

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE C A = Add C = Change D = Delete	Amendment Number 2	DOCUMENT CODE 3
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2. COUNTRY/ENTITY MADAGASCAR	3. PROJECT NUMBER 687-0101
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4. BUREAU/OFFICE AFR	5. PROJECT TITLE (maximum 40 characters) AGRICULTURE REHABILITATION SUPPORT
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 03 31 89	7. ESTIMATED DATE OF OBLIGATION. (Under "D" below, enter 1, 2, 3, or 4) A. Initial FY 87 B. Quarter 2 C. Final FY 87
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A. FUNDING SOURCE	B. COSTS (\$000 OR EQUIVALENT \$1 =)			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,975		1,975	9,819		9,819
(Grant)	(1,975)	()	(1,975)	(9,819)	()	(9,819)
(Loan)	()	()	()	()	()	()
Other U.S.						
Host Country		523	523		1,827	1,827
Other Donor(s)						
TOTALS	1,975	523	2,498	9,819	1,827	11,646

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ES	180B	821		5,844		975		6,819	
(2) FN	180B	052		2,000		1,000		3,000	
(3)									
(4)									
TOTALS				7,844		1,975		9,819	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 050 054 053	11. SECONDARY PURPOSE CODE: 8
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12. SPECIAL CONCERN CODES (maximum 7 codes of 4 positions each) A. Code: BF B. Amount:
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13. PROJECT PURPOSE (maximum 480 characters)

To support agricultural policy liberalization and recovery of the agriculture sector, through (a) increased foreign exchange allocations for imports of key agricultural and rural transportation inputs required for the rehabilitation effort; (b) improved information systems and analysis leading toward better policy determination and selection of priorities, particularly for agricultural parastatal divestiture.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 09 86 02 89	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input checked="" type="checkbox"/> Other (Specify) 899
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

This amendment No. 2 provides one and one half additional years of funding to the existing project.

CIP 687-T-602A GDNA8731687K632 \$200,000
 " 687-T-602B GES78731687K632 \$975,000
 TA Portion GDNA8721687K613 \$800,000
 \$1,975,000

17. APPROVED BY Signature: Arthur M. Fell Title: Director, REDSO/ESA Date Signed: MM DD YY 03 25 87	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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LIST OF ACRONYMS

ABS	Annual Budget Submission
AFR/PRE	Africa Bureau/Private Enterprise Office (AID/Washington)
APAP	Agriculture Policy and Analysis Project
ASAC	Agricultural Sector Adjustment Credit Project (World Bank)
BTH	National Agricultural Credit Bank
C&L	Coopers and Lybrand
CDSS	Country Development Strategy Statement
CIP	Commodity Import Program
CP	Condition Precedent
CY	Calendar Year
DGP	Direction General of Plan
ESF	Economic Support Fund
FAA	Foreign Assistance Act
FAO	Food and Agriculture Organization (United Nations)
FMG	Malagasy Francs
FR	Financing Request
FSN	Foreign Service National
FY	Fiscal Year
GDP	Gross Domestic Product
GDRM	Government of the Democratic Republic of Madagascar
HP	Horsepower
IARC	International Agricultural Research Center
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEE	Initial Environmental Examination
IMF	International Monetary Fund
IQC	Indefinite Quantity Contract
IRRI	International Rice Research Institute
L/COM	Letter of Commitment
LDC	Less Developed Country
MARS	Madagascar Agricultural Rehabilitation Support
MPAEF	Ministry of Livestock, Water and Forestry
MPARA	Ministry of Agriculture, Production and Agrarian Reform
MT	Metric Ton
PACD	Project Assistance Completion Date
PIO/C	Project Implementation Order/Commodities
PIO/P	Project Implementation Order/Participants
PIO/T	Project Implementation Order/Technical
PPC	Bureau for Program and Policy Coordination (AID/Washington)
RCMO	Regional Commodity Management Officer
REDSO/ESA	Regional Economic Development Services Office/Eastern and Southern Africa
RFMC	Regional Financial Management Center
S&T/AGR	Science and Technology Bureau/Office of Agriculture (AID/Washington)
SDR	Special Drawing Rights
SINPA	Direction du Silo Nationale
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WFP	World Food Program

Third Amendment to the Project Authorization for MARS

NAME OF COUNTRY: Madagascar

NAME OF PROJECT: Madagascar
Agricultural Rehabilitation Support
(MARS)

PROJECT NUMBER: 687-0101

1. Pursuant to Sections 103 and 531 of the Foreign Assistance Act of 1981, as amended, the Agricultural Rehabilitation Support Project (687-0101) for Madagascar was authorized on April 1, 1985. That authorization was amended on June 16, 1986 and June 19, 1986. The authorization is hereby further amended to add \$1,975,000 in Grant funds from Sections 103 and 531 of the Foreign Assistance Act, as amended, to be obligated over a one-year period from date of the Third Amendment to the Project Authorization, subject to availability of funds in accordance with the AID OYB/Allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the project is forty eight months from the date of initial obligation.
2. The Project Agreement Amendment which may be negotiated and executed by the Officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

- a) Condition Precedent for Procurement under the Commodity Import Component

Prior to disbursement of funds made available by the Second Amendment to the Project Grant Agreement for procurement of commodities under the Commodity Import Component of the Project, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made with respect thereto, the Cooperating Country will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D. a plan for procurement and distribution of such commodities, including such elements as may be prescribed in Project Implementation Letters; and

- b) Special Covenants for the Commodity Import Component

- i) Procurement under the Commodity Import Component of the project, as amended, will be carried out in accordance with A.I.D. Regulation 1.

ii) The Cooperating Country will agree to deposit in the Special Account established pursuant to Sections 4.2b and 8.1 of the Project Grant Agreement currency of the Cooperating Country generated by the sale of commodities imported under the Commodity Import Component of the Project. Funds in the Special Account will be used for such economic development purposes as are mutually agreed upon by A.I.D. and the Cooperating Country provided that no less than the equivalent of U.S. \$118,000 of these funds shall be made available to the United States Government to be held in trust to be used by A.I.D. to meet the administrative and other costs of carrying out development programs in Madagascar. This \$118,000 Trust Fund requirement is in addition to the \$245,000 Trust Fund requirement already contained in Section 8.1b of the Project Grant Agreement.

3. Notwithstanding Section 6.1 of the Project Grant Agreement, and based upon the justifications set forth in Annex 7 of the Project Paper Amendment, attached hereto, the following waivers are hereby approved:

a) A source and origin waiver from AID Geographic Code 000 (U.S. only) to Code 899 (Free World) in the amount of \$574,000 for the procurement of approximately 48 farm tractors and related spare parts. It is hereby determined that exclusion of the procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

b) A waiver of source and origin and supplier nationality requirements for Caterpillar spare parts, as follows: A source and origin waiver from AID Geographic Code 000 (U.S. only) to Code 899 (Free World) in the amount of \$318,575 for the procurement of Code 899 parts from a non-U.S. supplier; a waiver of supplier nationality requirements from AID Geographic Code 000 (U.S. only) to Code 899 (Free World) in the amount of \$439,935 for procurement of Code 000 parts from a non-U.S. supplier. It is hereby determined that exclusion of the procurement of such spare parts from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

4. The Authorization cited above remains in force except as hereby amended.

Approved: 

Disapproved: _____

Date: 25 MAR 1987

SUMMARY

The original Madagascar Agriculture Rehabilitation Support (MARS) Project agreement was signed on April 2, 1985 at a level of \$5,000,000. The project was amended the following year, with obligation of an additional \$2,844,000 on June 25, 1986. The PACD was extended at this time to 30 November 1987. A mid-term evaluation, conducted in September 1986, reviewed project progress to date and made recommendations for the design of the second amendment. These recommendations have been taken into account fully in this document.

This second amendment to the MARS project (PP Amendment No.2) proposes to add \$1,975,000 to the \$7,844,000 provided to the project to date, and to extend the project's PACD to 31 March 1989. Of the total, \$800,000 from Development Assistance funds will be project assistance for technical assistance, training and project equipment. The remaining \$1,175,000 will be program assistance for commodities to be funded from Economic Support Fund (\$ 975,000) and Development Assistance (\$200,000).

MARS will continue to support agricultural policy liberalization and recovery of the agricultural sector in Madagascar, through:

- a) Increased foreign exchange allocations for imports of key agricultural and rural transportation inputs required for the rehabilitation effort; and
- b) Better information systems and analysis, leading toward better policy determination and selection of project priorities, particularly with reference to parastatal divestiture.

The mechanisms selected for support will help to strengthen the role of the private sector in the agricultural economy, through: importation of needed agricultural support commodities; assistance to the GDRM to take specific steps toward parastatal divestiture; policy dialogue; and studies to expand private sector networks. Special emphasis is placed on Madagascar's all-important rice sub-sector.

Over one half of the FY87 funds will be used to continue to provide support for the GDRM's balance of payments by directing \$1,175,000 to the commodity import component of the project. In addition, \$150,000 of cost savings from FY85 funds for the Namakia Bridge will be used for FY87 commodity imports. These funds will be used to assure that: (1) approximately 50 light tractors are imported; (2) adequate spare parts are available for Ford and Caterpillar equipment imported both under the current project and under this amendment. The mix of commodities to be imported has been reviewed with the World Bank to assure complementarity with their import program, and takes into account the results of USAID's November 1986 end-use assessment of commodities imported to date. The importers already operating under the current project will continue to implement the commodity import component, based on their representation of American products and sustained effective implementation.

The second component of the project, consultancies and training, will continue the focussed approach taken in the first amendment and reinforced in the FY88 CDSS and Annual Budget Submission. This was originally discussed in the context of a new project; however, AID/W subsequently advised the field that, due to funding limitations, the existing project should be amended once again. The intent of greater focus is both to increase project impact and to minimize the project management burden on USAID/Antananarivo and the GDRM. These considerations, greater impact and reduced management burden, have been factors in AID's decision to collaborate with another donor, the World Bank, which plays a key role in Madagascar's agricultural development. With this perspective in mind, AID funding in the amount of \$800,000 will be used to:

- (1) continue agricultural policy dialogue with the GDRM and monitoring of policy developments, through a third Agricultural Policy Analysis Seminar involving the participation of senior economists, and related activities;
- (2) fund studies to assist the GDRM to define ways that the private sector may assume a greater role in the provision of certain services to the agricultural population; and
- (3) contribute to the rehabilitation effort through improvement of the information base on parastatal operations, and development of action plans for divestiture of specific agricultural parastatals.

In the latter area, AID will continue its separate financing for the parastatal management improvement and divestiture component of the World Bank's Second Agricultural Institutions Development Project. No commingling of funds is anticipated and no management of AID funds by an international organization will be involved. AID will provide support (consultancies, training and related commodities) to those Ministry units within MPARA and MPAAF which are responsible for monitoring and oversight of agricultural parastatals, and will assist them to develop management information systems which can analyze performance indicators and assess problems. Several agricultural parastatals will be selected for in-depth study beginning in early 1987 under first amendment funding. These studies will be completed under funding from PP Amendment No. 2.

In summary, this second amendment attempts to build on the style of operations set forth in the first amendment, which directs project support to the following areas: import of a commodity mix to address agricultural production needs; and assistance to strengthen the role of private enterprise in the rehabilitation effort, especially through agricultural parastatal divestiture.

II. PROJECT RATIONALE AND DESCRIPTION

A. BACKGROUND

1. Conformity with AID Development Strategy

The FY 1988 CDSS (prepared in March 1986), along with adjustments made to it in the strategy restatement included in the FY1988 ABS (prepared in June 1986), represent AID's approved strategy for Madagascar. That strategy outlines a narrowly focussed short-to-medium term assistance profile, centered on the rice sub-sector and augmentation of agricultural production. Activities are to be undertaken in the context of support for Madagascar's continuing agriculture sector liberalization program.

Key elements of the strategy are as follows:

- (1) Rice policy improvement, particularly through the three-year Food for Progress program, which, in coordination with the World Bank and the World Food Program, will assure adequate food supplies as insurance against unacceptably high prices, and which will serve to assist the GDRM in the liberalization of its policies affecting production, collection, milling and marketing of rice. This is to be complemented, if necessary, by additional rice imports through PL480 Title I.
- (2) Encouragement of private sector provision of essential agricultural commodities and services, which, since Madagascar's socialist revolution in the 1970's, have been provided inadequately by government and by parastatal enterprises. Included are: a commodity import activity to help ease the foreign exchange shortage and allow import of essential agriculturally-related equipment; assistance with assessment of agricultural parastatals, with a view to their partial or complete divestiture; and, possibly, support for a private sector line of credit using counterpart funds.
- (3) Building Malagasy capacity to test and introduce improved varieties of rice through support for Malagasy rice research, which will help improve the basic technology available to farmers and restore their productive capacity. This is being accomplished through a grant to IRRI for collaborative work in Madagascar.
- (4) Primarily through use of counterpart funds generated from PL480 and the commodity import portion of this project, continued support for rehabilitation of infrastructure essential to increased rice production such as farm-to-market roads, and irrigation works.

The proposed Amendment No. 2 to the MARS project directly addresses two of these four areas (1 and 2). Continuation of policy dialogue will assist the GDRM to understand the impact of liberalization measures taken to date, and to evaluate alternative next steps. Commodity imports will consist of items critical to the rehabilitation effort: tractors and tractor spare parts, and spare parts for road maintenance equipment. Support for parastatal divestiture will build toward the goal of greater private sector involvement in the agricultural sector, and a series of studies on potential for private sector involvement in service provision will begin to lay the groundwork for later steps. Programming of CIP local currency generations will directly support objective (4), and is likely to be channeled to assist with agricultural credit needs (objective 2).

2. Program Factors: GDRM Policy Reform Progress

Since 1982, the Government of Madagascar has pursued a new economic policy resulting in changes in agricultural sector and public investment priorities from those undertaken in the previous decade. Corrective measures have been aimed at reducing financial imbalances, introducing legislation to liberalize marketing and pricing, especially in the rice sub-sector, and concentrating resources on the rehabilitation of existing production capacity. Significant changes over the past 18 months include: elimination of producer and consumer subsidies for several crops, successive exchange rate devaluations, liberalization of pricing and marketing for some food and export crops, some reduction of parastatal and administrative monopolies in agriculture, and improvements in Ministry management capacities.

a. Agricultural Sector

Agriculture employs over 85 percent of the population, produces most of the country's food, supplies the bulk of the raw materials for the country's manufacturing sector, and constitutes over 40 percent of GDP. Agricultural exports are the largest earner of foreign exchange, accounting for 85 percent in 1983-84.

Agricultural production stagnated and farmer income declined in real terms since 1972. According to the World Bank's 1983 Agriculture Sector Memorandum, several factors were responsible for the sector's poor performance, including government pricing and marketing policies, shortages of imported inputs, especially of intermediate goods such as spare parts (due to foreign exchange shortages), lack of new research, and deterioration of the transport system.

