberalization conditionality.

B. Purpose of the Evaluation

As noted in the USAID/M-drafted Statement of Work for the evaluation (see Annex A), the Program Document called for an evaluation of the FY88 food aid program to "assess progress on self-help measures and policy reforms," and was expected to include review of a "National Vegoil Master Plan" and a "National Agricultural Research Plan," in order to assess GDRM intentions with regard to the vegoil subsector. The Transfer Authorization further stated that the evaluation would recommend whether to proceed with a multi-year food aid program for Madagascar beginning in FY89.

Three major issues identified in the Statement of Work for the evaluation were:

1. whether the self-help measures regarding the distribution by auction of the commodity provided under the FY88 program had been fulfilled;

2. whether the GDRM had adopted a strategy for the vegoil subsector dealing with production and consumption; and

3. whether the USG should initiate a multi-year food aid program for Madagascar beginning in FY89.*

The following sections address these major issues (and others) by:

reviewing performance under specific program elements included in the formal program documentation;

reviewing the program in terms of its documented objective statements; and

providing recommendations on food aid programming for FY90 and beyond.

II. EVALUATION OF PROGRAM ELEMENTS

Although there is to some extent an overlap among them, the program may be separated into four elements, including self-help measures, disposition of the commodities, use of local currency, and reporting requirements. These are treated in turn.

A. Self-Help Measures

According to the Program Document, five self-help measures (SHMs) were to be included in the intergovernmental agreement. Of these five, the Document stated that the first two were expected to be completed even in the absence of the Section 206 program, inasmuch as they were the subject of conditionality governing the release of funds under an IBRD program in agriculture. All five were included in the Transfer Authorization.

SHM #1: Completion of a National "Vegetable Oil Master Plan"

Benchmark: Joint GDRM-AID-other-donor review by February 1989.

Evaluation: This benchmark has not been met.

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*USAID/Madagascar informed AID/W in August 1988 (ANTANANARIVO 5344) that it did not intend to sign an agreement in FY1989 for a multi-year program. This decision was based on an updated analysis of vegoil sales and stocks that showed there was an adequate supply of vegoil for consumer needs at least through November 1988, and possibly to the end of the year, even before the 1988 PL 480 vegoil was brought into the market. This evaluation therefore addresses the multi-year programming issue as beginning in FY1990.

Discussion: According to the Program Document, it was largely the lack of progress on this Master Plan as of spring 1988 that brought USAID/M to the conclusion that design of a multi-year program should be delayed for at least one year. At that time, a report on the vegetable oil subsector prepared for the GDRM by the French firm SEDES was available, but had not been converted by the GDRM into what interested donors believed was a suitable strategy.

It appears that the GDRM, as of this writing, has proceeded further than they had at the time of the design of the FY88 Section 206 program, and has produced a Plan Directeur Oleagineux (PDO). There has not yet been a joint GDRM-AID review of the current version of the Master Plan, as called for in the self-help measure, nor has such a review been scheduled. However, the evaluation team obtained a copy of the Master Plan from MPARA (the agriculture ministry) prior to the end of February 1989. According to the MPARA official who provided the Master Plan to the evaluation team, the IBRD has approved the document, which would suggest that there has been some GDRM-donor review of the Plan even if AID was not included in that review.

Complicating the attainment of this benchmark is an indication that the IBRD may have altered its own view on the desirability of the GDRM's producing a "master plan." As of this writing, the IBRD is apparently proposing changes in its own conditionality related to the vegoil subsector. Information on these changes has not been available to the reviewers, although the IBRD has informally suggested to USAID/M that these changes are underway.

One argument now being debated within the IBRD is that the production of a detailed and specific "master plan" for vegetable oils in Madagascar is not only highly impractical, but also undesirable. This argument has been advanced by IBRD staff who believe that a strict "plan" - even if a study team could provide reliable data to project consumption and production scenarios - would be antithetical to the larger objective of market liberalization. Although this argument has a certain merit, the evaluation team believes that it is important that the GDRM analyze and understand this critical sub-sector prior to asserting, as the PDO now in fact states, that self-sufficiency in edible oils is national policy.

It is the Mission's understanding that the GDRM did not agree with the approach taken in the SEDES study for attaining self-sufficiency in edible oils, and that the current version of the Master Plan is based on assumptions somewhat different to those in the SEDES report. In a follow-up contact with MPARA, however, the evaluation team learned that MPARA had not carried out any analyses additional to those in the SEDES report prior to preparing the current revised Master Plan.

The evaluation conclusion that the benchmark has not been met is based on (1) USAID/M's not having been given sufficient time to review the current version of the Master Plan with the GDRM by the end-February deadline, (2) the lack of IBRD consultation with USAID/M on the PDO (despite the direct tie-in with the policy-based AID Section 206 program), and (3) the evaluation team's strong (though admittedly preliminary) perception that the current version of the Master Plan provides little of substance in analytical terms.

SHM #2: Completion of a National Agricultural Research Plan to include oilseeds

Benchmark: Joint GDRM-AID-other donor review by February 1989.

Evaluation: This benchmark appears to have been at least partially met.

Discussion: In a memorandum of 12 December 1988, the IBRD outlined an appraisal mission to assess the GDRM National Agricultural Research Plan (NARP), at the completion of which the IBRD would present an aide-memoire to the GDRM containing the results of the appraisal and the IBRD recommendations on the NARP. The appraisal took place during January and February 1989 in Madagascar, and the final appraisal document was slated for presentation by early April.

In a letter from USAID/M to the GDRM, dated 27 December 1988, the Director of USAID/M informed the GDRM that, in response to their 20 December letter inviting AID participation on the NARP evaluation team, AID proposed A.H. Wahab as its candidate. No letter of acceptance of this proposal is contained in the files, but the _de facto_ participation of Mr. Wahab on the evaluation implies GDRM acceptance of his candidacy.

A memorandum of 2 February 1989, from A. H. Wahab of AFR/TR/ANR to USAID/M, consists of a trip report detailing his "participation in an appraisal of the NARP, an initiative led by the World Bank." The Wahab trip report does not directly address the issue of whether the NARP is reasonable or logical, although it does provide some cursory details on functional (as opposed to crop-specific) research topics and levels of funding required to support the NARP. According to Mr. Wahab's terms of reference he was not requested to comment specifically on the oil subsector portion of the NARP, and there is no specific mention of oilseeds in his report.

The evaluation team considers this benchmark to have been nearly met, for all practical purposes. A joint GDRM-AID-other donor review was conducted in January-February 1989, in advance of the benchmark date. However, the conclusions of that review were not available in final (or draft) form to permit the evaluation team to conclude whether USAID/M has taken a positive view of either the NARP as a whole or relevant sections in the NARP treating the vegetable oils sub-sector. Although, for that reason the evaluation team cannot consider the benchmark to have been completely met, performance under this self-help measure is clearly more positive than under the first, and unfortunately much more significant, self-help measure.

SHM #3: <u>The reform of the vegoil auction system with 100 percent of U.S. vegoil provided under this Agreement sold at auction with rules to ensure that the four private sector refineries and the two parastatals (after MAMISOA is closed) will compete on an equal basis.</u>

Benchmark: The GDRM shall issue (prior to the first auction) auction rules acceptable to A.I.D. that will ensure equal access, terms, and conditions for both private sector and parastatal refineries; and by July 31, 1988, the GDRM will present an implementation plan and schedule acceptable to A.I.D. for the sale of all residual FY87 Title I vegoil stocks.

Evaluation: This benchmark has been met.

Discussion: Following a number of AID/GDRM program implementation meetings that included discussion of the auction rules, the GDRM provided each eligible refinery with a call for bids, dated 8 December 1988, announcing that the first lot of vegoil would be auctioned, and setting 5 January 1989 as the date by which bids were due. The procedures described in the call for bids were consonant with the Memorandum of Understanding that set out acceptable parameters for the conduct of the auction.

As to the FY87 Title I stocks, the GDRM in a memorandum dated (date) presented A.I.D. with an implementation plan and schedule for disposition of the stocks, and USAID/M, in a memorandum dated (date), informed the GDRM of the acceptability of that plan and schedule.

