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AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY.
SAN SALVADOR, EL SALVADOR, C. A.

06 May 1993

ENTERED
SEP 20 1993
Section

Timothy R. Donoghue
Vice Provost for Research
Food and Feed Grains Institute (FFGI)
KANSAS STATE UNIVERSITY
Fairchild Hall, Room #2
Manhattan, Kansas 66506-1103

Subject: Grant No. No. 519-0349-G-00-3117-00
Privatization of Grain Storage and Marketing

Dear Mr. Donoghue:

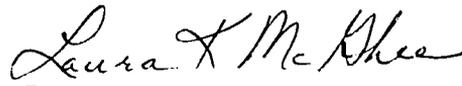
Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the Federal Grant and Cooperative Agreement Act of 1977 (P.L. 95-224), the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby grants to FFGI, KANSAS STATE UNIVERSITY, (hereinafter referred to as "Grantee") the sum of Two Hundred Eighty-Five Thousand, One Hundred Twenty-One Dollars (US\$285,121) under the Technical Support, Policy Analysis and Training Project (519-0349) to provide technical assistance to the El Salvador Ministry of Agriculture to carry out a program of privatization of grain storage and marketing as described in Attachment 1, entitled "Schedule" and "Attachment 2", entitled "Program Description" of this Grant.

This Grant is effective and obligation is made as of 01 May 1993 and shall apply to commitments made by the Grantee in furtherance of program objectives during the period beginning with the effective date and ending July 31, 1994. The total amount of AID funds obligated for this activity is \$285,121.

This Grant consists of Attachment 1, the "Schedule"; Attachment 2, "Program Description"; and Attachment 3, "Standard Provisions," all of which have been agreed to by your organization. Please sign the original and six copies of this letter to acknowledge receipt of

this Grant and return the original and five copies to the USAID/EI Salvador Contracts Office.

Sincerely,

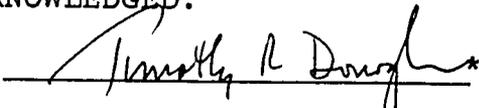


Laura K. McGhee
Grant Officer

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions.

ACKNOWLEDGED:

By: 

Name : Timothy R. Donoghue
Title: Vice Provost for Research
FFGI, KANSAS STATE UNIVERSITY

Date: 5-14-93

*Signed subject to requirements of OMB Circular A-133 being changed to the requirements of OMB Circular A-128 in Attachment #3, section 2c and section 13b. Kansas State University is a part of a state single audit in accordance with OMB Circular A-128.

FISCAL DATA:

Project No.....: 519-0349
Appropriation : 72-111/21037
Budget Plan Code : LES1-91-25519-KG13
Funding Source : USAID/EI Salvador
Total Estimated Amount: \$285,121
Total Obligated Amount: \$285,121

SCHEDULEA. PURPOSE OF GRANT

The purpose of this Grant is to provide funds to enable the Grantee to continue assistance to the Ministry of Agriculture to facilitate the privatization of grain storage and marketing in El Salvador as more specifically described in Attachment 2 hereof entitled "Program Description."

B. PERIOD OF GRANT

The effective date of this Grant is 01 May 1993. The estimated completion date of this Grant is 31 July 1994.

C. AMOUNT OF GRANT AND PAYMENT

1. AID hereby obligates the amount of \$285,121 for purposes of this Grant.

2. Payment shall be made to the Grantee in accordance with procedures set forth in Attachment 3 - Standard Provision entitled "Payment - Letter of Credit."

D. FINANCIAL PLAN

The following is the Grant Budget, including local cost financing items, if authorized. Revisions to this budget shall be made in accordance with the Standard Provision of this Grant entitled, "Revision of Grant Budget."

<u>Cost Element</u>	<u>(From 5/1/93 - 7/31/94)</u>	
		<u>Total</u>
Advisory Personnel		\$114,619
Travel Expenses		72,860
Other Direct Costs		<u>10,522</u>
	Subtotal	\$198,001
Indirect Costs		<u>87,120</u>
	TOTAL	<u>\$285,121</u>
		=====

E. REPORTS AND EVALUATION

1. Quarterly Activity Reports. Within 10 working days following the end of each quarter, the Grantee shall submit to the USAID/El Salvador Office of Agriculture and Natural Resources (ANR), a detailed report of all activities carried out under this Grant.

2. Financial Status Reports. The Grantee shall comply with all financial reporting requirements detailed in the Standard Provision entitled, "Payment - Letter of Credit" and in supplementary instructions provided to the Grantee by the Office of the USAID/El Salvador Controller.