The importance of rice in Madagascar's economy cannot be overestimated. Malagasy have, it is claimed, the highest per capita rice consumption in the world. Approximately 50 percent of the total land under cultivation is planted in rice -- approximately 1.2 million hectares. About 75 percent of rice fields are cultivated by smallholders; and approximately 70 percent of the population grows paddy.

The decision to liberalize the rice sector, taken in May 1983, originally had four aspects: (1) elimination of the state marketing monopoly for paddy and rice (except in Lac Alaotra and Marovoy, where marketing monopolies remained until April, 1986); (2) allowing market-determined consumer prices within a specified range (with floor prices set for producers and ceiling prices set to protect consumers); (3) pricing of imported rice at a level sufficient to avoid consumer subsidies; and (4) reduction of rice imports.

Reasonable progress toward these and other planned policy reforms has been achieved, and further short and medium-term reforms are planned. In the crucial area of the pricing and marketing of rice, the government finally agreed to complete liberalization in April 1986. AID continues to review the status of macroeconomic and agricultural sector adjustment programs to assess comprehensively the commitment of the GDRM to policy reform and its effectiveness in implementing major structural changes in the economy. The background and status of the agricultural and macroeconomic adjustment and stabilization programs were reviewed and analyzed in Annex B of the FY1988 CDSS. A summary and update is provided below.

b. Overview of Recent Reforms

In May 1986, new reform steps were taken under two new, mutually supporting projects with the World Bank, namely the Agricultural Sector Adjustment Credit Project (ASAC) for SDR 50 million, and the Second Agricultural Institutions Development Project for SDR 8.7 million. In April, twenty-two countries and organizations attended the third meeting in Paris of the Consultative Group for Madagascar, sponsored by the IBRD. The Group agreed that the GDRM's proposed programs of policy reform were on the right path, and urged that they be pursued and developed further. In addition, the GDRM negotiated two requests for IMF assistance in May. One was a request for an emergency purchase of SDR 16.6 million to recover from the damages of cyclone Honorinina in March, and the second was a request to purchase SDR 16.6 million under the Compensatory Financing Facility to offset the 1985 shortfall of coffee and vanilla export earnings. Both of these agreements contain reviews of progress on policy reforms and reaffirmation of the GDRM's commitment to continue and reinforce measures to strengthen the economy.

Negotiations for the sixth IMF Standby Arrangement were interrupted by the cyclone, which imposed new foreign exchange and domestic costs requiring investigation and assessment. Negotiations were resumed in June and the new Standby Arrangement was approved in September, after a 25 percent devaluation. These actions demonstrate that the GDRM is cooperating fully with IBRD and IMF as well as AID in designing and implementing monetary and structural adjustments to reverse declines in production and income.

The following paragraphs review reform measures which have been undertaken or are planned during the 1986-87 adjustment program. Table 1 shows balance of payments.

Table 1. Balance of Payments, 1980-87
(In millions of SDRs)

	1981	1982	1983	1984	1985 1/	1986 1/	1987 2/
Exports, FOB	281.5	296.4	289.7	325.2	273.9	299.6	313.4
Imports, FOB	433.2	409.0	-353.8	-343.5	-330.7	-320.2	-316.3
Trade balance	-151.7	-112.6	-64.1	-18.3	-56.8	-20.6	-2.9
Service receipts	55.6	49.7	45.0	56.9	74.3	74.3	76.0
Service payments	-267.6	-272.7	-268.0	-289.2	-286.6	-306.9	-310.9
Freight	-66.2	-68.1	-49.6	-48.1	-47.0	-44.8	-44.3
Transport, travel	-59.3	-55.7	54.6	-61.8	-64.5	-64.5	-66.4
Investment income	-78.3	-91.4	-106.6	-134.9	-131.2	-150.2	-158.7
Other	-63.7	-57.5	-57.2	-44.4	-43.9	-47.4	-41.5
Services (net)	-211.9	-223.0	-223.0	-232.9	-212.3	-232.6	-232.9
Private unreq. transfers	3.4	-1.3	-1.1	9.3	15.0	15.0	25.0
Current account	-360.2	-336.9	-288.2	-241.3	-254.1	-238.2	-212.8
Public transfers	53.1	65.5	56.9	66.1	67.1	87.9	78.0
Long-term cap.(net)	237.7	109.9	184.1	180.0	162.9	60.7	1.3
Drawings	277.2	190.1	181.1	117.9	143.4	169.2	159.7
Amortization	-93.2	-164.2	-183.1	-127.0	-147.0	-135.8	-158.4
Debt relief(net)	53.7	84.0	186.1	164.9	151.6	27.3	--
Official	50.3	82.1	125.1	141.1	137.9	27.3	--
Commercial banks	3.4	1.9	61.0	23.8	13.7	--	--
Petroleum financing	--	--	--	24.2	14.9	--	--
National banks (net)	-18.1	-23.8	-0.3	-12.2	1.0	--	--
Other	5.3	77.6	-41.7	23.1	15.3	--	--
Overall balance	-82.2	-107.7	-89.2	15.7	-7.8	-89.6	-133.5
Financing	82.2	107.7	89.2	-15.7	7.8	89.6	133.5
IMF (net)	31.6	51.7	6.5	17.9	-3.4	-1.6	-27.1
Purchases	39.0	52.4	10.2	41.4	29.0	39.2	--
Repurchases	-7.4	-0.7	-3.7	-23.5	-32.4	-40.8	-27.1
Net cash change in arrears (decr.-)	59.0	63.8	69.6	-9.0	-8.3	-8.0	-8.0
Net central bank reserves (inc.-)	-8.4	-7.8	13.1	-24.6	19.5	-9.1	-10.0
Financing gap	--	--	--	--	--	108.3	178.6

1/ Estimate.

2/ Projected.

Source: IMF, Request for Standby Arrangement, August 1986, p. 32.

c. Specific Reform Measures

(1) Resource Allocation

The GDRM is continuing to review projects in the 1986 public investment program, eliminating low priority and uneconomic projects for which funding is not available. IDA concurrence is required for release of the second tranche of ASAC financing. GDRM has reduced subsidies from export crop revenues to state trading companies by one third during 1986 and plans to eliminate them by May 1988. Subsidies on agricultural inputs, which average 30 percent or more, were reduced by 7 percent of the equivalent CIF cost when ASAC became effective, and will be eliminated prior to release of the second tranche.

(2) Rice Strategy

The GDRM is committed to providing maximum incentives to producers by freeing domestic production, processing, trade flows and prices from all controls, and has now agreed to complete liberalization of the pricing and marketing of rice. The U.S. has traditionally assisted Madagascar rice needs through PL480 Title I. Now, in support of increased reliance on market mechanisms, an imported buffer stock will be maintained to reduce excessive price fluctuations, supply welfare consumers, and provide emergency supplies for periods of natural disaster. MPARA's role in the implementation of national rice policy has been strengthened; MPARA will supervise buffer stock management, including SIMPA services in transporting and distributing commodities.

In April 1986, competition in rice marketing was introduced among traders, millers, and hullers without restriction in Lac Alaotra and Marovoy. Rice supplies for social welfare are to be phased out within five years and, in the interim, will continue only during periods of seasonal shortage, if market prices fall to levels agreed upon by the World Bank and GDRM.

A trigger price acceptable to IDA is activating open market sales from the buffer stock and is high enough to recover fully the costs of operating the program. During 1986-87, the price has been set at 35-40 percent of the average, post-harvest market price. An annual import program will support the buffer stock and import levels will be adjusted as appropriate in accordance with market requirements. A minimum volume of buffer stock has been set at which MPARA will order rice shipments to avoid price speculation. IDA, in effect, guarantees the success of the buffer stock system by promising enough foreign exchange to supply all the rice needed at the trigger price. IDA defines the buffer stock system as influencing, rather than controlling, the rice market. The ASAC appraisal report estimated there is a 5 percent chance that open-market sales would exceed 30,000 MT. AID's Food for Progress Program will provide this 30,000 MT of rice for the buffer stock for year one. Years two and three Food for Progress contributions of 21,000 MT per year are planned, subject to availability of USDA commodities and review of buffer stock operations and import needs.

The World Food Program is committed to providing an additional rice grant of up to 100,000 MT over three years starting in March 1987, as a contribution to the open market sales buffer stock. WFP commodities will be drawn upon when needed, with a first shipment of 10,000 MT planned for March 1987. It is unlikely that additional rice imports will be needed to support buffer stock operations, but if they are, IDA credit will be available to finance these imports.

(3) Production and Marketing Incentives

GDRM recently enacted legislation specifying that agricultural prices except for industrial crops, including cotton, sugar, and tobacco, and high rent taxable crops, such as coffee, cloves, vanilla, and pepper, are not subject to controls. Coffee producer prices were increased 25 percent and the ex-factory price of edible oil was raised 100 percent. The price of a kilogram of robusta coffee increased from FMG 470 to FMG 600 and of arabica from FMG 470 to FMG 620. The producer price of vanilla was raised to FMG 7,000 per kilo. These price increases, coupled with the 25 percent devaluation, will encourage investment and savings by coffee and vanilla growers. Prior to disbursement under ASAC, new quarantine regulations are to be enacted. Importation and distribution of agricultural inputs is to be transferred to private, commercial enterprises and over 70 of MPARA's sales outlets have already been closed.

(4) Export Crops

The GDRM is giving special emphasis to studies of production and taxation of export crops, and edible oils. A study of the edible oils industry is being financed by UNDP, which will assess the comparative advantage of different oil crops and the industry's rehabilitation needs. An action plan for the oilseeds and coffee industries and for diversifying exports will be prepared in the near future. Studies of ways to improve export administration is being undertaken and an action plan prepared prior to release of the second tranche of ASAC financing.

(5) Stabilization Program

In mid-September 1986, GDRM agreed with IMF on a 1986-87 standby arrangement for SDR 30 million extending through the end of 1987. The letter of intent prepared by the Minister of Finance and Economy in July proposed that the primary reforms focus on creating the market and regulatory conditions favorable to economic growth. Inflation was expected to be 16 to 18 percent in 1986, including the inflationary effects of devaluation.

The GDRM proposed to limit rice imports to 134,000 MT in CY 1986, but this was later exceeded in the amount of 21,000 MT. The letter of intent proposed not to authorize or guarantee increases in external public debt of less than one year maturity through the end of 1986, or incur new loans of 1 to 5 years maturity, or incur more than SDR 35 million of new debt with maturity between 5 and 15 years. Banks were to be prohibited from financing public enterprise losses after January 1987. Subsequent discussions with IMF undoubtedly strengthened preconditions for approval of the standby arrangement.

(6) Impact of Policy Reforms

Experience in other countries which have introduced structural adjustments, particularly in the agricultural sector, suggests that large increases in production are possible and are expected in Madagascar with favorable weather. At present price relationships, for example, use of fertilizer yields a 100 percent return which could help reduce the large, 6:1 disparity between urban and rural average incomes. Favorable impact should be enhanced by Madagascar's potential in the area of rice research. On the other hand, as real income has fallen, urban families spend a larger percentage of income on food. The adjustment program undoubtedly will require still further medium term increases in the real price of rice to consumers. Increases in production and productivity, however, should increase real income in the long run and benefit both urban and rural families.

D. Conclusion

While the full benefits of the reform programs will not be realized for several years, the GDRM has embarked on an ambitious, but urgently needed, macroeconomic reform program to increase economic growth and foreign exchange earnings. The industrial sector only exports about 5 percent of its production and currently is operating at only 40 percent of its capacity. At the onset of the reform program, important elements of the GDRM, including the President, openly questioned the wisdom of the program but acknowledged the GDRM had no other choice. Reasonable progress has been made but the reform program is only beginning and the GDRM must demonstrate resolve, persistence and leadership if the desired end result is to be achieved.

3. Project Experience to Date

A mid-term evaluation of MARS was held in September 1986. Findings and recommendations address re-orientation of planned activities remaining from the original project, readjustments suggested for the first amendment, and activities to be funded under the second amendment. Key evaluation findings are briefly summarized below.

The commodity import component has provided foreign exchange inputs for import of key inputs required for the rehabilitation effort. It has also provided greater access for farmers to equipment and, eventually, to infrastructure and services via the private sector. After initial delays, USAID and internal GDRM procedures for working with private importers are now set up and running smoothly, with rapid disbursement of commodities. The original project provided \$3,460,000 for Ford tractors and spare parts and road equipment spare parts. An additional \$1,000,000 was provided for import of bridge superstructure components for the Namakia Bridge on the Mahavavy River. The first amendment provides an additional \$2,174,000 for spare parts (for selected road maintenance equipment and for agricultural tractors), light duty trucks and a limited amount of new road maintenance equipment.

As a result of the evaluation, a survey of commodity end users was undertaken in November 1986, in order to better define end use functions and production related benefits of this component. Survey findings show that, of 52 tractors sold to date, 35 (67.3 percent) have gone to the private sector, 15 to parastatal companies, and 2 to the public sector. All of the tractors already in-country are engaged in agricultural production. In nearly every case the purchase has increased the amount of land worked, much of which had been fallow in previous years. Overall employment has increased not only among the families involved but also through the creation of new jobs. Sixty-three percent of spare parts for Caterpillar equipment have been sold to the private sector and 37 percent to parastatal companies, some of which have 30-50 percent private investment. The importation of Caterpillar spare parts has allowed work, mainly in the private sector, to continue in road construction (41 percent of total sales value) and in industrial agriculture operations (26 percent of total sales value). Caterpillar spare parts by sales value are being used largely for road production (41 percent) and for agricultural operations (25.6 percent). In total, 70 percent of the spare parts are being used for activities affecting the agriculture and rural transport sectors, including construction and maintenance of secondary and feeder roads.

Original MARS project activities in technical assistance and training were designed to open doors for AID within the Malagasy agricultural sector, and to establish relationships with a wide range of agriculture-related Malagasy institutions, as well as strengthen GDRM capability to conduct policy analysis and planning. Over 13 Ministries, parastatals, and other local institutions participated in project-funded training, consultancies and agricultural policy dialogue. The most important activities in the original project have been: agricultural policy activities through S&T's Agriculture Policy and Analysis Project (APAP), including a mid-level policy seminar and informal high-level policy dialogue; training, through USDA, of mid-level Ministry staff in economic and financial analysis skills and project appraisal techniques; linkages with several International Agricultural Research Centers (IARC's); and discrete activities related to land tenure policy, agricultural statistics and census, and skills development for labor intensive road maintenance. The evaluation recommended that funds remaining from planned technical assistance and training activities under the original project be reprogrammed for activities more consistent with agricultural policy improvement.