SHM #4: <u>The completion of a GDRM survey of production, pricing, quality and geographical importance of artisanal groundnut oil production.</u>

Benchmark: According to the Transfer Authorization, this was to be completed "within twelve months of the signing of the Agreement." However, this was formally modified, in the subsequent Memorandum of Understanding, to stipulate that the results of this survey would be communicated to USAID no later than 30 April 1989.

Evaluation: It is doubtful that this benchmark will be attained within the stipulated time.

Discussion: In order for A.I.D. (and the GDRM) to understand the production and consumption patterns of edible oil in Madagascar sufficiently well to carry out an accurate needs assessment, the results of this survey are critical. In February 1989, USAID/M was contacted by telephone by an official from MPARA to enquire whether USAID/M could provide a scope of work for this survey. USAID/M has not yet responded to MPARA, but asked that the team conducting this current evaluation provide the Mission with some substantive suggestions for this scope of work.

Given the late date, it is unlikely that the benchmark can be met on time even if the GDRM moves expeditiously on the survey.

SHM #5: <u>The completion of a detailed diagnostic study (funded by USAID) leading to the privatization of the Soavoanio Coconut oil refinery.</u>

Benchmark: According to the Transfer Authorization, this was to be completed "within twelve months of the signing of the Agreement," or by 30 June 1989.

Evaluation: It is unlikely, from the current schedule for this AID-funded technical assistance, that this benchmark will be attained by the time stipulated.

Discussion: According to USAID/M staff, the Mission expects to issue by the end of March a PIO/T regarding detailed work leading to the privatization of several parastatals, including SOAVOANIO, that should be undertaken sometime in the summer of 1989. The terms of reference to be included in the PIO/T were developed following discussions with the Ministry of Agriculture (MPARA) in January 1989 and are circulating among the relevant GDRM offices for clearance and acceptance prior to issuing the PIO/T.

On the distinctly positive side, the GDRM has closed down and is in the processing of liquidating the assets of MAMISOA, the largest, newest, and least financially viable of the parastatal edible oil refineries. In addition, the GDRM also has suggested to USAID/M that the second largest parastatal refinery (SOMAPALM) be added as a candidate for privatization, and has asked whether AID would fund the necessary analyses leading to privatization.

B. Commodity Import and Distribution

1. Prior Experience with Commodity Auctions

The FY88 Section 206 program was not the first experience of USAID/M with respect to commodity auctions, inasmuch as half of the 12,000 tons of crude soybean oil provided under the FY87 Title I program was auctioned to eligible refineries in Madagascar. It is useful, in assessing the results of the first auction of FY88 soybean oil, to consider the experience with this earlier auction process.

According to the Program Document, the auction conducted to distribute the vegoil provided under the FY87 food aid program had some beneficial results:

--- interministerial cooperation increased, through the formation of an Audit Commission;

--- private sector presence in the vegoil market increased;

--- geographic market extension improved and consumer prices were slightly lowered as a result of the private sector participation; and

--- the bidding process forced refiners to review their cost structure.

However, despite these positive effects, the design team for the FY88 program believed that there was further room for improvement in the marketing procedures for crude vegetable oil. For example, the parastatal refineries were able to obtain their auction allotments from the FY87 program on payment terms that were far more generous than those available to the private refineries. As a result of this perception that the parastatals had undue advantages under the rules of the FY87 commodity auction, the design team suggested alterations in the ground rules for the proposed auction of FY88 commodities. Included was the stipulation that all of the FY88 commodities should be subject to auction on a competitive basis and a requirement that payment terms for all bidders were to be equal.

2. Rules for Auction of FY88 Commodities

The ground rules established in the Program Document were included in some detail in the Memorandum of Understanding, as follows:

0 The entire amount of FY88 vegoil will be sold at auction to the six refineries, with the total amount each refinery is eligible for to be based on a GDRM update of actual plant capacity.

0 All commodities under this program will be exempted from any import and duty taxes.

0 A receiver will be designated after competitive bidding by the three eligible refineries.

0 The following auction procedures are to be followed:

-- Free and equal access by all refineries to all of the vegoil, after a suitable prior period of advertising in local newspapers of the rules of the auction.

-- No favorable terms to be granted to any refinery, and all refineries must abide by the payment terms and general provisions set out in the bid document

3. Evaluation of the New Auction System

The first auction of FY88 commodities took place in early January 1989 and offered the 1,840 metric tons of crude soybean oil received in the first shipment of the program. Despite the fact that the benchmark for the auction-related self-help measure was met, the evaluation team's assessment of the outcome of this first auction is negative, for two reasons. First, the very strong appearance of collusion among the eligible bidders raises questions about the auction process itself. Second, and perhaps even more disturbing than this apparent collusion, the refinery that bid for and received the largest allocation under the auction has seriously violated the rules for advance payment established for the auction.

The stipulation in the MOU providing for the competition of the role of receiver or consignee for the imported oil was overtaken by events, because only one of the three eligible refineries expressed an interest in acting as consignee.

The auction was apparently conducted with ample lead time. As noted above, the GDRM announcement of the first auction was made approximately one month prior to the due date for the sealed bidding submissions. The announcement stated in detail the required documentation to accompany each bid, and stipulated the minimum bidding price, in US dollar and FMG terms. The prices (in FMG per ton) and amounts (in metric tons) bid by each refinery under the first auction were as follows:

MADAGASCAR: Prices and Amounts Bid Under First Section 206 Auction

Refinery	Status	Price Bid	Amount Bid
SEIM	private	877,000	280
HCT	parastatal	876,500	610
SCIM	private	876,000	150
SOMAPALM	parastatal	875,500	800
SIB	private	875,000	100
SICA	private	872,796	50

A review of these auction bids provides strong indications that the six eligible refineries (two public and four private) colluded in the bidding process.

First, although no two price bids were identical, each but the lowest bid price was exactly 500 FMG per metric ton different from bids on either side. According to USAID/M staff, the lowest bid was offered by a refinery that indicated that it did not really want the crude soybean oil, and that although it was prepared to join in the bid, it would bid the announced minimum price.

Second, the total (preannounced) tonnage available for auction under the first auction was exactly the sum of the tonnage bid by the four winning refineries. In the absence of collusion by all, it is difficult to accept that the lowest successful bidder coincidentally bid for an amount precisely matching the amount residually available after the higher bids were satisfied.

Ministry of Commerce officials, with whom the evaluation team discussed the auction, ventured their opinion that there was apparent collusion in the auction process, but did not comment further.

The evaluation team visited three of the six eligible refineries and was able to discuss these refineries' experience with the auction. The following summarizes the views expressed by these refineries.

According to the plant director of the HCT refinery (a parastatal), HCT had contemplated bidding for a larger quantity than they finally asked for under the first auction. The director alluded to a "fight" during what appears to have been a pre-bid discussion among the various refineries, and said that HCT in the end decided not to bid for a larger amount so that all of the refineries would have relatively equal access to the amount being offered under the first auction.

According to the plant director of the (private) SEIM refinery in Antananarivo, the firm had originally wanted to put in a bid for 900 tons of the 1,840 tons of vegoil available in the first auction. However, they actually only bid for 280 tons. According to the director, SEIM decided on the lower figure because the 280-ton bid would cover one month's inputs for the plant, and they were given to understand that a second auction would occur within a month. (The director did not allude to a pre-bid conference.) Further, SEIM believed that with the upcoming presidential elections, it was not unlikely that the minimum price set for the second auction would be lower than that set for the first auction. (Apparently, SEIM did not know the minimum price established for the second auction.)

However, the HCT director reported that HCT in fact paid the Treasury for the crude oil auctioned to SEIM, because the latter was not able to pay for it within the time period allowed. He said that inasmuch as HCT had already processed its entire allotment obtained from the first auction, it was considering picking up and processing the SEIM allocation. He noted that this might prove necessary because the SOMAPALM refinery had broken down and there was a potential shortage of refined oil on the market.

The refinery director at SOMAPALM was unable to provide information on the SOMAPALM bid, stating that the only person able to provide such details was the firm's director-general (who was out of the country at the time of the evaluation team's visit to the plant).