3. End of Program Report. Within 21 working days following the expiration of this Grant, the Grantee shall submit a final report summarizing all activities carried out under the Grant.

F. SPECIAL PROVISIONS

1. Language of Agreement - This Grant has been prepared in English. Should the Recipient desire or require an unofficial Spanish translation, USAID/ES will provide a copy of the Grant in the Spanish language. In the event of any ambiguity or conflict between the two versions, the English language version will control.

2. Local Cost Financing with U.S. Dollars - Local cost financing with U.S. Dollars is authorized for this Grant in accordance with the provisions of Chapter 18 of AID Handbook 1, Supplement B.

3. Authorized Geographic Code - The authorized geographic code for source and origin of all goods and services to be procured under this Grant is 000 (U.S. only) unless A.I.D. otherwise agrees in writing.

4. Exclusion from Participation - The Grantee shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by AID. The Grantee further agrees that it will include the clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion -- Lower Tier Covered Transaction," which will be provided by AID, without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

5. Disclosure of Lobbying Activities - The Grantee shall require that the language of the certification regarding lobbying activities (which was executed by the Grantee prior to award of this Grant) be included in the award documents for all sub awards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

6. Drug Free Workplace Requirements - The Grantee shall maintain a drug free workplace in compliance with the certification provided to AID prior to the signing of this Grant. Violations of the requirements to maintain a drug free workplace may subject the Recipient to suspension of disbursements, termination or suspension of this Grant, ineligibility to receive further grant assistance and such other remedies as AID may consider appropriate. Violations include the failure to comply with the certification, presentation of false certification, or evidence that such a number of employees have been convicted of violations of criminal drug statutes for acts occurring in the workplace as to indicate that the Grantee has failed to make a good faith effort to provide a drug free workplace.

7. Access to Commissary - U.S. and third country national employees of the Grantee, as well as U.S. and third country national employees of its subgrantees and subcontractors, who are present in El Salvador solely as a result of employment under this Grant shall have access to the commissary operated by the American Employees Association of El Salvador in accordance with the policies of the Department of State and the U.S. Embassy, El Salvador.

G. INDIRECT COST RATE

Pursuant to the Standard Provision entitled, "Negotiated Indirect Cost Rates - Predetermined" in Attachment 3 hereof, a rate or rates shall be established for each of the Grantee's accounting periods during the term of the Grant. Payments for allowable indirect costs shall be made on the basis of the following negotiated predetermined rates applied to the bases which are set forth below:

<u>Type</u>	<u>Rate</u>	<u>Period</u>	<u>Base</u>
Predetermined	44%	Award thru 06/30/93	MTDC*
Predetermined	45%	07/01/1993-07/31/94	MTDC*

*Modified Total Direct Cost (MTDC) = Total direct costs less individual items of equipment in excess of \$200, subcontracts and subgrants in excess of \$25,000, alterations and renovations.

H. TITLE TO PROPERTY

All property purchased under this Grant shall be titled in the name of the Grantee in accordance with the Standard Provision entitled "Title to and Use of Property (Grantee Title)."

I. STANDARD PROVISIONS

The Standard Provisions applicable to grants with U.S. Non Governmental Organizations are contained in Attachment 3 hereof. For purposes of this Grant, the following provisions do not apply:

Payment - Periodic Advance
Payment - Cost Reimbursement
Patent Rights
Voluntary Population Planning
Care of Laboratory Animals
Government Furnished Excess Personal Property
Title to and Use of Property (U.S. Government Title)
Title to and Use of Property (Cooperating Country Title)
Cost Sharing (Matching)

PROGRAM DESCRIPTION

I. BACKGROUND

More than 1.5 million Salvadorans produce and sell basic grains (white corn, rice, sorghum) and edible beans for a major portion of their income. These commodities are the primary food stuffs in the Salvadoran diet, providing an average of 70% of the daily caloric and protein intake of the population. Rough grains such as corn and sorghum represent major raw commodity inputs in the feed manufacturing industry and snack foods.

Since the early 1950s, the production and market systems for basic grains and edible beans have been affected by government intervention through the Banco de Fomento Agrícola (BFA), and the Instituto Regulador de Abastecimientos (IRA). In 1989, the Government of El Salvador (GOES) began a comprehensive macroeconomic and structural reform program to redress the deteriorating economic and social conditions of the country. With the reduction in macroeconomic and structural distortions, and in order to maintain the pace of adjustments taking place in the economy, it became critical to revise agricultural sector policies, incentives, and institutions.