As the project moves into implementation of the first amendment, a narrower range of technical assistance and training activities are being undertaken, with funds targeted for initiation of parastatal divestiture studies, and continued policy dialogue. The diversity in the original project was effective for setting up working relationships with GDRM institutions and for examining possible targets for further assistance. However, by channelling project support to fewer activities, more can be achieved in the way of concrete results, while lessening the management burden on the small AID office in Antananarivo. Parastatal divestiture activities have begun on a good footing, with an initial consultancy undertaken to define a detailed scope of work for the first phase, in conjunction with the World Bank and its Second Agricultural Institutions Development project. A second APAP activity, to include a return visit by Dr. Elliot Berg and a policy workshop, is now being planned for June 1987.

The evaluation team strongly recommended that Amendment No. 2 sustain the project's more focussed approach, and (1) continue the commodity import component; (2) continue efforts at agricultural parastatal divestiture; (3) initiate efforts to assist with privatization of certain services to farmers; and (4) continue policy dialogue through consultations in Madagascar by high level economic advisors.

B. STRATEGY AND OBJECTIVES: PP AMENDMENT No. 2

1. Strategy

The MARS project is one central element of AID's program in Madagascar, along with AID's grant to IRRI for rice research, and Food for Progress. Consistent with the FY1988 ABS and with the September 1986 project evaluation, this amendment, with the same objectives, will continue to support Madagascar's liberalization program and rehabilitation of the agriculture sector, which includes government policies to improve the production and marketing of rice and the access of farmers to commodities and services. It is proposed that the additional project funds for Amendment No. 2 will go toward:

Continuation and completion of parastatal divestiture activities, in conjunction with the World Bank's Second Agricultural Institutions Development Project, and the initiation of studies to define ways to increase private sector provision of rice-related agricultural services;

Continuation of broad agricultural policy dialogue with the GDRM, and monitoring of policy developments, so that Malagasy officials can discuss policy concerns with high level advisors who bring vast international experience and relevant country examples to Madagascar. Dialogue will take place through structured seminars, informal meetings, and study tours;

Continuation of the project's commodity import component, with import of farm tractors and related spare parts and road maintenance equipment spare parts, equipment for which strong demand exists at this time, given the structure of imports to date under the project. All are items which relate to rehabilitation of agricultural production, including well-maintained farm-to-market roads.

The project budget reflects the need to adequately fund the technical assistance and training activities, despite cuts in the requested project level. Remaining funds will support the commodity import component.

2. Project Goal and Purpose

The project goal is to increase agricultural production, productive employment, and real income. The purpose of the MARS project and this amendment will be to support agricultural policy liberalization and recovery of the agricultural sector in Madagascar, through:

- (a) Increased foreign exchange allocations for imports of key agricultural and rural transportation inputs required for the rehabilitation effort; and

- (b) Better information systems and analysis, leading toward better policy determination and selection of project priorities, particularly with reference to parastatal divestiture.

Amendment No. 2 will provide consultancies, training and commodities toward the achievement of the project purpose.

3. Project Outputs and Inputs

Outputs for MARS Amendment No. 2 include the following:

- (1) Improved production and transport as a result of imported agricultural inputs.
- (2) Parastatal diagnostic studies and action plans.
- (3) Procedures in place for a management information system for agricultural parastatals, along with procedures for divestiture planning.
- (4) Studies and economic analyses completed or underway on specified problem and policy areas related to the private sector's role in agriculture.
- (5) Participants trained and returned to assigned jobs.
- (6) Policy seminars.

Project amendment inputs include the following:

- (1) Commodity import support for new tractors and tractor spare parts, and spare parts for road building equipment.
- (2) Short term participant training, both in-country courses and selected U.S. or third country training.
- (3) Short term consultancies to address critical skills gaps identified by the GDRM, particularly regarding policy dialogue, policy studies, and parastatal management and divestiture.
- (4) Necessary equipment and supplies to complement the consultancies and training, such as computer hardware and software and some office equipment and supplies.
- (5) Local currency counterpart funds in the project budget will be allocated to support:
 - (a) in-country training programs;
 - (b) in-country studies and analyses, particularly participation of local firms in policy studies, and parastatal data collection, information systems, and enterprise studies.
 - (c) a variety of project administrative and logistical support costs.

- (6) GDRM regular budget, which will pay the normal salaries and allowances for personnel associated with the project, whether as management support, counterparts to consultants, or as participants in project activities.

Local currency generated through the commodity import component of this amendment will be deposited in the Special Account for joint programming by AID and the GDRM, according to the local currency use plan set forth in the recent ABS (see Annex 8.d.). That plan includes both PL480 and CIP generations. Of the overall total of CIP generations for the MARS project, it is anticipated that 1-2 million equivalent will be used for a new line for private sector agricultural credit at BTM, to complement IDA-provided foreign exchange credit and technical assistance to BTM. Other CIP generations are likely to support local costs of the 1988 agricultural census; rural farm-mill-market road repair and construction; and other activities related to agricultural rehabilitation and data collection. The emphasis will be on larger funding units.

C. NARRATIVE DESCRIPTION OF ACTIVITIES

1. Commodity Import Component

a. Background

The justification for the CIP component of this amendment is basically the same as that for the FY 86 program. The end use survey for commodities imported under the original MARS Project Agreement, completed in November 1986, reports that commodities are being quickly absorbed by the agricultural and transport sectors. All tractors imported to date have been sold and are being engaged entirely in agricultural production. Approximately 63 percent of tractor sales were to private sector farmers and 37 percent were to parastatals. Of the parastatals served, all were engaged in increasing the agricultural output of Madagascar, productive to the overall economy and level of employment. The report further states that some parastatal agricultural operations are up to 50 percent privately owned. (Annex 8a is a summary of the end use survey.)

Approximately 70 percent of the spare parts imported to rehabilitate road construction and maintenance equipment have directly benefitted the agricultural and rural transport sectors, while the remaining 30 percent benefitted the mining and agroforestry sectors. Spare parts sales were not restricted to any particular sector, but were channeled, as are most commodities imported under AID financed Commodity Import Programs, through commercial marketing systems.

b. Amendment Design

Programming for this amendment, as with the original project and Amendment No. 1, does not favor altering the standard commercial practices of participating importers or otherwise influencing the ways in which resources are channelled. The design acknowledges that, in addition to the private farm sector, certain parastatals are also contributing to Madagascar's overall economic output, and takes into account the nature and marketing methods of the commodities to be financed. The FY 86 end use survey indicates that equipment and spare parts are primarily reaching the intended target sector users under the existing import program structure, without adopting any further specific targeting measures.

Furthermore, spare parts of any type, which account for the major portion of imports, are difficult to target to a particular group of end users, and to monitor under a private sector CIP mechanism, without substantially altering the standard operating procedures of the participating importer. This is a persuasive argument for not attempting to direct commodities such as spare parts exclusively to the private sector. If importers were restricted by this program, in order to participate they would ultimately need to maintain separate inventories, accounting systems, and marketing channels for AID-financed vs. non AID-financed parts, an expensive proposition considering that, in the case of Caterpillar, more than 2,000 separate line items are ordered biweekly, and that staffing requirements to manage such inventories are significant. Likewise, it is naive to assume that retail sales and the end use of \$500,000 to \$1,000,000 worth of spare parts could be effectively monitored to insure that all parts were sold only to a particular group of eligible end users. This Amendment therefore, as with other MARS CIP activities, tries to minimize interference with the commercial practices of the importers, and does not attempt to limit sales of spare parts to a particular target sector.

The FY 87 MARS Amendment will continue to work with two major private sector importers, Ford and Caterpillar, having exclusive distributorships as defined in AID Regulation 1, to import and distribute the total amount of commodities financed under this project amendment. Although Madagascar is not an important market for U.S. products, these firms continue to offer commodities suitable for financing. The existence of such representation makes it feasible for AID to offer a quick disbursing commodity import program. Likewise, the limited availability of AID management staff in Madagascar, without the presence of a full time Commodity Management Officer, continues to be a constraining factor when selecting a commodity mix and method of procurement which can be administered with the least amount of implementation burden.

During project amendment design, the firms were requested to submit their requirements for additional spare parts and equipment needs for the period covered by this amendment. As under Amendment No.1, the demand for foreign exchange continues to be significant. Either one of the major importers could easily absorb the entire amount of foreign currency to be made available under the amendment.

Accentuating the appeal of the MARS CIP activity, the Central Bank's foreign exchange allocation policy will be liberalized in January 1987 to permit open access to foreign exchange reserves by all importers. Major importers such as those participating in the CIP will no longer be guaranteed global access to reserves. Importers of capital goods anticipate that competition for foreign exchange will sharply increase as consumer goods importers begin to apply for foreign exchange allocations. Therefore, as access to foreign exchange becomes more uncertain, a program such as the MARS CIP, which guarantees the availability of foreign exchange to participating importers, becomes even more desirable to those importers.

Using financing available under this MARS amendment, Ford will request allocations to import spare parts to sustain the tractors already financed under MARS, and foreign exchange to purchase an estimated additional 50 small agricultural tractors. The Ford representative supports the design team's view that there remains a critical demand for small tractors in the private sector. Ford currently has more than 20 unfilled purchase orders by private farmers on file, and states that the BTM will provide credit to farmers interested in purchasing tractors, though a lengthy loan processing time is usually involved.

The Ford Tractor Division of the Ford Motor Company in Troy, Michigan announced, on December 1, 1986, that, effective January 1, 1987, the Tractor Division headquarters and manufacturing operations of Ford would be relocated to Great Britain. Therefore, an AID Geographic Code 899 source and origin waiver will be necessary. Based upon the importance of tractor imports to this project, and upon the discontinued availability of U.S.-manufactured tractors, a source and origin waiver is requested and contained in Annex 7 of this paper.

John Deere, the only other U.S. producer of farm tractors (100 HP and larger) represented in Madagascar, previously declined foreign exchange allocations tied to U.S.-manufactured equipment because of the high cost of producing small tractors in the United States appropriate for Madagascar. However, it is likely that John Deere will now request an allocation of foreign exchange to import small John Deere tractors, produced outside of the United States. If John Deere wishes to participate, the prime implementing ministry, the DGP, in granting foreign exchange allocations under the grant will be required to determine if funds are sufficient to permit allocations to each distributor. However, considering the small quantity of tractors which could be imported with the available foreign exchange if divided, and the cost effectiveness of providing the entire allocation to a single importer, it is unlikely that financing would be split. Furthermore, it is assumed that a single importer could pass on the cost savings to the end users achieved by ordering and shipping in large quantities, and that one importer would be in a better position to stock larger quantities of spare parts.

Ford does not wish to import additional quantities of light weight farm-to-market agricultural transport vehicles under this amendment since the first trucks financed under MARS (Amendment No. 1) will not have arrived in Madagascar until the first or second quarter of 1987. Therefore, imports to be financed under this amendment do not include transport vehicles. However, Ford feels that they must have a small amount of foreign exchange available at all times in order to provide spare parts over the long term to the clients who have purchased and will be purchasing tractors. The actual breakdown between tractors and spare parts will be finalized once allocations are requested by the importers. The end use evaluation report indicates that, to date, Ford has provided responsive servicing to original clients, offering spare parts delivery in the field and direct to the client's place of operation.

In view of the relatively small amount of foreign exchange available under this amendment for commodity imports, Caterpillar has requested that the entire quantity of foreign exchange be allocated to procure spare parts. After-sales customer service continues to be Caterpillar's highest priority.

Since the final cost of the Namakia bridge was below budget, \$159,360 in foreign exchange from MARS is now available for reprogramming. The design team felt that these funds should be allocated to the CIP component. The following table shows the current breakdown between commodities, assuming that an additional \$1,175,000 is provided for the CIP component under Amendment No. 2.

<u>Commodity</u>	<u>MARS</u>	<u>MARS A1</u>	<u>MARS A2</u>	<u>Total</u>
Tractors	\$ 958,150		\$ 524,000	\$1,482,150
Tractor parts	300,000	100,000	50,000	450,000
Ford trucks/parts		1,300,000		1,300,000
Caterpillar parts	2,200,000	400,000	760,360	3,360,360
Caterpillar equip.		374,000		374,000
Namakia Bridge	<u>842,490</u>			<u>842,490</u>
Totals	\$4,300,640	\$2,174,000	\$1,334,360	\$7,809,000

The DGP, as the prime implementing ministry, ultimately allocates foreign exchange between importers and can shift resources as needed during implementation, with AID approval. However, final distribution between importers under MARS original project and MARS Amendment No. 1 did not vary significantly from plans envisioned in the respective Project Agreements. This was due primarily to early participation by the importers as designs were being developed. Since Amendment No. 2 has been designed in a similar fashion, it is anticipated that the allocations between the participating importers found in the table above will not be changed significantly once implementation begins.

The relatively even division of foreign exchange provided by this amendment between the two participating importers was based upon three primary considerations: (1) information contained in the 1986 end use evaluation which indicates that both tractors and spare parts for road maintenance and construction are making significant contributions to the rehabilitation of the agriculture and rural transport sectors in Madagascar, (2) each participating importer has equally large requirements for foreign exchange and could absorb considerably more foreign exchange than is provided by the existing CIP, and (3) any further reductions in the quantity of foreign exchange to be provided to either importer would make the program less attractive and would reduce the economies of procurement (i.e., cost savings to Ford and end users when contracting for a manufacturing production run of 50 vs. 10 tractors, freight cost savings, etc.).

This amendment is partially funded using ESF and has thus been designed to comply with Section 801 of the FAA. The discussion below relates to this section of the FAA and to the continued implementation of this project.

1. Spare parts and other imports shall be allocated on the basis of evaluations, by the Agency primarily responsible for administering Part I of the act, of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating and cost effective way.

The farm tractors and spare parts to be funded under the Amendment are critically needed by the agriculture sector in order to increase agricultural production and farmer access to inputs and markets through road improvement in rural areas. A recent end-use evaluation confirms the productive and employment-generating impact of previous imports under this program; the FY87 import allocation is fully consistent with evaluation findings.

2. Imports shall be and have been coordinated with investments in accordance with the recipient country's plans for promoting economic development.

AID has assessed these plans during preparation of the CDSS and determined that they will effectively promote economic production by directly benefitting the agriculture sector. The tractors and spare parts will be used to increase agriculture production similar to bi-lateral PL480 self-help programs and World Bank assistance already underway in Madagascar.

3. Emphasis shall be placed on imports for agricultural activities which will expand agricultural production for export or to reduce reliance on imported agricultural products.

The 1986 end use evaluation reported that tractors and spare parts imported under previous MARS CIP components contributed directly to increased agricultural production primarily for internal consumption and to some extent for export. Effects on export will not, however, have significant impact on any competing U.S. exports. Additional imports of similar commodities will also achieve like results.