When the HCT director was asked whether he was aware of the minimum price that had been set for the second auction, he said that he was not, echoing the response given by the SEIM director to the same question. (The minimum price was established in the MOU, at $593.86.) Asked why HCT did not purchase crude imports commercially, the HCT director said that he was beginning to examine that possibility as he understood that crude oil could be imported under the OGL. Although he noted that his firm had little experience doing direct importation on a commercial basis, he said his firm would carefully assess whether or not to bid in the next auction based on their analysis of the world market price. SOMAPALM officials also stated that their director-general, during a current trip abroad, was investigating commercial purchases of edible oils.

As is evident from the following table, the outcome of the first auction, in terms of awards to the public versus the private sector, was nearly identical to the auctions under the FY87 program.

MADAGASCAR: Capacity, Total PL480, and PL480 Auction Allocations, FY87 vs FY88 (in percent)

	FY87			FY88	
	TOTAL CAPACITY	TOTAL ALLOTTED	FROM AUCTION	TOTAL CAPACITY	FROM AUCTION
PUBLIC	84	89	78	68	77
PRIVATE	16	11	22	32	23
TOTAL	100	100	100	100	100

In the FY87 program auctions, 50 percent of the shipped volume was set aside under the program for the parastatals (at that time including MAMISOA). In the auction of the remaining 50 percent, the private sector was awarded 22 percent of the auctioned amount and the parastatals the balance of 78 percent. In the first auction under the FY88 Section 206 program, the private sector was awarded 23 percent of the volume auctioned, scarcely more than they received under the previous auction system.

In terms of total commodity amounts obtained from the FY87 program, auctioned plus non-auctioned, the private sector received only 11 percent of the allotment, suggesting that from one standpoint they are doing better under the FY88 program so far. On the other hand, the most recent ratings of the overall refining capacity (excluding MAMISOA) in the six refineries eligible to bid under the program indicate that the two parastatals, with 68 percent of total refining capacity, received 76 percent of the awards under the first auction of FY88 crude soybean oil.

In terms of the other ground rules, payment for awarded bids under the first auction appear to have been made as stipulated, with one very serious exception.

> According to the call for bids, prior to an award winner's being entitled to pick up its commodities from SOMAPALM and within 45 days of the awards, each winning refinery was required to deposit the amount bid with the Treasury. According to the call for bids, any refinery that did not pay in time would not only lose its allocation, but would also be ineligible to tender bids on PL480 commodities for the ensuing year.
>
> According to information received from the Central Bank, the custodians of the special account into which the deposits are to be made, only SOMAPALM failed to make a deposit by the appointed deadline, thereby rendering Madagascar's largest refinery ineligible for participation in future bids under the balance of the FY88 Section 206 program.
>
> Even more disturbing, SOMAPALM, in providing data on production to date during 1989, informed the evaluation team that SOMAPALM has already processed 353 tons of the 800 tons awarded to the refinery. Consequently, not only were the rules breached, but a parastatal has effectively illegally taken possession of a portion of the Section 206 soybean oil. SOMAPALM would presumably have been unable to gain access to crude oil they had not paid for had they not been the consignee.

In addition, the rules stipulated that prior to pickup, each refinery was to remit to SOMAPALM the consignment fee. According to data provided by SOMAPALM, HCT and SCIM have both paid their consignment fees, but SEIM has not. From HCT, however, the evaluation team learned that SEIM requested HCT to pay for and pick up the SEIM allocation on SEIM's behalf (see below). Although the payment to the Treasury for SEIM's allocation has apparently been made (by HCT), the consignment fee for SEIM's allocation is still outstanding.

The fees charged by SOMAPALM for its role as consignee of the commodities amounted to a markup of approximately 24 percent on the average price paid per ton for the commodities awarded under the first auction (see Annex B for a detailed breakdown). The three components of this reimbursible fee are (a) 4.7 percent for handling, transport from the ship to

SOMAPALM, and insurance, (b) 15 percent for customs duty, and (c) 4.4 percent as a strict fee for the consignee. Although the first of these appears reasonable, USAID/M informed the evaluation team that it had agreed with SOMAPALM that the latter fee should not exceed 2.3 percent. The explanation for this difference in consignee fees is that all handling, customs, and insurance fees were based not on the actual auction price realized during the first auction, but upon the value of the crude entered into the bill of lading for the shipment. As it turns out, that value was some fifty percent higher than the stipulated minimum price for the first auction.

In addition, although the MOU stipulates that no customs duties were to be assessed on the Section 206 soybean oil, the two shipments of Section 206 commodities arrived in Tamatave prior to the signing of the MOU. It appears that SOMAPALM, as consignee, was assessed customs duties on at least a portion of the commodities on their arrival, and each of the award winners has been charged by SOMAPALM in turn for these duties.

C. Use of Local Currency

1. Formal Programming

According to the Program Document and the Transfer Authorization, local currency generations under the FY88 Section 206 program are to be used to fund (a) rice research, (b) small farmer infrastructure, and (c) the GDRM Environmental Action Plan. The Program Document provides a notional dollar distribution among these three uses, although the Tranfer Authorization is mute about this.

The Memorandum of Understanding contains the following agreement on local currency uses:

--- support agricultural research, mainly the IRRI/FOFIFA rice research program;

--- implement the Environmental Action Plan (sponsored under Title I and MARS local currency programs);

--- rehabilitate small farmer irrigation schemes;

--- fund a local audit of the auction process by a local audit firm which will provide specific semiannual reports (to AID and the GDRM); and

--- fund two local consultancies:

  -- update (in certain specific ways) the baseline study done on the impact of the FY87 Title I auctions; and

-- a survey of artisanal groundnut oil production and marketing.

2. Evaluation of Uses

It is too early to evaluate the use of local currency under the program. The bids were awarded on 6 January 1989, and winning bidders were permitted to make full local currency deposits (prior to taking charge of their commodities) within up to 45 days of the awards (i.e. by 21 February).

Reports to USAID/M indicate that all successful bidders, with the exception of SOMAPALM, have deposited the requisite local currency.

D. Reporting Under the Program

1. Reporting Requirements

Two types of reporting, programmatic and specific, are required under the program. These are briefly covered in the Transfer Authorization, but are spelled out in detail in the Memorandum of Understanding, as follows:

--- No later than 30 April 1989 communicate the results of the local currency-funded artisanal groundnut production and marketing study.

--- No later than 15 June 1989 communicate the results of the local currency-funded first update of the Dinika study.

--- On a semiannual basis a local audit firm, funded by the local currency, will provide a report on the auction implementation.

--- Commodity arrival information and receipts not later than thirty days after the period covered by the report.

--- Monthly commodity movement report from consignee and final buyer.

--- Quarterly financial reports on the local currency account, dating from the first deposit of local currency into the account.

--- Before 15 November each year, an annual evaluation report on the program.

2. Evaluation of Reporting

Only the reports providing commodity arrival information and receipts were due to AID as of the time of the evaluation. SOMAPALM (the consignee of the Section 206 shipments) has provided USAID/M with this information. Inasmuch as awards under the first auction recently have been picked up, USAID/M should be receiving the required monthly commodity movement reports from the consignee and final buyers in the near future.

III. EVALUATION OF THE PROGRAM IN MEETING OBJECTIVES

A. Statement of Objectives

The documentation prepared in support of the program discusses a variety of objectives, spelled out somewhat differently but consistently in the Program Document and the Transfer Authorization.

According to the Program Document, the program has the following "short-run purposes:"

--- reduce an identified food gap and alleviate a nutritional deficiency;

--- encourage the GDRM to move in the direction of market liberalization in the vegoil subsector; and

--- ensure a steady supply of a basic food staple to the urban consumer, hardest hit by the structural adjustment reforms in the short run.

According to the same Program Document, the program has the following "objectives:"

--- satisfy Madagascar's vegoil import needs;

--- provide balance of payments support during FY88; and

--- assess the prospects for long-term self-sufficiency in edible oils.

According to the Transfer Authorization, the program has the following "objectives:"

--- satisfy supply requirements for vegoil through mid CY89;

--- provide a form of balance of payments support;

--- encourage continued market liberalization; and

--- encourage fulfillment of self-help measures that will enable the GDRM to plan more thoroughly the reform of the vegetable oil subsector.