As part of El Salvador's comprehensive economic reform and structural change, GOES entered into a program of modernizing the agricultural sector. The hub of this challenge is the Programa de Reforma e Inversion en el Sector Agrícola (PRISA) to be financed with funds from the World Bank (WB). One of PRISA's six original components was the Agricultural Products Market Improvement Component, designed to assist and strengthen the private-market system for agricultural products, including basic grains and edible beans. USAID/El Salvador supported the PRISA project by providing technical assistance and training to the basic grains part of this project.

The privatization of public companies and institutions is one of the many structural reform policy instruments being used to redefine the public role, transfer appropriate functions to the private sector and diminish state intervention and public costs. Beginning in 1989 GOES ceased its direct intervention in the production and marketing of basic grains and edible beans. The Ministry of Agriculture (MOA) was charged with privatization of the public grain procurement agencies that are under its responsibility, namely IRA and BFA. Therefore, the grain handling and storage facilities of these two institutions represent the foci of the privatization program of MOA. Although BFA maintains a strategic reserve of grains and beans, IRA ceased operations completely.

Aside from the fiscal objective, two other socio/economic objectives are key for the privatization program of the GOES grain handling and storage facilities. First, GOES wants to increase the level of competition in the markets for basic grains and edible beans, that is to increase market efficiency, and second to achieve a more equitable market process. To achieve these socio/economic goals it is a GOES priority to transfer most facilities to groups which in the past have not enjoyed an equitable participation in the grain markets, namely the grain producers of the nation, and secondary to other marketing agents.

In 1991 the Grantee began providing technical assistance to GOES under contract with AID. The purpose of this activity was to (1) assist the MOA Privatization Unit (PU) with the divestiture process for the IRA and BFA grain handling and storage facilities, and (2) undertake research, provide information, and improve support systems essential to market driven basic food production and market systems, and (3) provide a "bridge" until the Agricultural Products Market Improvement Component of the PRISA project became effective. Close collaboration between the Grantee and the PU led to the following results:

Privatization

- All 16 grain handling and storage facilities belonging to IRA have been legally and technically inspected. Values have been established through appraisal procedures, and estimates of rehabilitation established. The Treasury Department issued official appraisals making the facilities available for sale. Sales prospectuses were drawn up and distributed to prospective buyers.
- IDB has waived the "no-sell" clause of its financing contract with GOES for the four new facilities belonging to BFA. This will allow planning of the sale of facilities and transfer of the financing obligations to the private sector.
- The GOES privatization strategy for the grain handling and storage facilities (steps, procedures, conditions, etc.) was reviewed and approved by the Minister of Agriculture. The legal aspects of the privatization strategy was reviewed and approved by the Minister of Justice. A Presidential order offering the facilities for sale was issued in October 1992.
- Potential buyers were briefed about the privatization effort and its potential benefits and how to participate in the bidding process.

- Managerial, marketing, and technical skills and experience of potential buyers were reviewed in preparation for the expected need to provide technical assistance and training to future owners.
- Ten IRA facilities were put up for sale on December 7, 1992. Firm and valid offers were received for six installations. Sale and transfer to the private sector is expected during May 1993.
- The other ten IRA facilities will be transferred to the private sector during 1993, either through public sales or as bonded storage enterprises.
- One of the BFA warehouses was offered for sale in January 1993. The four BFA grain handling and storage facilities are now being appraised and will be offered for sale in the next few months.
- Training in grain storage and marketing was provided to members of the PU, the Agricultural Policy Analysis Unit (UAP), and to the private sector.

Market Environment

- Studies on the seed industry, the agricultural inputs industry, and basic grains production have been published and shared with the public and the private sector. Studies on basic grain production and market information, structural reforms and impact on demand for basic food grains are near completion. The study on food policy, grain market development, and strategic grains reserve is currently being completed. The study on the export potential of value added derived from traditional grain crops is in the research stage. Many seminars, workshops, and lectures have been given to private and public sector institutions regarding the research undertaken. These activities have led to the following initiatives:
 - o A national seed industry committee composed of public and private sector representatives was set up to guide transformation of the industry from a dying national cartel to a responsive and competitive regional industry by modernizing the 1971 Seed Law, streamlining seed imports, registration, and certification regulations, and by shifting production and marketing functions to the private sector.
 - o Goes is in the process of harmonizing the differentials in import tariffs for raw materials and finished products used in the agricultural inputs industry; discussions are on-going to adjust CENTA's research parameters to gain improvements in fertilizer and pesticide utilization, and

with Direccion de Economia Agropecuaria (DGEA) to improve collection, analysis and dissemination of data relevant to the industry and its users.