4. Emphasis will be and has been placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions.

Commodities to be imported under this amendment will primarily serve the agricultural sector, although the transport sector will benefit to the degree that roads are constructed and maintained by equipment rehabilitated from imported spare parts. The equipment and spare parts to be imported under this CIP activity will be available through commercial marketing channels to all areas of the country. The 1986 end use evaluation reported that tractors imported under original MARS financing were distributed to five of the six provinces of Madagascar, while spare parts for road maintenance equipment are used in all parts of the country.

5. In order to maximize the likelihood that the imports financed by the United States are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses.

Using existing U.S. supplier importer relationships, the project will permit the importation of production-related items which have been unavailable in the past due to severe foreign exchange shortages. For example, Ford had not imported new farm tractors for over seven years prior to the introduction of this project.

6(a) Foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (b), shall be made available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of Section 102 of the Foreign Assistance Act of 1961 and which are the types of activities for which assistance may be provided under Sections 103 through 106 of that Act.

The project has established a special account and uses of counterpart funds from that account are controlled by application of the criteria agreed to under the self-help provisions of PL480, which are aimed at supporting agricultural production and which are the types of activities which could be funded by Sections 103 to 106 of the FAA.

6(b) The agreement will require that the government of the country make available to the United States Government such portion for the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

In 1986 the project established a Trust Fund in accordance with the Grant Agreement which contains \$245,000 in local currency equivalent from revenues to be generated from commodity imports. An additional \$118,000 in local currencies from CIP counterpart will be added to the Trust Fund under the Amendment to the Grant Agreement for FY87 funds.

c. Project Support Commodities

A small quantity of funds will be made available for financing two microcomputers, updated systems software and replacement parts for existing computer equipment previously purchased under the project, and some office equipment and supplies. One microcomputer will be for the use of the Malagasy consulting firm providing technical support for parastatal divestiture under contract to the DGP using counterpart funds. The other microcomputer is for the use of MPARA units implementing parastatal monitoring.

All technical project support commodities will be purchased directly by USAID/Antananarivo, and are not a part of the private sector importer component. Procurement will be initiated by PIO/C's and contracting will be implemented by direct AID contracting procedures.

2. Technical Assistance/Training

a. Policy Dialogue

Under MARS Amendment No. 2, the project will continue to help ensure the success of Madagascar's liberalization program in the agricultural sector, especially the rice sub-sector, by providing support for a third year (1988) of continued AID/GDRM policy dialogue. Seminar organization has been funded through a project-supported buy-in to the S&T/AGR APAP (Agriculture Policy Analysis) Project, involving Abt Associates, with the senior economic advisor under subcontract to Abt Associates.

This activity was first undertaken in 1986. Products in that year included: (1) a 2 1/2 day seminar in Antananarivo on "Instruments of Agricultural Policy Analysis", (2) a report on GDRM "Agricultural Policy Reform" by Dr. Elliot Berg, based on 16 days of consultations and site visits in Madagascar, and (3) an inventory of documentation on Madagascar's agricultural sector (studies, evaluations, research reports). The 1986 seminar, facilitated by Dr. Berg, Abt Associates, and Dr. Brian Ngo (a consultant familiar with Asian policy reform experience) was designed to: (1) introduce Malagasy decision-makers to other developing countries' experience in agricultural policy reform, (2) provide a forum for open discussion of Malagasy experience in implementing rice price liberalization and other reforms, and (3) identify next steps in Malagasy reform for further study. During the September 1986 evaluation of the MARS project, it was found that the seminar had been less successful than anticipated because the high level of Malagasy decision-maker targeted had not been reached, for the most part. Most participants' level of responsibilities focussed more on policy implementation than policy-making; they would have preferred a longer seminar with a more participatory format, and more presentations geared towards solving specific policy implementation problems. On the other hand, the seminar was successful in that it "broke the ice" on formal U.S./Malagasy agricultural policy dialogue in an open forum setting.

In spring of 1987, MARS Amendment No. 1 will fund study tours in Asian countries for 3-4 high level decision-makers, who will participate in the second agricultural policy seminar planned for June 1987. The study tours will expose selected GDRM policy-makers to Asian agricultural policy reform examples with a rice focus. Drs. Berg and Ngo will prepare papers for distribution before the seminar and seminar presentations commenting on and reacting to the papers which will be prepared by returned participants on reforms undertaken in Asia. In addition, during the same visit, informal settings (dinners, private conversations) will bring Drs. Berg and Ngo together with GDRM Ministers and Secretary Generals for exchanges of views and discussions of policy alternatives. The seminar itself will target the needs of those involved in policy implementation at the middle management level, recognizing that participation by higher-level policy-makers will probably be limited to keynote addresses by study tour participants; and it will examine and discuss the comparative experience of other rice-based agricultural sectors. All seminar papers will be distributed to seminar participants and heads of relevant ministries in advance, to allow more time to be spent on interaction between facilitators and participants, rather than formal presentations. A summary report will be prepared by conference facilitators, in collaboration with the DGP, for wide distribution within

relevant ministries. Dr. Berg's scope of work for 1987 will include production of an update to his January 1986 report, in a format for public distribution. The 1987 policy seminar is expected to assess the impacts of rice price and market liberalization to date, and to discuss what adjustments or new policy reforms are needed to motivate producers and increase national rice production.

Amendment No. 2 will fund three activities: (1) a return visit in June 1988 by Dr. Elliot Berg, or a first visit by another senior, French-speaking, U.S. economic policy advisor of international standing; (2) a third annual agricultural policy seminar or workshop for those involved in policy implementation; and (3) study tours. Logistical support for the 1988 seminar will be provided by a Malagasy consulting firm, under project-funded local currency contract with DGP.

It is expected that the senior advisor will produce an update of Dr. Berg's June 1987 assessment of Madagascar's progress in agricultural policy reform, as a report for public distribution. The 1988 agricultural policy seminar is expected to focus on the role of the private sector in providing agricultural services. Some presentations could be based upon the findings of the MARS-funded private sector studies which are scheduled for completion by April 1988. Also, study tours (funded under this amendment) will be held in spring of 1988 and will expose Malagasy decision-makers to private sector policy reforms in agriculture in other LDC's. These study tour participants will play key roles in the seminar. Topics for seminar discussion will include the regulatory and credit sector reforms needed to foster increased private sector participation in the distribution of agricultural inputs (seeds, fertilizers, etc.), and expansion of private sector agro-processing, warehousing, farm-to-market transport, and construction in support of agricultural production and marketing. Since the BTM/IBRD/AID project to expand private sector agricultural credit is likely to be underway by that time, presentations and debate may also initiate dialogue on policies needed to establish private sector banking for agriculture in Madagascar. If appropriate, based on AID/CDRH progress in developing action plans for agricultural parastatal divestiture, the 1988 seminar could also include presentations and debate on alternative forms of whole or partial parastatal divestiture based on experience elsewhere in the developing world.

The 1988 update of the inventory of Malagasy agricultural sector documentation will be prepared by a local consulting firm as an annex to the 1986 APAP inventory. The update will include: (1) an alphabetized bibliography of all new agricultural documentation about Madagascar produced during the preceding two years, categorized by theme heading (using the original APAP classification system), and document location; and (2) an abstract of each document.

b. Parastatal Divestiture

(1) Summary

Efforts with agricultural parastatal divestiture, an important component of the MARS project in its amendment phase, were initiated under the FY 1986 Amendment, and will be continued through Amendment No. 2, in close collaboration with the World Bank and its Second Agricultural Institutions Development Project. The objectives of the parastatal divestiture component of MARS are:

to produce parastatal diagnostic studies and action plans for divestiture for parastatals selected jointly with the GDRM;

to produce a set of procedures for agricultural parastatal assessment and divestiture planning.

to strengthen capacity within the two agriculture ministries to analyze and monitor parastatal performance in the agricultural sector;

The program has been implemented to date (using Amendment No. 1 funds) through the REDSO/ESA Indefinite Quantity Contract for parastatal divestiture with Coopers and Lybrand. Short term consultants will advise MPARA and MPAEF in methods of more effective monitoring of agriculture sector parastatals, and will also provide experts to complete diagnostic studies and action plans for parastatals chosen as candidates for divestiture. Local firms will play a key role in working along with international firms contracted by AID to provide technical assistance, and local organizations will assume significant in-country training responsibilities. Funds are included for related U.S. or third-country short-term training, and a modest amount of project support commodities. Annex 8b is a description of the parastatal divestiture activity as reviewed and approved by the GDRM.

Activities began in September 1986, with an initial consultancy to draft a preliminary scope of work for the first phase of the program. That draft has been reviewed by the GDRM and revised based on their comments and those of IBRD. Initiation of Phase I activities began in January 1987. Phase I, which corresponds for the most part to Amendment No. 1 funding, is likely to be completed by August 1987. This amendment provides funds for Phase II completion of the activity. Phase II is scheduled to for September 1987 through December 1988. It is important that the time allotted to complete the parastatal divestiture component of MARS be adequate to involve the GDRM in each stage and ensure agreement and support to proceed to the successive stage.

(2) Context

The World Bank Second Agricultural Institutions Development Project is a \$12 million project which supports a series of institutional reforms in GDRM agricultural institutions and parastatals. AID has agreed, because of our special interest in parastatal divestiture, to provide the expertise, training and commodities described in detail below (and in the budget table). The funds provided under MARS Amendment No. 1 correspond to the first year of effort under the World Bank project, which began in April of 1986. The funds provided under this amendment are adequate to cover the final two years of the three-year effort, which is intended to include definition and implementation of a parastatal monitoring system for MPARA and MPAEFF, and parastatal restructuring. AID's financing is separate from World Bank financing, but supportive of overall World Bank project objectives.

Design of the parastatal divestiture component for Amendment No. 2 has also taken into account the importance that reform of the overall parastatal sector in Madagascar has recently assumed in the World Bank program for the country, as a part of the World Bank-IMF structural adjustment operation. The Amendment design team met in December 1986 with World Bank representatives, including members of missions assembling preliminary plans for activities in the parastatal sector. Discussions were held to ensure that AID's parastatal divestiture activities complement, and to the extent feasible, provide information of use to, the Bank's efforts.

As currently anticipated, the Bank's global parastatal activity will include a group of some 100 public enterprises in Madagascar which are involved in production (rather than parastatals involved in service provision, for example). The World Bank will provide technical assistance for data collection and classification of parastatals, which will lead to recommendation and a general plan for the disposition of each enterprise (e.g. partial or complete divestiture, retention, closure or restructuring). The Bank will also assist the GDRM to revise and rationalize government-wide parastatal monitoring. The latter may involve support for a centralized institution to liaise with monitoring units in the sectoral ministries.

Appraisal of the World Bank global parastatal activity is likely to begin in the first half of 1987. If carried out as now anticipated, it is likely to overlap with much of the AID-funded activity. It was agreed that AID's agricultural parastatal activity would provide a data base of use to the larger effort, and that in conducting the global survey and classification, the IBRD would exclude agricultural parastatals included in the AID list of 50 enterprises. (The MARS-funded activity will examine approximately 50 parastatals, not all of which are included in the IBRD list of 100). It was also agreed that communication would be maintained as to the timing and progress of activities on each side, and that teams would collaborate, as appropriate, in the development of classification systems and analytical techniques to be employed. However, it is important to emphasize that AID will not address institutional issues regarding relationships between monitoring units, nor the relationships between monitoring units and parastatals, but will leave these issues to the World Bank. AID support for monitoring will be limited to technical assistance in identifying performance indicators, methods and procedures for monitoring, and technical on-the-job and in-country training for relevant staff in establishment of data systems, including training of parastatal staff in application of Madagascar's new accounting framework.

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During the design of Amendment No. 2, a separate IBRD industrial analysis team was also in Madagascar to initiate in-depth studies of 15 parastatals selected by the IMF/GDRM for immediate attention based on their high level of indebtedness. The Amendment No. 2 design team also met with members of this IBRD team. A separate credit is likely to be negotiated to assist with the restructuring of these parastatals, and this action may proceed more quickly than the IBRD global parastatal effort. AID will continue to coordinate with this IBRD initiative, though AID's parastatal studies and action plans are more linked to the global IBRD parastatal program than to this industry-specific effort.

(3) Detailed Activity Description

(a) Studies and Action Plans

The following activities will be carried out in sequence, with the first two included in Phase I, and the third included in Phase II. Consultants provided through AID/W or REDSO/ESA IQC, along with counterpart Malagasy consulting firms, will work with the appropriate units in the two agriculture ministries with oversight functions, in order to select and analyze parastatals. This will involve on-the-job training, as Ministry staff participate in all aspects of the effort, as well as selected in-country and external training. For example, a seminar may be held to discuss project objectives and steps toward divestiture to be considered. Some external short term training will be funded, as needs are identified, in such areas as financial management, information systems, and marketing, or other topics.

1. Data Collection and Classification: Phase I is to begin with collection and classification of existing data on the agricultural parastatals. The parastatals will be classified according to their position (e.g. function; current status; ownership; quantity and quality of financial data; turnover, losses, debt/equity position; and viability), and a categorization will be made as to whether a particular parastatal performs:

Functions that should operate on a commercial basis, and could do so within the private sector;

Functions that probably should be discontinued;

Functions that could be realigned or consolidated but would remain in government control; and

Functions(s) which should remain in the control of the government, such as providing a service to the population for which there is no alternate means of provision.

Criteria will be developed and about five enterprises which are potential candidates for some form of divestiture will be selected jointly with the GDRM. These criteria are likely to include, for example, foreign exchange earnings, export orientation, and growth potential.

2. Diagnostic Studies/Corporate Plans: For each of the approximately five selected enterprises, a corporate business plan will be developed, which will include financial and market analysis; structure and ownership; management capacity and personnel; enterprise objectives; and, assessment of legal, administrative, human resource, technical, organizational, marketing and other issues which will have to be resolved in order to meet these objectives. Conduct of these diagnostic studies will form the heart of this first phase of MARS parastatal divestiture activities, and will result in studies from which decisions can be reached with government concerning next steps.

3. Action Plans for Divestiture: The second phase will continue from this point and, based on the results of the business plans already developed, steps leading to divestiture will be identified for selected enterprises. The final selection may or may not include all of the five for which action plans have been completed. Work will include:

Review of domestic and foreign sources of capital and management. These could include domestic and foreign capital investors and the incentives and disincentives to corporate investment; individual and institutional sources of savings potentially available for investment; methods of mobilizing savings; and types of securities likely to attract private investors, and ways of promoting them.

Assessment of the most appropriate mode of privatization for each enterprise, and method of divestiture most appropriate to the type of capital resources already identified. This would include assessment of the relevance of options such as divestiture of the entire enterprise; divestiture of minority shareholding; divestiture of profitable subsidiaries and/or particular assets of enterprises; divestiture of packages of profitable and unprofitable business units.

Policy and legislative measures needed to overcome obstacles in each case, including any enabling legislation and possible fiscal and administrative actions.