B. The Vegetable Oil Deficit

Current projections of supply and demand for refined vegoil in calendar 1989 indicate that there will be at most a negligible deficit this year (see Annex). The Section 206 program soybean oil, once refined, will provide approximately 40 percent of the refined vegoil from non-artisanal sources consumed in Madagascar in 1989. The remaining 60 percent will come from existing stocks of oil provided under the FY87 Title I program (about 12 percent of the total), domestic production(about 30 percent of the total), a donation of refined soya oil from the Italian Government (about 9 percent of the total), and other programs (such as the USG CRS/MCH PL480 program). Significant increases in domestic production have not been considered practicable in the short term. In the absence of the FY88 Section 206 program, Madagascar would either have had to find other external sources of edible oils, or accept further reductions - by as much as 40 percent - in the very low (by international nutrition standards) annual consumption of 1 kilogram per person.

Any current needs assessment of vegoil is complicated - if not actually invalidated - by the lack of information on artisanal production of vegetable oil and of data on the consumption of animal fats in Madagascar. It is part of the self-help measures of the Section 206 program to fill in the former information gap, but the required survey has not yet been undertaken. During its public and private sector interviews, the evaluation team asked for rough estimates of artisanal production but were unable to learn any details of use to this assessment.

C. Balance of Payments Support

Since calendar 1987, the United States has provided the only vegoil imported for sale in Madagascar. Without the U.S. programs - 12,000 MT Title I in 1987 and 5,000 MT Section 206 in 1988 - a portion of Madagascar's scarce foreign exchange reserves would have had to be diverted to purchase vegoil in the world market. It is likely that less vegoil would have been available to Malagasy consumers - primarily urban residents. Under such circumstances prices also would have been sharply higher, unless price controls were maintained counter to the market liberalization reforms being pressed by the World Bank and other donors.

The Section 206 soybean oil, valued at the auction price actually paid, is equivalent to approximately US$ 3 million in balance of payments support. This compares with other balance of payments support provided by A.I.D. (under MAELP) of about US$ 16 million for disbursement in equal tranches in 1988 and 1989. The Section 206 "balance of payments support" also compares with a total import bill for Madagascar in the neighborhood of about US$ 400 million in 1987, and is only approximately one-tenth of the value of Madagascar's rice imports in that year. While the balance of payments support provided through the program is therefore small in both absolute and relative terms, Madagascar's import requirements for economic growth much exceed its ability to import.

D. Supply Stability for the Urban Consumer

One of the 206 program's purposes is to ensure supply stability to the urban consumer, assumed to be hardest hit in the short run by the GDRM's structural adjustment progra. On the basis of admittedly anecdotal information, it appears that this purpose has been served through the provision of the FY87 Title I vegoil and should be sustained by the 206 program. Consumer hoarding of refined oil has apparently become less common (although this to some extent may be a function of greatly increased prices of the good.) Also, there is reportedly less of the phenomenon that obtained some months ago whereby purchases of refined vegoil were being made by the teaspoonful.

The supply stability issue should be considered in greater detail by USAID/M either in the context of the food program planning exercise scheduled at the end of the fiscal year, or in that of additional analyses carried out by the GDRM in support of the National Vegoil Master Plan.

E. Market Liberalization

The most important element of the FY88 Section 206 program from a policy standpoint is its contribution to the general market liberalization being undertaken by the GDRM under its policy reform program supported by the multilateral and bilateral donors. There are a number of ways in which the Section 206 program can affect market liberalization, and those effects were taken into consideration in the design of the program.

1. General Market Liberalization Considerations

Quoting from the Program Document, the FY88 Section 206 program:

> "extends market liberalization and privatization of the edible oils sub-sector by requiring that private refiners have full and equal auction access to vegetable oil imports."

In addition, the Program Document states that:

> "The self-help measures prescribed by the 206 Program are realistic and congruent with the policy reform dialogue in which A.I.D. and the World Bank have engaged the GDRM. Their implementation will establish the basis for planning longer-term support of reforms within the edible oils sub-sector. Auction reforms will increase the competition needed to constrain price increases to consumers."

These statements suggest that the program was intended to support market liberalization in three related ways:

support market liberalization in the vegoil subsector;

support efficient pricing of vegoil to the consumer; and

support the larger market liberalization goals of the GDRM.

2. Vegoil Subsector Market Liberalization

Auction rules were established in the Memorandum of Understanding in order to ensure a competitive auction. The results of the first auction suggest that those rules were followed by all concerned, although the required auction audit has not yet been carried out. First, there is no evidence that any refinery, parastatal or private, received preferential treatment by being allowed to deviate from the pre-established auction rules. Second, the outcome of the auction was that private sector refineries who bid above the marginal price did indeed receive their allotments as bid. Third, there is no evidence (although this must await the results of the formal audit of the auction) that any refinery received preferential credit terms not equally available, on sound commercial grounds, to all other refineries.

The major question the evaluation team raises about the auction itself is the obvious collusion among the bidding parties, parastatal and private alike. As noted earlier, both prices and amounts bid by the refineries strongly suggest collusion. Furthermore, our discussions with both private and parastatal refinery directors indicated that the refineries discussed their bids in a pre-bid conference. It is likely, although this was not raised specifically in any evaluation team interviews, that the refineries decided to bid different prices to give the appearance of competition in order to support what the refineries (or the GDRM) perceived as the stated objectives of the Section 206 program. In addition, although HCT (a parastatal refinery) desired to bid for a substantial amount of the 1,840 tons put up for auction, apparently the refineries as a group concluded that this should not occur and HCT backed off.

The reviewers were informed that the two refineries that bid unsuccessfully were not disappointed by the outcome. SICA (the private refinery that came in with a bid coinciding with the stipulated minimum bid), apparently did not really wish an allocation, preferring to wait until the next auction. SIB (the private refinery with the next-to-lowest bid), reportedly stated that consumers within their sales region prefer cottonseed oil to soy.

According to the original design of the program, it was clearly the intention to allow price to determine the outcome of the auction, thereby allowing the private refineries equal access. In the event, the private refineries obtained equal access not through price competition, but apparently through an agreement (possibly forced) on their respective allocations that had little to do with price. Indeed, the parastatal refinery (HCT) that was prepared to bid for a much greater allocation than it was ultimately awarded was deterred from so bidding.

It is fair to conclude that market liberalization through price competition was not an outcome of the first auction of the FY88 Section 206 program. Whether this will change in subsequent auctions remains to be seen. However, the small size of the refining community in Madagascar suggests that collusion will continue to occur.

On the basis of experience with the first auction it can be argued that in the absence of the A.I.D. requirement that the private sector obtain equal access to the auctioned oil, the parastatals would have been allocated the entire amount available under the program. Indeed, the fact that the group of refineries decided not to allow HCT to take the amount for which it was prepared to bid supports this view. However, the auction amounted to an administrative, rather than a competitive, mechanism for allocation in the way it actually operated, and thus was presumably less efficient in its outcome than the designers of the program intended.

3. Liberalization of Prices Facing the Consumer

Given the existence of collusion in the bidding process, the fact that the refineries as a group paid prices higher than the minimum price established in the call for bids may have had the effect of increasing the retail price of refined vegoil. Had the refineries, as an outcome of the pre-bid conference, agreed on an allocation and bid the established minimum price, the cost of inputs to the refining process would have been lower. This lower price of inputs, although admittedly negligible, could have been passed on to the consumer.

Parenthetically, it should be understood that the higher price actually paid by the refineries (assuming it was paid out of a higher price facing the consumer) does not necessarily represent a welfare loss to Madagascar, but rather a transfer of resources from the consumer to the GDRM.

This said, the evaluation team was unable to gain a clear understanding of the pricing mechanism for vegetable oil in either the crude or refined state. The fact that prices have risen over the past two years clearly suggests that a market mechanism is at work. However, without the analysis that was implicit in the requirement of an adequate vegoil master plan, the degree to which market mechanisms actually determine the retail price of vegoil is still unclear.

4. General Market Liberalization Considerations

In view of the close relationship between the balance of payments objectives of the Section 206 program and the MAELP, the effects of the Section 206 program should also be considered in terms of Madagascar's larger market liberalization agenda. One important element of that larger agenda is the liberalization of the external trade sector, and the consequent replacement of an administrative allocation of foreign exchange with the more price-allocative open general license (OGL) system.