- o The first supply response functions for basic grains were developed and presented to MOA/UAP. Policy analysts are being trained in its use and DGEA is adjusting its statistical data base to provide UAP with information necessary for analysis.
- o UAP has initiated a series of adjustments to its process of gathering, analyzing, and disseminating production and market information on basic grains which will benefit policy analysts, producers, market agents, industrial users, and consumers.
- o A three-week on-the-job training program was provided for members of DGEA and UAP. This training was designed to overcome many of the shortcomings uncovered during the study phase. It has resulted in improved data quality, timeliness of publications, and policy analysis.
- o The Grantee has provided assistance to GOES and the private sector on an ad hoc basis. This assistance has (1) supported GOES in defending the import price band for basic grains on many occasions, (2) provided expert-witness information on worldwide situation and outlook for basic grains to members of the Gabinete Economico as well as private sector market agents, (3) reviewed projects and programs related to the agricultural sector, and (4) developed terms of reference for technical assistance to be provided by other entities.

Status of Privatization of Grain Handling and Storage Facilities

The current and projected status of the 20 grain handling and storage facilities available for sale are as follows:

<u>Date Offered for Sale</u>	<u>Number Offered</u>	<u>Sold</u>
December 1992 (IRA)	10	6
March 1993 (IRA)	6	5 (est)
July 1993 (BFA)	2	2 (est)
December 1993 (BFA)	2	2 (est)

II. PROGRAM ACTIVITIES UNDER THIS GRANT

A. Goals and Objectives of Grantee Assistance:

- Maintain the current efforts of PU in finalizing the sale and transfer of all public grain handling and storage facilities to the private sector.
- Provide the necessary initial technical assistance and training to increase the probability for this privatization process to succeed, and thus support the new market oriented basic grains policy of GOES. New and successful grain enterprises, specially those owned by small farmers and cooperatives will be the best indicators of a successful privatization program.
- Institutionalize within the country ways and means to continue with the technical assistance and training needed by the beneficiaries of the privatization program.

B. Grantee Assistance

As set forth in its proposal dated 05 March 1993, the Grantee will provide assistance to the Ministry of Agriculture to enable it to achieve the objective of privatization of basic grain storage and handling facilities and assistance to new owners as they launch the new grain marketing enterprises through:

- technical assistance to the PU to enable it to undertake reappraisal of some facilities, analyze facility rehabilitation needs, prepare sale prospectuses, identify prospective clients, promote, and conclude sale and transfer of the facilities to the private sector.
- support to beneficiaries of privatization through the PU.

a. Bankable Projects

Assist new owners in the preparation of proforma financial statements for new grain enterprises and provide assistance in presentations to credit institutions in order to obtain credit for rehabilitation and working capital requirements.

b. Facility Rehabilitation

Assist new owners in reviewing needed rehabilitation work at each facility, plan and implement a least-cost rehabilitation program.

c. Training Coordination

Coordinate external training for staff members of UAP, PU, TECHNOSERVE, and credit institutions in grain storage and marketing and agribusiness planning and feasibility analysis. It is projected that a total of 18 persons will be trained in these areas during 1993 and 1994.

Coordinate in-country training that will be provided to beneficiaries by TECHNOSERVE, UAP, PU, and the Grantee. A comprehensive in-country training program will be finalized, based on the managerial, marketing, and technical deficiencies of new owners.

d. In-country Training

Provide on-the-job training to new facility owners and operators in specialized subject areas, including grain accounting, grain inventory management and control, grain marketing, grain market analysis, grain market management, relationships between macroeconomic prices, regional and international grain trade, operations of grain handling and storage facilities, maintenance of facility and equipment, post-harvest grain management and quality control, grain sampling and quality determination, and grain laboratory techniques.

e. Training in Grain Production and Marketing Statistics

Two three-week on-the-job courses will be planned and provided to the DGEA staff in production and marketing statistics. The section in production statistics will include (1) review progress since past training, (2) evaluate results of Encuestas completed, (3) introduce cartography into production estimation methods, and (4) present feasibility of using satellite imagery to improve production estimation. The section in market information statistics will include (1) collection and integration of market prices, (2) survey size modifications, (3) margin analysis, (4) spatial market co-integration testing, (5) testing for price seasonality and volatility, (6) price forecasting models, (7) integration of international and regional prices, and (8) scheduling surveys.

III. IMPLEMENTATION SCHEDULE

Grantee assistance, as described above, will be carried out during the period 01 May 1993 through 31 July 1994. In an effort to have private sector facilities and operators prepared to initiate operations with the fall harvest, the major portion of budgeted resources are expected to be expended prior to November 1993. The remaining AID funds provided for this assistance are expected to be sufficient to complete activities by the estimated completion date of 31 July 1994.