Identification of potential investor groups both within Madagascar and outside.

Definition of supplementary measures (e.g. new technologies, management strengthening, new investment) to ensure the success of each divestiture, and establish the basis for long-term performance improvement. These could include: new investment, new technologies and products, strengthening top management; restructuring corporate finances.

The results will be synthesized in detailed action plans for divestiture. The action plans will set forth tasks to be accomplished for each enterprise and background information as a guide to the eventual next phase, the actual divestiture. If appropriate, the following will also be discussed: the "de-linking" mechanism, i.e., the formation of an intermediate holding company with private management; development of incentives both to ultimate shareholders and intermediaries and of management and employee share schemes, including ideas on taxation and incentives; development of innovative financial instruments. (Based on agreements reached with MPARA and MPAEF, the design team and the World Bank project manager, funds to assist MPARA and MPAEF conduct studies of up to 4 parastatals that will remain wholly in government control will be provided from the World Bank Second Agriculture Institutions Development Project.)

In addition, the external consultants will be asked to provide a manual outlining procedures to be followed in Madagascar to systematically assess parastatals and their divestiture options, conduct diagnostic studies and prepare action plans. This manual will be suited to the overall divestiture effort in Madagascar.

(b) Monitoring System/GDRM Portfolio Management

A second set of activities will parallel the collection of data and the preparation of studies and plans. This will involve application of findings to the design of standardized systems of financial reporting and performance (and selected technical) monitoring for parastatal enterprises. Such systems will be a required step if the Ministries are to continue to make rational, informed decisions regarding moves toward divestiture for the enterprises in their respective portfolios not included in the previous studies.

Part of the initial data collection and analysis for each of the parastatals will include current quality and quantity of data, accounting procedures, and skills of staff in relevant Ministry units and parastatals, including reporting capacity. Also, by conducting the initial stages of analysis of parastatals, prior to selection of the five for further study, the IQC consultants will have a clear idea of appropriate indicators of performance for the parastatals. At the end of Phase I, the IQC consultants will propose appropriate information systems for management of the portfolio of enterprises under the responsibility of MPARA and MPAEF. Such systems will be based upon identified needs of the two Ministries, and reporting capacity of enterprises. Project consultants will outline performance indicators for agricultural parastatals, steps required to establish the systems, and constraints which must be addressed (technical skills, data collection, software) in order to put such systems into place.

During Phase II of the MARS parastatal divestiture activity, the monitoring systems will be established within MPARA and MPAEF. Phase II will emphasize on-the-job training and essential in-country training, and some external short term training, if necessary, in order to assist MPARA and MPAEF to set up procedures to receive and analyze key performance indicators from the parastatals. The content of in-country seminars will be defined following definition of needs, above. Participants are likely to include middle-level personnel in the two Ministries and in key parastatals selected by the Ministries. Such seminars will be arranged and conducted by a local consulting firm or firms, with the participation of external advisors, if necessary.

Another important activity intended to strengthen reporting and monitoring, also part of Phase II, will be a training program for accountants from selected agricultural parastatals. A new commercial accounting system is to be put into place in Madagascar in 1987, and agricultural parastatal staff need to be trained in its use, as well as in the types of reporting required by MPARA and MPAEF for their monitoring systems. A local Malagasy firm (specializing in accounting) will assess training needs, develop the curriculae, and plan the courses. Courses will be conducted by a Malagasy training institution or consulting firm through tutorial on-the-job training using project counterpart funds. External consultants will provide oversight and technical assistance to develop, arrange for, and implement the program.

At the end of Phase II, systems for parastatal portfolio management will be in place within the two Ministries, including standardized financial reporting and monitoring of key performance indicators, and Ministry and parastatal staff will be trained to provide regular information and incorporate it into the management information systems.

(4) Counterpart Funds Support

Counterpart funds will be used to fund local contracts for implementation of several key aspects of the parastatal divestiture activity. Logistic and technical support will be provided the IQC consultants by a Malagasy firm specializing in accounting, auditing and management consulting. The selected firm will provide a base in Madagascar for the external consultants' participation in the MARS project. This local support will include: (1) logistic, administrative, and secretarial arrangements (including in-country travel payments and arrangements; expediting international arrivals and departures; transportation; office space); (2) 3 or 4 appropriately-qualified technical staff to work collaboratively with the IQC consultants when they are in Madagascar and assist with data collection/analysis and training activities; (3) as needed for particular activities, technical staff to work on studies or assist with establishment of the monitoring systems, during those periods when the IQC consultants are not in the country. The local firm will be involved in all activities undertaken for parastatal divestiture but will play a particularly important role with reference to establishment of monitoring systems.

In addition, local firms will be contracted to plan and conduct in-country seminars, in collaboration with external consultants, and a local training institution with appropriate expertise may be engaged to mount the program of accounting training discussed above, if tutorial consultancies are determined to be insufficient to meet parastatal training needs.

c. Private Sector Studies

Studies funded to date by the World Bank and AID indicate that, beyond rice price liberalization and elimination of parastatal rice purchasing monopolies, a number of private sector services must be upgraded to intensify rice yields per hectare, to minimize post-harvest rice handling costs and losses, and to increase the efficiency of market access and sales distribution throughout Madagascar. Not enough is known about the financial, social, and economic structure of private sector businesses in the following key rice-related services: (1) import, distribution, and sale of fertilizer to rice producers; (2) seed multiplication, distribution and sales; (3) small farm equipment production and sale; (4) rural road construction and repair; (5) farm-mill-market rice transport; (6) rice hulling and milling; (7) warehousing; (8) construction and repair of irrigation facilities; and (9) low cost energy efficient cook-stove manufacture for food preparation.

Funding for private sector studies is provided in this amendment to develop a profile of private sector structure, trends, opportunities, and constraints in these seven key rice-related services. These studies are expected to clarify what, beyond price and marketing liberalization (as supported by AID's Food for Progress Program) and long term testing and dissemination of improved rice germplasm (supported by AID's grant to the International Rice Research Institute), is needed to stimulate increased rice yields per hectare, and decreased inequities and inefficiencies in market access and sales to consumers. The studies will produce a profile of private sector participation in each of these rice-related activities, and will specifically investigate the relative importance of credit, regulatory policies, social and geographic factors, infrastructure, business advisory services, and other possible constraints to increased private sector participation in these services.

Study methodology will include an inventory of private businesses, categorized by number of employees, scale of economic activity, and geographic region, supported by in-depth interviews of a sample of businesses active in each type of service, categorized by size of enterprise. The consultants will develop recommendations for AID or other donor interventions on the basis of these studies, including suggestions for dialogue with the GDRH on regulatory reform (e.g. related to import, quarantine, licensing, etc.), lending policies and credit availability, external technical assistance and local business advisory services, infrastructure development priorities, and other parameters as appropriate.

Equator Advisory Services, a U.S. consulting firm under subcontract to ISTI (an 8-A firm), will provide a consultant during February 1987 to develop the detailed terms of reference for these studies, with the assistance of a local consultant provided by USAID contract. It is anticipated that an AFR/PRE or PPC macroeconomic IQC firm will then be asked to undertake the studies. Approximately 15 person months of technical assistance will be required, with the studies to be completed by April 1988. Local logistical and research support will be provided by a Malagasy consulting firm funded by local currency project funds. Annex 8c provides additional background for this activity.

The private sector reports produced by this project component will be distributed to other donors, and follow-up meetings will be convened to coordinate donors' involvement with private sector businesses in rice-related services. For example, UNIDO is developing a project to establish a "Business Services Bureau", to be staffed with internationally experienced specialists who will be available to advise individual entrepreneurs in need of business development services. In addition, AID, IDA and the GDRM are currently negotiating a proposed line of agricultural development credit, to be made available to the private sector through BTM, a local agricultural development bank. The equivalent of \$1-2 million in local currency from CIP generations or PL 480 counterpart will be programmed by AID with the GDRM; IDA would provide foreign exchange loan funds, technical assistance, and training for BTM loan officers. The MARS studies are expected to define the private sector credit needs of small and medium size enterprises active in rice-related services, and to identify initial loan candidates for consideration.

III. COST ESTIMATE AND FINANCING PLAN

Financing for MARS PP Amendment No. 2 is drawn from three sources:

1. AID grants from Development Assistance (\$1,000,000) and ESF Appropriations (\$975,000), totalling \$1,975,000. Of the total, \$800,000 from Development Assistance funds will be project assistance for technical assistance, training and project equipment. The remaining \$1,175,000 will be program assistance for commodities to be funded from Economic Support Fund (\$975,000) and Development Assistance (\$200,000).
2. GDRM regular budget resources, totalling \$37,800 equivalent.
3. Local currency counterpart generated by the commodity import program (previous years), totalling \$485,000 equivalent.

The host country contribution totals \$522,800, or 51 percent of the project funding which is provided from the Development Assistance account for this amendment.

Funding calculations are for a twelve month period, with the exception of the parastatal divestiture technical assistance and training, which is calculated for a 20 month period. No inflation factor has been applied to budget, including the parastatal divestiture component, since most of the activities will be initiated within 12 months of obligation. All direct project funds are expected to be committed within 17 months of signature of the Grant Agreement, in the case of the parastatal divestiture component, and within 10 months for the remaining activities. Use of funding in the project will be for procurement of commodities, consultants and training, as well as associated costs of these activities.

Table II indicates the source and application of all financial resources, both financial and in-kind. Table II indicates the use of \$800,000 AID funds and \$522,800 of GDRM financing for the technical assistance and training components of the project. The proposed expenditure of the remaining \$1,175,000 is also shown in Table II. A contingency item is included for the technical assistance and training. No contingency is applied to commodity procurement, as the intention is to apply the available funding to as much equipment and spare parts as can be procured, and not to procure any set number. Funds in the amount of \$159,360 available for reprogramming from Namakia Bridge have been added to the commodity import component.

It should be noted that the commodity import component will generate local currency equivalent to \$1,175,000 which will be deposited into a special account. As these funds will only be available in the latter part of the project, they are not considered an element of the project financing plan. Local currency counterpart funds to be applied to project activities are to come from previous years' CIP generations. USAID/Madagascar programming of the commodity import local currency generations will be conducted according to the existing local currency use plan, as set forth in the FY 1988 ABS. The use plan incorporates both PL480 and CIP generations.

The equivalent of \$113,000 of local currency generations generated by the MARS project to date will be added to the local currency equivalent of \$245,000 previously reserved in the USAID Trust Fund. Management and utilization of the Trust Fund will be in accordance with standard AID procedures and Trust Fund agreements signed by USAID and the GDRM.

Table III shows the total project costs including both the original MARS Project and the two amendments. Table IV shows the costing of project activities for this amendment. Table V summarizes the financial status of the MARS project to date.

Table II
MARS Amendment

\$'000/
\$'000 equiv.

ITEM	UNIT	AID FX	GDRM Reg.Bud.	GDRM CTPT
I. CONSULTANCIES^{1/}				
Policy Dialogue	3 pm	75.0	6.0	38.0
MPARA parastatal studies	7.5pm	112.5	5.0	75.0
MPARA monitoring	4.5pm	67.5	11.0	90.0
MPAEF parastatal studies	7.5pm	112.5	4.4	75.0
MPAEF monitoring	4.5pm	67.5	7.0	90.0
Private Sector studies	15 pm	150.0	---	35.0
Eval/ audits	4 pm	30.0	---	---
Sub-total		615.0	33.4	403.0
II. TRAINING^{2/}				
MPARA	2 pm	20.0	1.0	25.0
MPAEF	2 pm	20.0	1.0	25.0
Study tour (policy)		45.0		
Sub-total	4 pm	85.0	2.0	50.0
III. COMMODITIES				
Office equipment ^{3/} (copiers, calculators, typewriters)		25.0		
Micro-computers (IBM) (AID)	1	10.0		2.0
MPARA	1	10.0		2.0
Upgrade existing IBM		6.0		
Sub-total		51.0	---	4.0
Contingency (I,II,III)	@ 6-7%	49.0	2.4	28.0
TOTAL (Consult/Training):		800.0	37.8	485.0
IV. COMMODITY IMPORTS				
Tractors		574.0		
Caterpillar spares		601.0		
Sub-total		1,175		
GRAND TOTAL		1,975	37.8	485.0

^{1/} Costs per pm based on past costs for policy dialogue and parastatal activities, and IQC estimate for private sector studies.

^{2/} Cost includes transport, subsistence and course costs.

^{3/} Office equipment, \$10,000 for MPARA, \$10,000 for MPAEF and \$5,000 for DGP.

TABLE III
MARS (687-0101)
OVERALL PROJECT COSTS
ORIGINAL AND AMENDMENT

\$'000 &
\$'000 Equiv.

COMPONENT	ORIGINAL		AMENDMENT 1		AMENDMENT 2		TOTAL	
	FX	LC	FX	LC	FX	LC	FX	LC
CONSULTANCIES	265	55	380	77	615	403	1260	535
PERSONNEL		36		19.2		33.4		88.6
TRAINING	140	54	103	33	85	52	328	139
COMMODITIES	91		145		51	4	287	4
COM. IMPORT COMPONENT	4460	1000	2174		1175	-	7809	1000
CONTINGENCY/ INFLATION	44	17	42	13.1	49	30.4	135	60.5
TOTAL	5000	1162	2844	142.3	1975	522.8	9819	1827.1

TABLE IV
COSTING OF PROJECT ELEMENTS
(In \$000 or equivalent)

Project # 687-0101

Title MARS (Amendment No. 2)

Funding Source	Project Elements*				TOTAL
	# 1	#2	#3	#4	
1. AID	1175	655	91	54	1975
2. GDRM regular budget	-	35.7	2.1	-	37.8
3. Local currency	-	428	53	4	485
<u>TOTAL</u>	1175	1118.7	146.1	58	2497.8

- *#1 - commodities procured
- #2 - consultancies provided
- #3 - trained personnel
- #4 - equipment

TABLE V

MARS (687-0101)
FINANCIAL STATUS

<u>Elements</u>	<u>Earmarks</u>	<u>Commitments</u>	<u>Disbursements*</u>	<u>Balance</u>
<u>Technical Assistance</u>				
Original	340,400	174,789	133,559	206,841
Amend. #1	32,000	22,326	-0-	32,000
Total	372,400	197,115	133,559	238,841
<u>Training</u>				
Original	102,147	52,147	42,043	60,104
Amend. #1	-0-	-0-	-0-	-0-
Total	102,147	52,147	42,043	60,104
<u>Equipment</u>				
Original	77,393	77,393	69,599	7,794
Amend. #1	122,000	89,475	-0-	122,000
Total	199,393	166,868	69,599	129,794
<u>Commodities</u>				
Original	4,300,640	4,300,640	1,976,948	2,323,692
Amend. #1	2,174,000	2,174,000	-0-	2,174,000
Total	6,474,640	6,474,640	1,976,948	4,497,692
<u>Project</u>				
Original	4,820,580	4,604,969	2,222,149	2,598,431
Amend. #1	2,328,000	2,285,801	-0-	2,328,000
Total	7,148,580	6,890,770	2,222,149	4,926,431

Source: RFMC, Nairobi

* Technical Assistance, training and project support equipment as of 2/13/87. Commodities, as of 10/31/86, (W-214.)