In July 1988 the OGL was extended to include almost all import categories, including crude and refined vegetable oil. Consequently, any refinery in Madagascar could in principle import crude soybean oil at the CIF price converted to local currency at the prevailing exchange rate. The delivered price to the refinery also would have included delivery and handling fees from the port of entry, plus any tariffs and taxes assessed. The crude oil available through the first auction was assigned a minimum price that had been calculated to equal the CIF price. Bidders were aware that they would be assessed handling and delivery charges. According to the Memorandum of Understanding, the GDRM agreed not to assess tariffs, although it now appears that these have been charged.

If one assumes that any refinery could import under the OGL, and if the minimum price established under the Section 206 program is in fact the equivalent of the CIF price, then by requiring that refineries bid on the basis of price for the Section 206 soybean oil, A.I.D. has in fact potentially raised, rather than lowered, the price of crude oil to the refineries (and, as discussed above, the price of refined oil to the consumer.) This would be less likely if no duty was charged on the Section 206 crude oil.

Coincidental programs that have the increased liberalization of markets as objectives can sometimes work at cross objectives. Such cross objectives are not uncommon between assistance programs of different donors, and are a frequent complaint of recipient country officials. At a minimum, however, each donor can be expected to ensure that at least its own programs are consistent. It can be argued in this context that A.I.D. should avoid inconsistencies between the market liberalization objectives of the Section 206 program and the market liberalization objectives of the MAELP. The former supports market liberalization in the vegetable oil subsector (in terms of the competitive nature of the refineries' procurement of commodities available under the program) and the latter supports liberalization of the foreign exchange regime through the OGL. Inasmuch as the latter objective is broader in objective influence, in terms of its effects on economic efficiency in Madagascar, it presumably will encompass the objectives of the former. Indeed, under the OGL each refinery does have equal access to imports of crude oil inputs.

Given these considerations, and the potential for conflict between different A.I.D. programs, A.I.D. should be careful to program the resources available under the PL480 program, additional as they presumably are to ESF or DFA resources, within the context of the larger market liberalization objective, or at least in a manner that is not in conflict with that objective.

F. National Edible Oils Strategy

As a specific self-help measure, as well as an objective of the Section 206 program, the preparation of a master plan for the vegoil subsector has been judged to be critical to the design of multi-year A.I.D assistance for this sub-sector. As noted above, this self-help measure has not been satisfactorily met and consequently neither has the objective been attained.

The recent master plan provided to USAID/M is based, from what the evaluation team has been able to learn from the GDRM, solely on the SEDES study published nearly two years ago. That study was judged by the Section 206 design team to be inadequate, primarily because important supply and demand factors such as prices, critical in assessing Madagascar's comparative advantage in producing edible oils, were not included in the analysis. That analysis still has not been carried forward.

We agree with an argument advanced by the IBRD that overplanning, in itself, would be undesirable, because it would be likely to lead to the same problems faced by Madagascar in the pre-reform period. However, there is strong practical utility -- and indeed legitimacy -- in the GDRM carrying out indicative supply and demand analyses prior to announcing and supporting, in financial terms, a strategy of self-sufficiency in the edible oils subsector. According to the IBRD, the incipient PASAGE project contains a provision for a study of the refining industry in Madagascar. This study, the results from which are not expected until later in 1989, is only part of the analysis that must be carried out by the GDRM in support of a self-sufficiency policy, and AID should encourage the GDRM to carry out the balance of the analysis as soon as possible. Without such analysis, USAID/M's ability to determine whether a multi-year program in the edible oils sub-sector is desirable has advanced little further than it was one year ago.

IV. RECOMMENDATIONS OF THE EVALUATION

The evaluation team's recommendations are divisible into two general categories: procedural and programmatic. Most of procedures regarding the program have been followed to date, and the recommendations suggest ways in which the Mission can take remedial actions where they have not been or can act now to prevent future difficulties. The programmatic recommendations include (1) the evaluation team's suggestions for remedying the irregularities that occurred under the first auction of FY88 soybean oil, and (2) the evaluation team's suggestions of ways in which future policy-based PL480 programs can be more effectively designed.

A. Procedural Recommendations

1. USAID/M should request that the GDRM, using the local currency generations under the program, immediately initiate a local audit of the auction process.

According to the terms of the Section 206 agreements, such an audit is to be done semi-annually, and is not therefore due until June or July of 1989. However, the evaluation team firmly believes that this audit should be done prior to any subsequent auctions of commodities under the program, because of the apparent irregularities in the first auction. This is especially critical because the preliminary information available to the evaluation team revealed that one parastatal refinery processed a portion of its award without making the required payment to the Treasury, thereby seriously violating not only the groundrules, but also the larger market liberalization objectives, of the auction process. In the absence of such an audit prior to the next auction, AID will be hard-pressed to determine whether mid-course corrections in the program need to be made to ensure that the intended objective of the auction process is attained. The evaluation team believes that such an audit should be possible to design and conduct within one month.

Any audit of the auction process should:

- provide details on payments made by the various bidders, as well as provide details on any consultations among the bidders;

- assess whether the costs charged by the consignee are reasonable;

- attempt to determine what commercial purchases of the commodities on the world market would have cost the refineries, compared with the price actually paid under the first auction for the FY88 Section 206 vegoil; and

- determine the credit terms, if any, provided to each of the bidding refineries, as well as analyze the reasons for any differences in credit terms.

2. USAID/M should, at the earliest possible moment, respond to the GDRM request for suggestions on appropriate terms of reference for the survey of artisanal vegoil production and consumption.

USAID/M should ensure that this survey is carried out as expeditiously as possible, in order to provide results well in advance of the PL480 program planning effort scheduled for the end of this fiscal year.

Development of suggested terms of reference for this study could be contracted out to DINIKA, a firm that USAID/M has previously used for work in the vegoil subsector. The terms of reference should include:

- the task of quantifying, for the past several years, production and consumption of artisanal vegoil in Madagascar;

- the task of uncovering costs entailed and prices paid at each stage of the process;

- the task of describing the stages in the distribution chain, from provision of raw inputs to artisanal processing to retail sale of the final product of the artisanal sector; and

- the task of assessing the comparability of the final product on the retail market to sales of other refined oil, not only that produced by modern refinery sector, but also any imports that enter the market.

Most of the above tasks should contain a discussion of distinguishing features by region of Madagascar, as well as a discussion of urban-rural differences.

B. Programmatic Recommendations

1. USAID/M should immediately convey the evaluation team's preliminary findings regarding the irregularities in the auction process payments to the Auction Commission, calling for a meeting of the Commission to discuss the matter.

The evaluation team suggests that this could be done prior to the results of the auction audit (recommended above), in order to alert the Commission. The team also suggests that USAID/M propose to the Auction Commission that no further auctions of the Section 206 oil be announced until the Commission has an opportunity to examine the audit results. Inasmuch as the Commission was formed to manage the implementation of the auction process, the Commission (rather than AID) should, on the basis of the audit results, discuss how to remedy the situation.

At the very least, SOMAPALM should be required to imm. 'ately pay their bid value into the special account. Second, SOMAPALM should probably be assessed a delinquency fee, based on market rates of interest. Third, the balance of SOMAPALM's unrefined allocation under the first auction could be distributed to other refineries for processing.

Fourth, and certainly more difficult due to the fact that SOMAPALM is the largest refinery in Madagascar, is the question of whether SOMAPALM should be prohibited from bidding in future auctions for the stipulated one-year penalty period. To release SOMAPALM from this stipulation would be to encourage others to attempt to find ways around the rules and could also be interpreted as USAID's condoning preferential treatment toward a parastatal. This is of course precisely what the Section 206 program was designed to avoid.

2. AID should design a multi-year Section 206 program during the final quarter of FY89, to prepare for an early start in FY90.

The evaluation team fully agrees with the USAID/M position that no Section 206 program should begin until at least FY90. As pointed out in 88 Antananarivo 5344, there appears to be no requirement for vegoil imports during calendar year 1989, on the basis of satisfying minimal needs. In addition, the analytic basis, in terms of information on the vegoil sector, is not sufficiently established to permit the development of a multi-year vegoil program beginning in FY89.

The multi-year Section 206 design effort currently scheduled for the latter part of FY89 should be prepared to carry out a strong analytic effort as well. As discussed elsewhere in this evaluation, we do not believe that the data on the vegoil subsector currently permit a simple design effort. USAID/M should, prior to the arrival of the design team, attempt to ensure that the analytic basis is in place, but the design team is still likely to have to carry out a certain amount of the final rounds of analysis itself.