IV. IMPLEMENTATION PLAN

A. Commodity Import Component

Commodities financed by A.I.D. under this Project Amendment shall have their source and origin in the Cooperating Country or in the United States except as A.I.D. may otherwise agree in writing. Source and origin waivers are included to procure tractors and tractor spares, and Caterpillar spare parts, from Code 899, along with a waiver of supplier nationality for caterpillar spare parts (Annex 7). Procurement under the commodity import component of the Project Amendment will be carried out in accordance with A.I.D. Regulation 1. Although this activity is a project, the procedures of A.I.D. Regulation 1, normally associated with Commodity Import Programs, will apply. Thus, Commodity Procurement Instructions (CPIs) and Financing Requests (FRs) will be used in place of PIO/Cs. The justification for using A.I.D. Regulation 1 procedures is that all of the imports will continue to be imported by the private sector under exclusive distributorships with U.S. manufacturers, thereby making A.I.D. Regulation 1 more appropriate than Chapter 3 of Handbook 11.

Detailed import procedures and requirements for depositing local currency were developed by the implementing ministry during the first phase of MARS, and will continue to be followed by the importers, the Ministry of Commerce and the Central Bank.

CIP local currency generations will be programmed jointly by AID and the GDRM, in accordance with USAID/Madagascar's local currency use plan as set forth in the recent ABS (See Annex 8.d.).

B. Technical Assistance/Training

For those activities identified in the following implementation schedule as USAID activities, USAID/Madagascar will be responsible for developing Terms of Reference for such consultancies and training. In most cases the technical content of the terms of reference will be developed by the cognisant technical officer from REDSO/ESA with USAID/Madagascar's responsibility one of completing the PIO/T or PIO/P and providing the in-country logistic support. This procedure will be especially important for implementation of activities of the parastatal divestiture component, which will be implemented using AID/W and/or REDSO/ESA IQC's.

As in prior years, it is likely that policy dialogue activities will be funded through the S&T/AGR APAP (Agriculture Policy Analysis) Project. Alternatively, one of the PPC Macroeconomic Policy IQC firms could provide these services. For those activities identified in the following implementation schedule as AID/W actions, USAID/Madagascar will forward proposed scopes of work to the relevant backstop office (in the case of APAP, S&T/AGR).

Regarding the methods of financing implementation, the following chart provides a brief summary.

<u>Type of Assistance</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Amount</u>
Technical Assistance	PIO/T; AID Direct Contract	Direct Payment	\$ 655,000
Training	PIO/P; Direct placement in 3rd country or U.S.; PIO/T for Study Tour-Direct Contract	Direct Payment and Credit Transfers	\$ 91,000
Equipment	PIO/C; Purchase Order	Direct Payment	\$ 54,000
Total			\$ 800,000
Commodity Import	Direct L/Comm by AID/W	Direct Pay by AID/W	\$1,175,000

Regarding the requirements for adequate auditing procedures, this project makes no special provision for funding audits. In view of the fact that the large majority of actions are direct pay by AID, special audit provisions should not be necessary. Vouchers submitted by contractors should contain sufficient documentation to permit AID to determine that services were provided and goods received. Commodity procurement procedures, as provided for in AID Regulation 1, also provide adequate safeguards to preclude requirements for special audits. Finally, the procedures for the utilization of local currency generations were reviewed in November 1984 by AID and found to be adequate for audit purposes.

C. Implementation Schedule

For the commodity import component, following the signing of the Project Agreement Amendment, an implementation letter will be sent enclosing commodity procurement instructions and sample financing requests (FRs). The FRs will serve as the requests to AID by the prime implementing ministry, the DGP, for AID to issue financial instruments to participating suppliers. AID/W will then issue direct letters of commitment against the financing requests and the supplier/importer sales agreements. Formal contracts will not be necessary as the procurements will all take place under the special supplier - importer relationship described in Section 201.23(e) of AID Regulation 1.

The following implementation schedules are for activities under Amendment No. 1 (A1), as well as activities under Amendment No. 2 (A2).

AMENDMENT NO. 1

<u>Project Month</u>	<u>Task</u>	<u>Action Agent</u>
JAN 87	CIP Commodities being to arrive (A1)	Suppliers
JUN 87	Policy seminar (A1)	AID/W APAP Buy-In
AUG 87	Deliveries of A1 CIP commodities complete	Suppliers
AUG 87	Complete Phase I parastatal REDSO/IQC	
AUG 87	Review progress parastatal	REDSO/GDRM
NOV 87	End use assessment (CIP)	USAID

AMENDMENT NO. 2

<u>Project Month</u>	<u>Task</u>	<u>Action Agent</u>
1	Grant Agreement Signed	USAID/GDRM
2	Conditions Precedent Met	GDRM
2	Commence Procurement A2 computers/equipment Firm selected for private sector studies	USAID
3	Allocations requested	USAID/AID/W Importers
3	Allocations approved	GDRM
3	Private sector studies begin	AID/W IQC
4	Supply agreements reached	Importers
5	Financing Requests in	GDRM
6	L/Comm's issued and shipments begin	USAID/Suppliers
6	Commence Phase II parastatal	USAID/IQC
8	A2 CIP commodities begin to arrive	Suppliers
9	A2 computers/equipment arrive	USAID
14	Complete private sector studies	AID/W IQC
15	Policy seminar (A2)	AID/W IQC or APAP Buy-In
19	Delivery of A2 CIP commodities complete	Suppliers
19	End Use Assessment	USAID
21	Parastatal Action/Plans complete	USAID
22	Final Evaluation	USAID

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V. MONITORING PLAN

Project monitoring will require the special attention of the prime GDRM implementing agency, DGP, and of USAID/Madagascar.

Since the DGP's role within the GDRM is to plan, coordinate and follow up donor-funded projects, monitoring of this project is integral to its overall task. DGP capability in MARS project monitoring will be assisted through use of project local currency funds to hire a full time administrative assistant for this project.

USAID/Madagascar's role in monitoring will complement and support DGP activities in order to assure that project activities are expeditiously carried out. The AID Office in Antananarivo will have primary responsibility for the implementation of the commodity import component and will maintain the management structure developed for the initial MARS commodity import component. The second direct hire position is anticipated to be filled with a Project Development Officer by June of 1987. This person will assume responsibility for MARS project management and will ensure the smooth flow of relevant monitoring information. Specific monitoring tasks include the following:

- (1) assuring that the documentation flow for commodity procurement is smooth;
- (2) assuring that commodity end-user information is collected by importers;
- (3) recording the trainees who participate in in-country programs, including a list of those invited/selected showing institution, sex, job position, etc;
- (4) assuring that any returned participants provide written records of observations and contacts;
- (5) assuring written reports by short term consultants under APAP and for private sector studies, and assuring regular receipt of reporting from IQC firms involved in parastatal work, and distributing these reports, with French translations as needed, to GDRM counterparts;
- (6) reviewing DGP contracts by DGP with local firms and keeping files of contracts.

Such monitoring tasks are essential to assure that all project tasks are accomplished within the brief time period of the project. Simultaneously, the record of such monitoring activities will provide a useful basis for part of the project's final evaluation.

Management assistance in implementation of the CIP component will continue to be provided by the REDSO/ESA Regional Commodity Management Officer, with the assistance of a FSN office employee with responsibility for monitoring implementation and directing questions as necessary to the RCHO. Given that the procurement and payment procedures duplicate those already applied to the project, operations should progress quickly using these standard modes. The DGP will continue to report on local currency deposits into the special account on a quarterly schedule. Likewise, importers will continue to maintain end user records as previously established.

VI. SUMMARIES OF ANALYSES

A. ECONOMIC ANALYSIS

The economic analysis included in the original paper is considered to be adequate to cover the types of activities proposed to be undertaken during the amendment period.

B. SOCIAL ANALYSIS

The social analysis included in the original paper is considered to be adequate to cover the types of activities proposed for the amendment period, with the addition of the following discussion.

The September 1986 MARS evaluation reviewed beneficiaries and benefits of the project's consultancies and training component. The target groups for this component are ministry personnel at middle levels involved in the analysis and implementation of policy, and senior level policy makers. For the original (FY85) project, with its numerous, small and often discrete activities, project benefits have been scattered through a range of institutions and have been less significant than was anticipated. Inasmuch as the project is now focussing technical assistance and training on working with core groups of GDRM staff to establish data systems and conduct studies relative to parastatals and their possible divestiture, it is much more likely that decisions made and positive steps taken as a result of MARS-funded consultancies and training will be able to be clearly identified. Also, as a result of the evaluation, the annual policy seminar is likely to have greater impact, due to improved structuring of the seminar and wider dissemination of results.

The November 1986 commodity end use survey provides detailed information on benefits and beneficiaries to date of the commodity import component. The survey is to be repeated on an annual basis, and will be used in the design of subsequent commodity import activities in Madagascar, including any consideration of the value to be gained through targeting of commodities.

C. ADMINISTRATIVE CONSIDERATIONS

As the perspective of this amendment to the MARS project is restricted in terms of time (about 18 months), as well as in terms of institutionalization objectives, consideration of administrative capabilities will be limited.

Management assistance in implementation of the CIP component will continue to be provided by the REDSO/ESA Regional Commodity Management Officer, with the assistance of a FSN office employee with responsibility for monitoring implementation and directing questions as necessary to the RCMO. Given that the procurement and payment procedures duplicate those already applied to the project, operations should progress quickly using these standard modes. The DGP will continue to report on local currency deposits into the special account on a quarterly schedule. Likewise, importers will continue to maintain end user records as previously established.

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C. ADMINISTRATIVE CONSIDERATIONS

As the perspective of this amendment to the MARS project is restricted in terms of time (about 18 months), as well as in terms of institutionalization objectives, consideration of administrative capabilities will be limited.

1. GDRM

The primary GDRM institutions involved in Amendment No. 2 are the DGP, MPARA, and MPAEF. A broader cross-section of GDRM agricultural and policy institutional and the private sector participate in the policy dialogue activities. The inputs being provided by the project are described in Section III, above. These institutions are the same as those analyzed in the original project, and no further analysis is required at this time, with the exception of the following discussion which refers to the parastatal divestiture activity.

AID-funded activities for parastatal divestiture must be seen in the context of the \$12 million World Bank Project (Second Agricultural Institutions Development Project) which began in April 1986 and which will continue for approximately three years. That project is intended to support broad institutional strengthening in the several ministries involved in the agriculture sector in Madagascar, and project priorities include the development of information and management tools for sound sectoral management and planning. Detailed analyses of institutional structures, functions, capabilities and weaknesses of both MPARA and MPAEF are included in project documents. AID has agreed to fund only discrete activities relating to parastatal monitoring systems and specific studies.

AID funds will be used to provide consultants, training and some commodities to support: (1) parastatal studies and action plans, which will be conducted with the participation of personnel from the units within each of the two ministries charged with monitoring parastatals under their domain, and (2) development of data systems and procedures for parastatal performance monitoring. Addressing organizational issues such as roles and lines of responsibility or operating rules regarding the relationship of these units to other units in the GDRM will not be included in AID-supported activities. (World Bank planned global parastatal support will cover issues concerning the structure of government relationships with parastatals and definition of inter-governmental monitoring jurisdiction.) AID support for institutional strengthening within the GDRM vis a vis parastatals will be limited to transferring discrete technical capabilities to undertake the monitoring function. This objective will be attainable if inputs are provided as planned.

2. USAID

Management of this project will continue to make substantial demands on the time of the USAID/Antananarivo direct hire staff, which will expand from one to two persons with the addition of a Project Development Officer in the first half of 1987. While the project uses several implementation techniques to limit the extent of involvement of USAID/Madagascar, there will nevertheless be hectic periods of activity from time to time. USAID/Madagascar will rely heavily on REDSO/ESA for procurement assistance and assistance with management of the parastatal divestiture component, and will utilize AID/W offices backstopping selected IQC's and contracts, especially S&T/AGR for buy-in to the APAP project, to coordinate provision of many consultancy and training activities.

D. ENVIRONMENTAL ANALYSIS

Following Delegation of Authority by the Bureau Environmental Officer (87 State 381238), a negative determination was approved by the REDSO/ESA Director, with the concurrence of the Regional Environmental Officer and the Clearance of the Regional Legal Advisor. The Initial Environmental Examination (IEE) is included as Annex 6.

VII. CONDITIONS PRECEDENT AND COVENANTS

These remain the same as those set forth for Amendment No. 1, as follows:

A. Condition Precedent:

Prior to any disbursement for procurement of commodities financed by the Second Amendment to the Grant Agreement, the GDRM will be required to submit a procurement plan including those elements described in Section IV. A., above.

B. Covenant:

Under Section 8.1 of the Grant Agreement, a special account was established for the deposit of the FMG equivalent of the proceeds of sale of the commodities procured under the commodity import component of the Project. The GDRM will covenant to deposit sales proceeds generated under this Amendment into the Special Account. Uses of this Special Account have been determined by AID and the GDRM and include the provision of a Trust Fund to assist AID to defray local costs.

VIII. EVALUATION ARRANGEMENTS

Evaluation in this project will continue to take place on two levels. First, the extent to which the project has provided inputs, achieved outputs and accomplished the project purpose will be evaluated, following standard evaluation guidelines with an end of project evaluation scheduled for February 1989. Secondly, the extent to which the GDRM is continuing its policies of economic liberalization, particularly policies affecting the agriculture sector, will continue to be assessed.

Regarding the first level of evaluation, the materials developed by monitoring activities will provide useful input progress data. Monitoring data will include trainee records and training evaluation questionnaires for in-country and external training; consultants reports and reports by IQC firms; and information on local contracts funded from the project's counterpart budget. Commodity end user information will be kept by each distributor for each purchase, including name and address of purchaser, region where equipment based, probable use of equipment and type of client (public vs. private).

The final evaluation should pay particular attention to the following areas of concern: the impact of policy dialogue activities on the decision making process, and ways to improve impact in future activities; progress to date in parastatal divestiture activities, the need to adjust such activities given continued World Bank involvement in the parastatal sector, and ways to promote implementation of parastatal action plans; directions taken and ways to enhance results from private sector studies; and continued assessment of the progress and impact of the commodity import program. The end-of-project evaluation should also examine the impact of all components of the project, and review programming of CIP local currency generations. Results of this evaluation should lead to recommendations concerning ways for USAID to enhance privatization in its future program in Madagascar.