The evaluation team believes that the design team should consist of at least the following persons. First, the team should include a Food for Peace officer thoroughly knowledgeable with rules and policy governing Section 206 programs. Second, the team should include an economist who will be able to ensure consistency between the proposed Section 206 program and other market liberalization reforms underway in Madagascar, such as the foreign exchange market liberalization being supported by the MAELP. Third, the team should include a technical expert in oilseed production and processing, in order to permit the design team to accurately gauge Madagascar's comparative advantage in production of edible oils.

3. <u>AID should immediately engage first the IBRD and then the GDRM in a dialogue concerning AID's belief that any national goal of vegoil self-sufficiency should be based on adequate analysis of Madagascar's potential comparative advantage in the subsector.</u>

The evaluation team believes that there is an urgent need for the GDRM to buttress its goal of self-sufficiency in vegetable oil production with adequate analysis of supply and demand factors in the sub-sector, and such an analysis is a prerequisite to designing a multi-year Section 206 program in vegoil.

The original assumption that the IBRD would succeed in encouraging the GDRM in this regard appears to have been too optimistic. USAID/M needs to engage the IBRD in a continuing discussion of how any further analyses can most usefully be designed and conducted to support the goals of the IBRD and the GDRM in the vegoil sub-sector. In addition, USAID/M should be prepared to fund such analyses in advance of the arrival of a Section 206 design team in the final quarter of FY89.

Of particular concern is whether the goal of self-sufficiency in vegetable oil hinges, as it did in the past, on the viability of an export market for the table nut component of groundnut production. If this is the case, and AID pursues involvement in the vegoil sub-sector, assurances should be sought to ensure that other donors are providing assistance in supporting this export requirement. If necessary, USAID/M should examine the desirability of including a specific component in the MAELP project to deal with groundnut product exports.

4. Any future AID-funded analysis leading to a program of PL480 commodity imports that have a balance of payments rationale should carefully consider the effects such a program has on the overall goal of liberalizing Madagascar's balance of payments regime.

The FY88 Section 206 program design did not deal explicitly with this question.

We recommend that the forthcoming analysis and design team attempt, within the groundrules of PL480 programming, to ensure that any balance of payments-justified imports under PL480 come as close as possible to supporting the GDRM's system for a market-clearing foreign exchange regime. The prices set for the imported commodity should as closely as possible approximate those facing importers in a commercial situation. Although such an attempt was made during the implementation of the FY88 program, the price set was a function of the shipping date of the commodities, and this may have introduced a distortion in the normal commercial importing process. In addition, as noted earlier, the bidding process introduced a potential element of excess price paid by the refineries, and thus presumably by the consumer of the refined output.

5. In the design of a program for FY90 and beyond, USAID/M should give serious consideration to providing refined, rather than crude, vegoil.

The design team for the FY88 program noted that the reason for providing crude (as opposed to refined) vegoil under the FY88 program was that significant refining capacity existed in Madagascar. The difficulty with this approach is that it may undercut market factors that would lead to a conclusion that Madagascar does not indeed have a comparative advantage in vegoil production in the longer run.

Presumably, if such a comparative advantage does indeed exist, it can be demonstrated (or at least broadly supported) analytically. The evaluation team has not seen such an analysis. In fact, even if the comparative advantage does exist, there is a strong argument for providing Madagascar with refined, rather than crude, vegoil, in order to hasten the domestic market to move more rapidly in the direction of this self-sufficiency for which there is comparative advantage. In the event that some protection is needed for an interim period to allow the development of domestic inputs to processing of refined vegetable oils, that protection (and its subsequent removal) should be explicitly planned, at least in indicative terms. If analysis determines that the self-sufficiency that is commercially viable in Madagascar is refining of imported crude, rather than producing and refining inputs to the process, then a suitable level of refined imports should presumably also hasten the realization of that comparative advantage.

In any event, determinations of whether AID should actively support market liberalization in the vegetable oil sub-sector by the provision of relevant commodities, and of whether this should be done using crude or refined vegoil, are both difficult to make in the absence of more analysis. That analysis should be the subject of a policy dialogue between AID and relevant public and private sector entities in Madagascar.

ANNEX A

FY 1989 PL 480 SECTION 206 EVALUATION

STATEMENT OF WORK

BACKGROUND

The program document for the FY 88 Madagascar Section 2. Program - Vegetable Oil Sub-Sector approved in June of 1988 specified that an evaluation of the program would be undertaken in mid-fiscal year to "assess progres on self-help measures and policy reforms within the vegoil and related agricultural sub-sectors. The evaluation is expected to include review of the National Vegoil Master Plan and the FOFIFA National Agricultural Research Plan as input to the design of FY 89 and beyond food programs. The evaluation will reassess national vegoil strategy and goals after the products of self-help measures come on line to assist with decisions and investments in this sub-sector." The transfer authorization for the program further states that the evaluation will recommend whether to go forward with a multi-year food aid program for Madagascar beginning in FY 89.

SCOPE OF WORK

The evaluation team will address the following issues:

1. Has the Government of Madagascar fulfilled the self-help measures under the agreement signed June 30, 1988? In particular, were new guidelines for the auction process that ensure equal access, terms and conditions for both private sector and parastatal refineries issued and implemented for the first auction under the program?

2. Has the Government of Madagascar adopted a plan for the reform of the vegetable oil sub-sector that takes into consideration Madagascar's comparative advantage in oilseeds production and rationalizes the role of the State in assuring adequate supplies of edible oil for consumption?

3. On the basis of an updated needs assessment and a review of the Government's strategy for the vegetable oil sector, should A.I.D. approve a multi-year food aid program for Madagascar beginning in FY 1989?

To answer these questions, it is anticipated that the evaluation team will need to complete the following specific tasks:

- review the terms of the Transfer Authorization dated June 30, 1988 as well as the program proposal dated June 1988;

- review the new rules developed for the auction of PL 480 soybean oil under the agreement, and assess whether their implementation in the first auction held in December 1988 fulfills the objective of assuring equal access, terms and conditions for both private and public sector refineries(based on discussions with officials of the Ministry of Commerce, Ministry of Industry, and Treasury as well as representatives of the refineries); also, review the status of deposits of local currency to the special account;

- review the National Agricultural Research Plan document completed in January 1989 and discuss the proposed research program for oilseeds with staff of FOFIFA, the national agricultural research center;

- review the status of the Vegetable Oil Sector Master Plan with representatives of the Ministry of Agriculture and the World Bank, and assess the degree to which it provides a sound framework for the reform of the sector;

- identify planned investments for the vegoil sector which will increase production of raw material or processing capacity, and their likely impact on future import needs (through discussions with staff of the Direction Generale du Plan, MPARA, and other donors including UNDP and the FED);

- update the needs assessment for edible oils completed in 1988;

- draft a report of not to exceed 30 pages summarizing the results of the investigations described above and making recommendations on the future A.I.D. food aid program for Madagascar, more specifically, whether A.I.D. should go forward with a multi-year reform based food aid program beginning in FY 1989.

1. B/L Dates:
   Lake Michigan: 8/26/88
   Maria Angelicoussi: 10/3/88

2. Date shipment at U.S. port: same as B/L dates

3. Arrival date at tamatave:
   Lake Michigan: 1Nov88
   Maria Angelicoussi: 9Dec88

4. Date offloading completed:
   Lake Michigan: 5Nov88
   Maria Angelicoussi: 15Dec88

5. Charges assessed upon offloading:

- Discharging fees	FMG 9,963/T
- Toll fees	FMG 337.24/T
- Transfer fees and interests	FMG 1.68/T
- Port warehousing	FMG 20.01/T
- Haulage fees	FMG 110.54/T
- Customs/Port Overtime	FMG 317.63/T
TOTAL	FMG 10,750.1/T

Government Tax 15% (TUT)
FMG 1,612.5/T

TOTAL	FMG 12,362.6/T
Import taxes	FMG 130,930/T

SOMAPALM Commission (2.30% of CIF value) C & F value is $735.66 as per B/L

6. Date of inital movement to SOMAPALM
   Lake Michigan: 7Nov88
   Maria Angelicoussi: 12Dec88

7. Date arrival complete at SOMAPALM
   Lake Michigan: 28Nov88
   Maria Angelicoussi: 20Jan89

8. Total movement fees assessed:

- Survey fees	FMG 1,060.86/T
- Transit fees	FMG 7,171.64/T
- Transport	FMG 6,628.70/T
- Miscellaneous (handling, photocopy etc..)	FMG 89.95/T

-Government Tax 15% (TUT) of the total above

- Maritime and warehousing insurance: FMG 15,710.89/T

9. Date of bid approval: 6Jan89

10. Dates and amounts of payment, by refinery and method of payment:

- TO CENTRAL BANK Account:
  SCIM: 13Jan89
  HCT: 12Jan89
  HCT: 27Jan89 (for SEIM)
  SOMAPALM: not yet. (SOMAPALM processed 353 tons out of the 800 T they get on the 1st auction even they did not pay for it)

- TO SOMAPALM
  HCT: 14Jan89 and 24Jan89
  SCIM: (has requested and been given 60 days payment term): payment due on 24Mar89

  HCT (for SEIM): not yet (this week probably)

11. Dates and amounts of pick up:
  HCT: 13Jan89 to 31Jan89: 253.846 T
  01Feb89 to 28Feb89: 287.424 T

  SCIM: 27Jab89 to 16Feb89: 150 T

  HCT for SEIM: not yet (this week probably)

(NOTE PREPARED MARCH 6, 1989 ON BASIS OF TELEPHONE INFORMATION PROVIDED USAID/ANTANANARIVO)

ANNEX C

PROGRAM CHRONOLOGY

OCTOBER 1987	Initial Program Cable
MARCH 1988	Program Document Preparation
MAY 1988	REDSO Review of Program Document
MAY 1988	AID/W Review/Approval of Program Document
MAY 1988	DCC Program Approval
JUNE 30, 1988	Transfer Authorization Signed
JULY 31, 1988	Benchmark deadline for GDRM presentation of sales plan for FY 1987 Title I residual vegoil stocks
AUGUST 17, 1988	USAID/GDRM program implementation meeting
AUGUST 26, 1988	1st shipment vegoil (1840 MT) loaded M/V Lake Michigan
SEPTEMBER 24, 1988	1st draft of MOU cabled for DCC clearance
SEPTEMBER 29, 1988	2nd shipment vegoil (3,160 MT) loaded M/V Maria Angelicoussi
OCTOBER 8, 1988	DCC clearance of MOU received: insert language "...minimum price for the auction will be equivalent to at least the CIF price of imported edible oils on the open market."

NOVEMBER 2-5, 1988	1st shipment vegoil (1840 MT) aboard M/V Lake Michigan discharged at Tamatave Port.
NOVEMBER 7-28, 1988	1st shipment of vegoil moved from Port to SOMAPALM storage.
(JANUARY 4, 1989	Survey of 1st shipment reported: total losses under 0.5 percent (0.31 %).)
NOVEMBER 9, 1988	USAID/GDRM negotiating meeting on MOU: USAID proposed minimum auction prices (subsequently agreed); major issue vis. import duties.
DECEMBER 9-15, 1988	2nd shipment vegoil (3,160 MT) aboard M/V Maria Angelicoussi discharged at Port of Tamatave.
DECEMBER 12-26, 1988	2nd shipment of vegoil moved from Port to storage at SOMAPALM.
(JANUARY 17, 1989	Survey of 2nd shipment reported: total losses under 0.5 percent (0.24 %).).
DECEMBER 8, 1988	Request for bids in 1st auction for 1,840 MT
DECEMBER 9, 1988	USAID letter to Ministry of Commerce setting forth Reg. 11 requirement vis. non-imposition of import duties on Title II commodities.
DECEMBER 31, 1988	Deadline for deposit of at least 75 percent of FY 1987 Title I local currencies

JANUARY 5, 1989	1st Auction bid deadline for 1,840 MT, with minimum bid floor of $566 (872,796 FMG).
JANUARY 6, 1989	1st auction bids opened: six refineries (2 parastatal; 4 private) bid); four refineries (2 parastatal, 2 private) receive exact commodity lots bid (SOMAPALM-800; HCT-610; SEIM-280; SCIM-150); 2 refineries (private) bid unsuccessful.
JANUARY 30, 1989	MOU signed.
FEBRUARY 1989	Benchmark deadline for joint GDRM/USAID/Other Donor review of vegoil Master Plan and National Agricultural Research Plan
FEBRUARY 21, 1989	Deadline for final payment on successful bids and commodity pick-up
FEBRUARY 22 - MARCH 7, 1989	Program Evaluation
FEBRUARY 27, 1989	Copy of Vegoil Master Plan received by USAID program evaluators.
FEBRUARY 28, 1989	Due date for monthly commodity movement/sales/stocks report by SOMAPALM, HCT, SEIM, SCIM
MARCH 30, 1989	Due date for monthly commodity movement/sales/stocks report by SOMAPALM, HCT, SEIM, SCIM
APRIL 30, 1989	Due date for monthly commodity movement/sales/stocks report by SOMAPALM, HCT, SEIM, SCIM
MAY 30, 1989	Due date for monthly commodity movement/sales/stocks report by SOMAPALM, HCT, SEIM, SCIM
MAY 31, 1989	Deadline for deposit of full balance of FY 1987 Title I local currencies

JUNE 30, 1989	Due date for monthly commodity movement/sales/stocks report by SOMAPALM, HCT, SEIM, SCIM
JUNE 30, 1989	Deadline for completion of GDRM survey of artisanal groundnut production factors
JUNE 30, 1989	Deadline for completion of detailed diagnostic study for privatization of Soavoanio coconut oil refinery
(END EACH MONTH)	Due date for monthly commodity movement/sales/stocks report by SOMAPALM, HCT, SEIM, SCIM
APRIL 1989	2nd auction
OCTOBER 1989	D/G for Plan submission of list of projects fitting L/C use criteria set forth in MOU
JAN 15 - OCT 15 1989	Quarterly bank statements and accounting reports
(pre-NOVEMBER 1989)	Annual report by GDRM evaluating program and assessing progress

ANNEX D

COMPARISON OF FY87 AND FY88 PL-480 CRUDE VEGOIL AUCTION RESULTS

	FY87 CAPACITY (TONS)	FY87 CAPACITY (PCT)	FY87 PL-480 VEGOIL FROM QUOTA	FIRST AUCTION	SECOND AUCTION	THIRD AUCTION	TOTAL AMOUNT	PCT SHARE	FY88 CAPACITY (TONS)	FY88 CAPACITY (PCT)	FY88 PL-480 VEGOIL FIRST AUCTION	SECOND AUCTION	THIRD AUCTION	TOTAL AMOUNT	PCT SHARE
PUBLIC REFINERIES	34,000	84	6,375	1,646	1,190	1,800	11,012	89	12,000	68	1,410	0	0	1,410	77
SOMAPALM	9,000	22	2,221	0	700	600	3,521	29	9,000	51	800			800	43
HCT	2,500	6	1,055	500	490	600	2,645	21	3,000	17	610			610	33
MAMISOA	22,500	56	3,100	1,146	0	600	4,846	39		0				0	0
PRIVATE REFINERIES	6,250	16	0	400	815	100	1,315	11	5,750	32	430	0	0	430	23
SEIM	1,250	3	0	0	475	0	475	4	2,500	14	280			280	15
SOIM	750	2	0	300	300	0	600	5	1,000	6	150			150	8
SICA	750	2	0	100	40	100	240	2	750	4				0	[illegible]
SIB	3,500	9	0	0	0	0	0	0	1,500	8				0	[illegible]
TOTAL	40,250	100	6,376	2,046	2,005	1,900	12,327	100	17,750	100	1,840	0	0	1,840	100

ANNEX E

1989 REFINED VEGETABLE OILS NEEDS ASSESSMENT: UPDATE

Commodity (Metric Tons)	:	Refined Vegetable Oil
Date of Analysis	:	March 1989
Date of Previous Analysis	:	March 1988
Period of Analysis	:	January - December 1989
Population	:	11,229,627
Per Capita Requirement (kg/Yr)		1.0
Total Vegoil Requirement		11,230
Total Domestic Production		3,500
Beginning Stocks		5,844 (i)
Exports		0
Total Domestic Supply		9,344
Import Requirement		1,886
Commercial Imports		0
Food (Deficit) or Surplus		(1,886)
USG PL 480 Vegoil		700 (ii)
Other Donor Vegoil		1,100 (iii)
Target Reserves		0
Uncovered (Deficit) or Surplus		(86)

(i) Figure includes Section 206 FY 1988 program vegoil: 5,000 MT crude @ 90% conversion rate = 4,500 MT.