In addition, annual end use evaluations for the commodity import component will be conducted in November 1987 and November 1988. As with the November 1986 end use survey, the upcoming evaluations will examine end use functions and likely impact of inputs on productivity. The 1987 and 1988 evaluations should cover commodities imported under Amendment No. 1 and Amendment No. 2, respectively.

It is anticipated that REDSO will review the progress of the parastatal divestiture component at the end of Phase I of that activity (August 1987) and make recommendations for implementation of Phase II.

Regarding the second level of evaluation, an assessment of the GDRM's continued policy reforms, especially those related to the rice sub-sector, will be made as a part of the final evaluation. These assessments will be critical in deciding the direction and funding levels of future AID involvement, and will, when combined with economic assessments already conducted, provide a time-series review of progress since project inception.

A contract economist has been hired to monitor the Food for Progress program and Madagascar's changing economic scene. This position is funded by \$17,000 of reprogrammed funds from the FY 85 MARS budget. The scope of work for this monitoring task includes collection of information on: steps toward reform and liberalization of the agricultural sector and the economy; rice pricing and market liberalization policies; operation and management of the buffer stock program; rice prices, distribution system, and rice marketing, including role of private traders; rice production, imports and consumption, and changes in rice production practices. Using the above data, the economist will analyze progress in policy reform; effectiveness of GDRM buffer stock management; effect of buffer stock operation on market prices and operations of the private market; and indications of likely impact of policy changes on different economic groups within the society in different geographic areas, with particular attention to increased production and private sector involvement in marketing. Reports made by this economist will provide useful inputs to the evaluation team.

Funds in the amount of \$30,000 are set aside in the project budget to contract with individuals to assist with evaluations.

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Dempsey/Fanell

AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A

TAGS:

SUBJECT: MADAGASCAR - MARS IB (687-4121) -- AI HOC BOA FOR FY 97 FID AND PF AMENDMENT

REF: NAIROBI 40013

1. AA/ASP HEREBY DELEGATES AUTHORITY FOR APPROVAL OF SUBJECT PID AND SECOND PF AMENDMENT TO REDSO/ESA DIRECTOR, SUBJECT TO THE OUTCOME OF OYE DECISIONS. THIS AI HOC DELEGATION OF AUTHORITY SHOULD BE EXERCISED IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF BOA 100.

2. THE AID PRE-EMPTIVE CLAUSE PROVIDING FOR U.S. USE FOR THE AID CREDIT PURPOSES WILL BE APPLICABLE TO THE CIP COMPONENT THAT IS EST-FINANCED. CLAUSE SAME AS THAT APPLICABLE TO FY 86 CIP COMPONENT OF MARS PROJECT.

3. REPORT ON AID/V REVIEW OF 9/86 PROJECT EVALUATION FOLLOWS SEPT. SHULTZ

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STATE 367520

ACTION MEMORANDUM FOR THE DIRECTOR, REDSO/ESA

FROM: Rosalie A. Fanale *RF* Project Development Officer

SUBJECT: Madagascar Agriculture Rehabilitation Support (MARS) Project
(687-0101), Approval of PID for FY 87 Amendment

Problem: Subsequent to receipt of Delegation of Authority (DOA) from AID/Washington (per State 367520), your approval is required for the subject PID for Madagascar.

Discussion: The original MARS Project Agreement was signed on April 2, 1985, at a level of \$5,000,000. Based on an AA/AFR DOA, the field authorized a first amendment to the project, and the Grant Agreement was amended on June 25, 1986 to obligate an additional \$2,844,000. A combined AID/W and REDSO team conducted a comprehensive evaluation of the project in September 1986. Based on its review of the evaluation, REDSO prepared a PID-like cable for a second (FY 87) one-year amendment. The cable (Nairobi 40813) was submitted to AID/W for review and approval on October 27, 1986.

The PID-like cable proposed adding an additional \$3,000,000, for a new project total of \$10,844,000, and requested an AA/AFR ad hoc DOA to authorize the PP amendment in the field. Based on a review of the evaluation and the PID-like cable, AFR delegated the authority (State 367520, 25 Nov 86) to the REDSO/ESA Director for approval of both the PID and the PP for the FY 87 MARS amendment. However, AID/W neglected to delegate to REDSO/ESA the authority to amend the IEE to extend the negative determination to include the second amendment. Therefore, a follow-up request was made for an ad hoc DOA for the Director to approve the amended IEE, with the concurrence of the Regional Environmental and Regional Legal Officers. This DOA has just been received (per State 381238, 9 Dec 86).

Anticipating early AID/W review and approval of the PID, the design team made plans to begin work on the amendment on December 3. Preparation of the PP Amendment is now underway, and authorization and obligation are planned for January and February, respectively. In keeping with the DOAs which REDSO/ESA received, rapid review and approval of the PID and amended DOA are now required.

A PP Amendment will be developed for a \$2.0 million add-on, which is the total allocated to Madagascar in the OYB.

Action Requested: That you approve the PID as incorporated in Nairobi 40813, for the FY 87 MARS Amendment as well as the amended IEE which extends the original negative determination to include this amendment, thereby authorizing the preparation of the FY 87 MARS PP Amendment.

APPROVED: *[Signature]*

DISAPPROVED: _____

DATE: 12/24/86

Attachments:

- A - PID-like Cable
- B - DOA to Approve PID (State 367520)
- C - DOA to Approve IEE (State 381238)
- D - Amended IEE

Drafted: REDSO/ESA: PRJ:RFanale:skm (DRAFT) Date: 1 Dec 86
Cleared: REDSO/ESA: PRJ:JDempsey (DRAFT) Date: 2 Dec 86
REDSO/ESA: PRJ:MSinding (DRAFT) Date: 9 Dec 86
REDSO/ESA: DDIR:SShah Skf Date: 12/23/86
REDSO/ESA: RLA:BBarrington BBB Date: 22 Dec 86

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX 3

Life of Project:
From FY 1987 TO FY 1988
Total US Funding: \$1,975,000
Date Prepared: 01/26/87

Project Title & Number: MADAGASCAR AGRICULTURAL REHABILITATION SUPPORT (687-0101) AMENDMENT NO. 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>GOAL:</u> To increase agricultural productive employment and real income</p>	<p><u>Measure of Goal Achievement</u></p>		<p><u>Assumptions for Achieving Goal Targets:</u> The GDRM plan is the most effective means available to the GDRM to increase agricultural production.</p>
<p><u>Project Purpose:</u> Support agricultural policy liberalization and recovery of the agricultural sector through (a) Increase foreign exchange allocations for imports of key agricultural and rural transportation inputs required for the rehabilitation effort; (b) better information systems and analysis leading toward better policy determination and selection of priorities, particularly for parastatal divestiture.</p>	<p><u>End of Project Status</u></p> <p>a. Increased availability of key agricultural and transportation inputs in rural areas;</p> <p>(i) Improved economic policies affecting agricultural production, particularly for rice and export crops;</p> <p>(ii) GDRM actively planning divestiture steps for selected parastatals.</p>	<p><u>Evaluation</u></p>	<p><u>Assumptions for Achieving Purpose:</u> That the most feasible way for AID to support GDRM is provision of FX and consultancies/training.</p>

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OUTPUTS	Magnitude of Outputs	Means of Verification	Important Assumptions
<ol style="list-style-type: none"> 1. Improved production and transport as a result of imported inputs. 2. Improved data series needed for the analysis of agricultural parastatals. 3. Procedures in place for management system for agricultural parastatals; procedures for divestiture planning. 4. Studies completed or underway related to private sector role in agriculture 5. Participants trained and returned to assigned jobs. 6. Policy seminar 	<p>50 small tractors; tractor parts; road maintenance spare parts.</p> <p>Information systems; corporate business plans; divestiture action plans.</p> <p>Studies (privatization of services).</p> <p>(60)</p>	<p>GDRM financial reports controllers records</p>	<p>(a) That provision of foreign exchange can improve agricultural production; (b) That consultancies/training can have an impact on policy revisions in the agricultural sector especially with regard to parastatals; (c) Trainees are available for training.</p>
INPUTS	Implementation Target (Type & Quantity)		Assumptions for providing inputs
<ol style="list-style-type: none"> 1. Commodity import support. 2. Short term training (in-country, U.S. and third country). 3. Short term consultancies. 4. Equipment and supplies to complement consultancies/training. 5. Local currency counterpart for analysis, training, logistic support 6. GDRM regular budget contribution for salaries, allowances. 	<ol style="list-style-type: none"> 1. \$1,175,000 2. \$ 91,000 3. \$ 655,000 4. \$ 54,000 5. \$ 485,000 6. \$ 37,800 	<p>Controllers' records</p>	<p>Availability of counterpart and GDRM budget support.</p>

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FY 1987 PROJECT STATUTORY CHECKLISTS

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1987 Continuing Resolution Sec. 526.
 Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? No

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers? No

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No
4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No
5. FAA Sec. 620(a), 620(f), 620(D); FY 1987 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance or reparations be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification? No
N/A
No
No
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No
7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? No

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? No
9. FAA Sec. 620(g); FY 1987 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? No
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB". This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) Yes, taken into account by the Administrator at time of approval of Agency OYB.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) The UN payments are up-to-date.
13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? No
14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No
15. FAA Sec 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan).

No

17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device?

No

18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? Reference may be made to the Taking into Consideration memo.)

Yes, the Administrator has taken this into account in programming funds for Madagascar.

19. FY 1987 Continuing Resolution Sec. 540.

Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilization?

No

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

20. FY 1987 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

No

21. FY 1987 Continuing Resolution, Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States.

No

22. FY 1987 Continuing Resolution, Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree?

No

B. FUNDING SOURCE CRITERIA FOR
COUNTRY ELIGIBILITY

1. Development Assistance
Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

2. Economic Support Fund
Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY
CHECKLIST UP
TO DATE? HAS
STANDARD ITEM
CHECKLIST BEEN
REVIEWED FOR
THIS PROJECT? Yes
Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1987 Continuing Resolution, Sec. 523; FAA Sec. 634A; Sec. 653(b).

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A congressional Notification was submitted and expired without objection on March 21, 1987.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

No construction is planned. Other planning and cost estimates appear to be reasonably firm and are based on past experience with similar project elements.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required.

4. FAA Sec. 611(b); FY 1987 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

The project is not susceptible of execution as a part of a regional or multi-lateral project. It will, however, be coordinated with other donors.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The project will increase international trade by providing tractors and tractor spare parts, and spare parts for earth moving equipment which will also foster private initiative as these items will be imported by private firms. The imported commodities will improve the technical efficiency of agriculture.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
9. FAA Sec. 612(b), 636(h); FY 1987 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
12. FY 1987 Continuing Resolution Secs. 521, 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
- US private firms will be involved in this project as suppliers to the private firms in Madagascar.
- The GDRM contribution will be in the form of personnel and support to the US consultants and training efforts. It is not anticipated that AID will have to assume any of the local currency costs of the project.
- There is no U.S. owned excess foreign currency in Madagascar.
- Yes. AID regulations for the competitive procurement of services and commodities will be followed.
- Assistance will lead to improved food security in Madagascar, and is not aimed at export production

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?

Yes

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

15. FY 1987 Continuing Resolution. Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No

16. ISDCA of 1985 Sec. 310; FY 1987 Continuing Resolution. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

It is likely that the project's Private Sector Studies (\$150,000) will be carried out by a firm in one of these categories.

17. FY 87 Continuing Resolution, Sec. 559. Will the proposed project involve the obligation or expenditure of funds to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in the manufacture for export to the U.S. or third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, luggage, flat goods, work gloves or leather wearing apparel? Or to assist directly the establishment of facilities for the manufacture and export of such items to the U.S. or third countries in direct competition with U.S. exports?

No

No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to

The largest part of the project will provide spare parts for road maintenance equipment and tractors as well as new tractors. These items will extend access to the economy at the local level to farm families in Madagascar.

Also, the project will support studies of ways to increase participation of small businesses throughout the country in a range of agricultural support services.

help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes. Project funding will be used for tractors for agriculture needs, for consultants and training for agricultural policy and project analysis.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes, The GDRM will contribute about 26% of the total costs of the program. This is about 51% of the cost to be funded through Development Assistance.

- e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes
- f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? This will be accomplished through end-use surveys of the commodity import component and evaluations of the parastatal divestiture activity.
- g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development, and supports civil education and training in skills required for effective participation in government processes essential to self-government. The consultancy/training component will utilize the intellectual resources of the people of Madagascar to attempt to solve agricultural policy and project problems in the country.
- h. FY 1987 Continuing Resolution, Sec. 558. Will the proposed assistance be for any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference or No

training in connection with the growth or production in the recipient country of an agricultural commodity for export which would compete with a similar commodity grown or produced in the U.S., excluding: (1) activities designed to increase food security which will not have significant impact on the export of U.S. agricultural commodities; or (2) research activities intended primarily to benefit American producers?

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Yes

Yes

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

c. ISDCA of 1985, Sec. 207.
Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

No

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Yes, such arrangements have been made.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? It does not discriminate.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

No

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes. It is not planned to use the facilities of other federal agencies.

8. International Air Transport Fair Competitive Practices Act, 1974. if air transportation of persons or property is financed on grant basis, will U. S. carriers be used to the extent such service is available?

Yes

9. FY 1987 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, will the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used?

N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the communist-bloc countries? Yes
4. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525,540. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? Yes
- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes

- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes
- d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- e. FAA Sec. 662. For CIA activities? Yes
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
- g. FY 1987 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes
- h. FY 1987 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages for dues? Yes
- i. FY 1987 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes
- j. FY 1987 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes

k. FY 1987 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

No

l. FY 1987 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes

I. Code 899 Source and Origin Waiver - Farm Tractors

FROM: Project Review Committee

SUBJECT: Request for waiver of source and origin requirements

PROBLEM:

Your approval is requested for a source and origin waiver from Code 000 (U.S. only) to Code 899 (Free World) to permit the procurement of tractors and spare parts as described below:

A. Cooperating Country	:	Madagascar
B. Authorizing Document	:	Project Agreement
C. Project	:	MARS Project No. 687-0101 Amendment No. 2
D. Nature of Funding	:	Grant
E. Description of Goods	:	Approximately 48 Farm Tractors and related Spare Parts
F. Approximate Value	:	\$574,000
G. Probable Source	:	Great Britain or W. Germany
H. Probable Origin	:	Great Britain or W. Germany

DISCUSSION:

The Madagascar Agricultural Rehabilitation Support Project (MARS) is designed in part to provide foreign exchange allocations for imports of vital equipment and materials related to the agriculture sector. These imports are required for the Government of Madagascar's efforts to rehabilitate its agricultural sector, as envisioned in its public investment program, and foreign exchange is needed to assist the Government in balance of payments support.