(ii) Title II CRS/MCH program

(iii) Figure includes Italian donation-for-sale of 1,000 MT refined soya oil, plus WFP project vegoil.

Comments:

0 Population is based upon World Bank estimates, with a 3% per annum growth rate factored in.

0 Per capita requirement is set at 1.0 kilo/year based upon historical trends, including estimated consumption of artisanal production. No allowance is made for lipides consumed in other forms (animal fat; edible nuts, etc.).

ANNEX F: SUMMARY OF EVALUATION TEAM INTERVIEWS

EUROPEAN DEVELOPMENT FUND

Interviewed: Mr. Wiepke van der Goot
Conseiller
EDF

Date: Thursday 23 February

Main Points:

---- EDF currently has two projects in oil sector:
--- one is a nearly completed project of assistance to the SOMAPALM refinery in Tamatave, assisting both the refining site and the palm extracting site

--- the other is newer, and aims to assist SOAVOANIO in developing a 4,000 acre coconut plantation; although SOAVOANIO originally was to establish a large refinery, it is now focussing on extraction of palm oil, primary for the soap industry

---- Mr. van der Groot said he knew nothing about the plans to privatize SOAVOANIO

---- he also said that EDF knows nothing about the vegetable oil master plan

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MISSION FRANCAISE DE COOPERATION

Interviewed: Mr. Andre Carre
Premier Conseiller, FAC

Mr. Ancey
Economist
SEDES

Date: Friday 24 February

Main Points:

---- Ancey is member of an FAC-funded team designing, for the GDRM, a project to develop groundnut production in the Lac Alaotra region

---- the team was coming to the end of their efforts and were preparing to return home to put a papor together

---- the team was aware of no larger master plan for edible oils, and were basing their design not so much on a country-wide strategy as on the GDRM's specific request for assistance

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MINISTRY OF COMMERCE

Interviewed: Mr. Michelain Ramanandraitsiory
Directeur de la Promotion des Exportations

and Mr. Roger Rakotoarisoa
Directeur de la Consommation et de la Concurrence

Date: Friday 24 February

Main Points:

---- the MOC officials hazarded the conclusion that the auction appeared to have been a collusive effort among the refineries

---- they indicated that a lack of hoarding among the general populace suggests some greater stability in supply of vegetable oil to the market

---- they indicated that there have been no imports of refined vegoil under the OGL

---- they stated that the GDRM will in the near future obtain 1,000 tons of refined vegoil from the Italian government

---- they stated that the SOMAPALM refinery has had a breakdown of its boiler, therefore shutting down the refining operation it may take as many as two to three months to bring the refinery back on stream

---

S.E.I.M.

Interviewed: Mr. Jean Rafidinoro
Private Consultant to SEIM

and Mr. Rakotoarivel
Director SEIM

Date: Monday 27 February

Main Points:

---- the capacity of the Antananarivo SEIM plant is 300 tons per month, and the reason that this differs from the Ministry of Commerce/Industry estimates of plant capacities for purposes of the auction is that these were estimated using the average of the relevant plant's production for the preceding ten years

---- the Antan plant refines only soy oil, although it also produces soap from copra; the Majunga plant processed 900 tons of cotton oil in 1987 and 25 tons of groundnut oil the same year; the low level of groundnut refining was due to the fact that refineries cannot afford to pay groundnut sellers the amount they want for their groundnuts, and the bulk of groundnuts thus go to table nut consumption

---- according to the SEIM people, artisanal groundnut edible oil is in quantity approximately 50 to 55 percent of total non-soy refined vegetable oil, although the artisanal product is of course of lower quality

---- indicated that the ex factory price of refined oil is currently about 1,900-1,950 FMG per ton, while the retail price is about 2,100-2,600 per liter; the weight-to-volume conversion is 920 grams/liter

---- stated that SEIM had originally wanted to bid for 900 tons of the first auction's 1,240 tons, but changed their mind and decided to bid for 280 tons, the equivalent of one month's throughput for SEIM Antan; indicated that they believed that with the elections coming up, the price for crude soy oil under the next auction might come down

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HCT

Interviewed: Mr. Seth Rasolofoniaina
Director General

Date: Monday 27 February

Main Points:

---- although HCT wanted more than the 610 tons on which they bid, there was a "fight" among the refineries on how to bid, and HCT ultimately agreed to keep its bid at 610 tons

---- HCT was asked by SEIM to pay for and store SEIM's allotment under the auction; this HCT has done, but if SEIM does not pick up soon, HCT will try to process the oil, especially because of the SOMAPALM breakdown

---- HCT says that it is the most efficient refinery in Madagascar, in terms of costs of production and profit earned, because its equipment is so old that it has been amortized and there is no very little fixed cost component in its costs of production

---- said that Madagascar is looking at rapeseed as an input to edible oil production

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MINISTERE DE LA PRODUCTION AGRICOLE ET DE LA REFORME AGRAIRE

Interviewed: Mr. Rene Ratsimbazafy
Directeur de la Programmation
MPARA

Date: Monday 27 February

Main Points:

---- the IBRD has approved the GDRM vegoil master plan, and although it is not a public document, he provided evaluation team with a copy

---- the master plan calls for self-sufficiency in vegoil production and, although the plan does not establish a date for that goal, the original goal of 1990 is clearly impossible

---- the master plan calls for a focus on domestic groundnut production as the short-term solution to the needed refinery inputs, with the longer term solution being coconuts and palm as raw materials

---- the master plan states that the GDRM role in vegoil should be research, development, and infrastructure

---- there is a need for rural credit, especially with respect to oilseed production; MPARA wishes to explore the possibility of using some PL480 local currency to provide farmers with credit

---- MPARA envisages that producers of oilseeds will form producer groups, to better manage their affairs

---- asked about the future of PL480 programs, MPARA indicated the need to continue to import for the time being

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WORLD FOOD PROGRAM

Interviewed: Ms. Pasqualina De Sirio Rolla
Deputy Representative

Date: Tuesday 28 February

Main Points:

---- WFP did not yet know about a donation of Italian refined oil (which a reference had been made to by officials at the Ministry of Commerce), but was able to confirm by telephone from the Italian Embassy that about two billion lire of refined soybean oil was being provided as a donation. The embassy had no further information on actual quantities or conditions of sale/distribution by the government. The shipment was expected to arrive in April.

DINIKA

Interviewed: Mr. Dieudonne Razanadrakoto
Economics and Transport Officer

Date: Wednesday 1 March

Main Points:

---- the only result of this somewhat pleasant interview was that the lack of statistical data was confirmed by Dinika, and Dinika indicated its willingness to update the baseline material provided in their earlier study of the FY87 PL480 program

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SOMAPALM

Interviewed: Mr. Eoson Parfait
Refinery Director

and Ms. Ramanantsoa
Chief Accountant

Date: Thursday 2 March

Main Points:

---- SOMAPALM indicated that it was satisfied with the auction process, but that the role of consignee had caused some problems; the major problem identified was that their security costs had gone up, due to the 55 gallon drums being stored at the SOMAPALM refinery, and that therefore they might be somewhat out of pocket as consignee

---- at least one refinery, SCIM, asked for but was not granted credit for the fee due to SOMAPALM

---- SOMAPALM expects to bid successfully for 3,000 of the 5,000 tons available under the Section 206 program; if they get their boiler repaired soon, they might need to import some crude through the OGL on a commercial basis; their director is currently abroad investigating that possibility

---- the ex factory price of the refined oil is set by SOMAPALM, and there have been no lack of buyers for it at the prices set

---- it was estimated that about 60 percent of SOMAPALM's output was marketed in Antananarivo, with the balance going to Tamatave

---- only the director (abroad) knew why SOMAPALM had only bid for 800 tons of the first auction oil

(briefly visited a second SOMAPALM site, where palm oil is extracted in the vicinity of a coconut plantation)