The commodity import component of the project is directed at private sector importers, specifically at two Madagascar distributors representing U.S. firms. Since Madagascar is not traditionally an important market for U.S. products, it has only been by working directly with these firms that AID has been able to sponsor a program of commodity importation via the private sector.

AID Regulation One import procedures apply to the CIP component, with importers operating under provisions contained in section 201.23 of AID Regulation One regarding special supplier/importer relationships. Under Section 201.23 guidelines, waivers of competition are not required when the importer is the supplier's exclusive distributor, since commodities are provided to the importer at the same cost that they are furnished to all other authorized distributors and since the dealer would not normally be permitted to distribute a competing brand of similar equipment.

When the original MARS CIP activity was introduced, one participating importer, Landis Ford of Madagascar, received foreign exchange allocations to import tractors, spare parts, and light weight transport vehicles exclusively of U.S. source and origin. Under MARS I and IA financing Ford received approximately \$1,400,000 to import farm tractors and spare parts manufactured by Ford Motor's Tractor Division in Troy, Michigan and \$1,300,000 to import Ford light weight trucks from the Ford's Truck Division in Michigan. Cargo preference for U.S. flag vessels has been observed for all shipments to Madagascar to date, with 100 percent of all cargos having been transported on U.S. liners.

Ford products have been very well received in Madagascar. The 1986 end use evaluation reports that Ford imports quickly reached the agricultural sector, and that farmers were pleased with the quality of Ford products and the after sales service being offered by Landis Ford. Currently Ford indicates that more than twenty unfilled purchase orders from private farmers are on file for additional farm tractors for which there is currently no foreign exchange available to finance the imports.

The Ministry of Planning and this design team agree that additional tractors are a priority for rehabilitating the agricultural sector of Madagascar, and this position is reinforced by the private sector by the very high demand for such equipment. The design team has not identified any other single commodity which would serve a greater need than agricultural tractors and which could be easily imported and distributed in Madagascar with the limited existing AID management staff. Substituting tractor imports for another commodity or category of commodities would be difficult, considering that import preparations are already underway by the World Bank with large scale financing directed at the agricultural sector for a broad base of agricultural inputs. Of the World Bank financing Ford indicates that a maximum of \$300,000 could be made available for Ford tractor imports (approximately 25 tractors), but Ford is uncertain if such an allocation will actually be forthcoming. For these reasons the Project Amendment supports financing of additional farm tractors and spare parts.

On December 1, 1986 the Ford Motor Corporation notified all Ford distributors world-wide announcing that effective January 1, 1987 the Ford Tractor Division of Ford Motor Company would transfer its headquarters and manufacturing operations to Great Britain, implying that Landis Ford would no longer be able to comply with the Code 000 (U.S. only) source and origin requirements of the MARS Project if additional tractors were imported. In a similar situation, John Deere, the only other U.S. tractor manufacturer represented in Madagascar, produces only heavy tractors in the United States for large scale farming operations, and therefore also cannot fulfill the source and origin requirements for small tractor imports. During implementation of MARS I, John Deere declined an allocation of foreign exchange under the CIP activity, stating that John Deere's U.S. manufacturing operations could not produce a price competitive small tractor for export to Madagascar. Today U.S. farming operations have become primarily large scale and generally require a much heavier tractors than are required in many developing countries, therefore most U.S. tractor manufacturers can no longer price effectively produce small quantities of light weight tractors for the declining U.S. market.

JUSTIFICATION:

Farm tractors and spare parts are vital to the rehabilitation of the agricultural sector in Madagascar. However, as stated above, the desired equipment is not available from areas within the authorized geographic code. Handbook 1, Supplement B requires that waivers of the authorized Geographic Code must be based upon one of the criteria set forth in Section 5B4a of Handbook 1B.

Delegation of Authority No. 551 delegates to you the authority to waive and grant exceptions in accordance with Supplement B of handbook 1, of source and origin requirements to permit procurement of goods and services from outside the geographic code for individual transactions in amounts not exceeding \$5,000,000 (exclusive of transportation costs). Further, Delegation of Authority 551 requires that waivers or exceptions for goods must be based upon one or more of the criteria set forth in Section 5B4a of Handbook 1, Supplement B. One criterion under Section 5B4a of Handbook 1, Supplement B is the unavailability of a commodity from an authorized source country or area. As stated above, appropriate agricultural tractors and parts, with representation and servicing facilities in Madagascar, are not available from within the authorized Geographic Code. Nor are such commodities available from Code 941.

RECOMMENDATION:

On the basis of the above discussion and justification, it is recommended that you: (1) certify that the exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program, and (2) approve this request for a source and origin waiver for \$574,000 to permit the procurement of approximately 48 farm tractors and spare parts from Code 899 (Free World) countries.

II. Code 899 Source/Origin Waiver and waiver of Supplier Nationality - Caterpillar Spare Parts

FROM: Project Review Committee

SUBJECT: Request for waiver of source and origin and supplier nationality requirements

PROBLEM:

Your approval is requested for a source and origin waiver from Code 000 (U.S. only) to Code 899 (Free World) to permit the procurement of spare parts as described below, and for a waiver of supplier nationality:

A. Cooperating Country	:	Madagascar
B. Authorizing Document	:	Project Agreement
C. Project	:	MARS Project No. 687-0101 Amendment No. 2
D. Nature of Funding	:	Grant
E. Description of Goods	:	Spare parts for Caterpillar equipment
F. Approximate Value	:	\$318,575 - to procure Code 899 parts from a non-U.S. supplier (source/origin/nationality waiver) \$439,935 - to procure Code 000 from a non-U.S. supplier (nationality waiver only)
G. Probable Source	:	Western Europe
H. Probable Origin	:	Western Europe

DISCUSSION:

The Madagascar Agricultural Rehabilitation Support Project (MARS) is designed in part to provide foreign exchange allocations for imports of vital equipment and materials related to the agriculture and rural transport sectors. These imports are required for the Government of Madagascar's efforts to rehabilitate its agricultural and transportation sectors, as envisioned in its public investment program, and foreign exchange is needed to assist the Government in balance of payments support efforts.

The commodity import component of the project is directed at private sector importers. Since Madagascar is not traditionally an important market for U.S. products, it has only been by working directly with these firms that AID has been able to sponsor a program of commodity importation via the private sector. AID Regulation One import procedures are applied to the CIP component and participating importers.

Since the inception of the original MARS CIP activity, one participating importer, Societe Henri Fraise Fils et Cie representing Caterpillar, has received foreign exchange allocations to import Caterpillar Spare parts and road construction and maintenance equipment. Approximately \$2,974,000 has been obligated in letters of commitment to date. The equipment and spare parts are being used in Madagascar to rehabilitate and maintain roads which support the agricultural sector, providing access to farmers of necessary agricultural inputs such as seeds and fertilizers as well as giving farmers routes for marketing agricultural produce.

The Ministry of Planning and this design team agree that providing spare parts remains a priority in the effort to rehabilitate the rural transport and agricultural sector of Madagascar, and for this reason the design team has recommended that additional parts be financed under this amendment.

In order for Caterpillar to participate as an importer under the MARS Project it has been necessary to date to provide Caterpillar with two waivers of source, origin, and nationality requirements: (1) a source and origin waiver to permit Caterpillar to procure a portion of all spare parts from its European manufacturing operations, and (2) a nationality of supplier waiver to permit AID to issue a Letter of Commitment to Caterpillar's Overseas Tractor distributor in Switzerland for the value of the U.S. origin parts exported from Europe to Madagascar. According to AID policy, parts for which source and origin waivers are approved do not require additional waiver of supplier nationality, therefore in this waiver request only the portion of parts of U.S. origin which are distributed by the European supplier, require a nationality of supplier waiver.

Approximately \$758,510 has been budgeted under the CIP component of Amendment two of the Project to import additional Caterpillar spare parts, of which approximately 42 percent, or \$318,575 will be of European origin. Caterpillar of Madagascar's standard spare parts operation involves weekly stock orders to Caterpillar's bonded warehouse in Grimbergen, Belgium, exclusively serving the spare parts needs of all Indian ocean countries. By having ready access to this warehouse and to European and Madagascar air carriers, Caterpillar of Madagascar is able to reduce its inventory and maintain only a 17 day on-hand stock supply, thereby achieving considerable cost savings which can be reflected in the retail prices offered to Caterpillar's clients.

The remaining 58 percent of Caterpillar spare parts shipped to Madagascar are of U.S. origin, but blended with other European origin parts in Caterpillar's Belgium warehouse. In 1985, AID/W determined that spare parts of Code 899 origin blended with U.S. origin parts in overseas bonded warehouses could no longer be considered as components of a consolidated cargo (see 1985 State 89189). Therefore, it was necessary to provide Caterpillar with a source and origin waiver for the 42 percent of spare parts which would be of Code 899 origin. The value of that waiver was sufficient to cover all Caterpillar shipments under MARS I and the first amendment. However, an additional waiver is now required for allocations covered under Amendment Number Two.

Caterpillar of Madagascar's biweekly stock orders often consist of up to 2,500 line items for individual parts, making it virtually impossible to separate U.S. from non-U.S. origin parts each time an order is placed. Caterpillar has indicated that it would be unwilling to participate in the program should it be required to make such determinations, as it would be unwilling to participate if required to order parts directly from the U.S. Likewise, A.I.D. would not wish to impose a system upon a firm, already operating under difficult business conditions, which would significantly alter its standard operating procedures, interfere with special importer/supplier relationships, cause the firm to incur extraordinary costs associated with maintaining the larger inventories which would be required if orders had to be shipped directly from the U.S., and impair the firm's flexibility to quickly respond to its clients' emergency needs for spare parts when expediency is critical. Furthermore, all of these considerations come at a time when the Agency is trying to better interface with and support the private sector.

The blending of non-U.S. spare parts pervades the agricultural and transport machinery industries. Caterpillar routinely supplies all electrical components, filters, bearings, and undercarriage parts from its European manufacturing operations. Caterpillar is able to provide these parts to Madagascar at a cost savings of approximately 40 percent over U.S. parts of the same type. While many of these same parts could be produced in the United States, they are often supplied even to Caterpillar's U.S. operations from manufacturing operations in Europe. All engine parts, hydraulic parts, transmission parts, belts, tires, radiators, and final drive parts supplied to the Belgium warehouse are of U.S. manufacture. If Caterpillar had to supply all parts of U.S. origin, and therefore had to pick up some parts that it does not manufacture in the open market it is possible that Caterpillar's warranty would not cover these U.S.-manufactured, but non-Caterpillar spare parts.

Furthermore, a waiver of supplier nationality requirements is needed for all U.S. manufactured parts provided by the European supplier. Caterpillar's authorized distributor in Madagascar and participating importer in the CIP activity, maintains an exclusive sales and servicing agreement with Overseas Tractor Corporation in Europe, an intermediary company with which Caterpillar U.S. maintains an exclusive distribution agreement for all spare parts sold to distributors in the Indian Ocean area. As a result of this agreement, Caterpillar cannot be the direct beneficiary of an AID letter of commitment. Since this situation existed at the time of the original Project Agreement, a waiver of supplier nationality requirements was approved for the original MARS Project, and is requested again to cover the additional funds to be placed in the existing letter of commitment once funds from this amendment are obligated.

JUSTIFICATION:

Handbook 1, Supplement B requires that waivers of the authorized Geographic Code must be based upon one of the criteria set forth in Section 5B4a of handbook 1B. Section 5B4a(2) permits waivers of source and origin when the commodity is not available from countries or areas included in the authorized geographic code. Spare parts for Caterpillar equipment are vital to the rehabilitation of road maintenance equipment in Madagascar. While many parts could theoretically be obtained of Code 000 origin, to require Caterpillar of Madagascar to obtain all spare parts of U.S. origin would prove inordinately time-consuming and costly, would destroy existing supplier/importer relationships, and would result in the loss of a major participant in Madagascar's commodity support program. Under these circumstances, the spare parts required by Caterpillar of Madagascar are effectively not available from the authorized geographic code (U.S. only). Nor are such commodities available from code 941.

AID Delegation of Authority No. 551 delegates to you the authority to waive and grant exceptions, in accordance with Supplement B of Handbook 1, of source and origin requirements to permit the procurement of goods and services from outside the authorized geographic code for individual transactions in amounts not exceeding \$5,000,000 (exclusive of transportation).

Furthermore, Handbook 1, Supplement B states that a waiver to effect a change in the geographic code only with respect to the nationality of the supplier of commodities, but not in the source of the commodities, may be sought if the situation requires it. Such changes, however, are subject to the same requirements as those related to the source of commodities and must be based upon one of the criteria set forth in Section 5B4a of Handbook 1B. While the portion of Caterpillar parts of U.S. origin to be imported under this program could in principal be obtained from a U.S. Caterpillar distributor, to do so would prove adversely time consuming and would violate existing Caterpillar distributorship agreements within Indian Ocean territories. Under these circumstances, the U.S. manufactured spare parts required in Madagascar are effectively not available from suppliers having nationality in the authorized geographic code (U.S. only).

RECOMMENDATION:

That, on the basis of the above discussion and justification, it is recommended that you (1) waive the source and origin requirements for approximately \$318,575 of spare parts from Code 000 (U.S. only) to Code 899 (Free World), (2) waive the nationality of supplier requirements to permit procurement of approximately \$439,935 of spare parts from Code 000 (U.S. only) to Code 899 (Free World), and (3) certify that the exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

ACTION: AID-4 INFO: ECON - 5

REDSO FILE ANNEX 5

VZCZCNAO459
PP RUEHNR
DE RUFHAN #0860 0620439
ZNR UUUUU ZZH
P: 030433Z MAR 87
FM AMEMBASSY ANTANANARIVO
TO AMEMBASSY NAIROBI PRIORITY 1009
BT
UNCLAS ANTANANARIVO 00860

03-MAR-87 TOR: 05:05
CN: 64965
CHRG: AID
DIST: AID

Small

AIDAC

FOR REDSO/PDO ROSALIE FANALE

E.O. 12356:N/A
SUBJECT: MARS - AMENDMENT II

REF: 2/23 REA/FANALE TELCON

1. FOLLOWING IS TRANSLATION OF MINISTRY OF FOREIGN AFFAIRS REQUEST FOR AMENDMENT II. COPY OF ORIGINAL WILL TRAVEL TO REDSO FOR FANALE IN NEXT POUCH.

2. DATE OF LETTER: FEBRUARY 10, 1987.

3. REFERENCE: NO. 1885-AE/DRB/2B/AM.167.3

4. OPIGINATING OFFICE: THE OFFICE OF BILATERAL RELATIONS.

5. THE MINISTRY OF FOREIGN AFFAIRS OF THE DEMOCRATIC REPUBLIC OF MADAGASCAR PAYS ITS RESPECTS TO THE AMERICAN EMBASSY AND, IN REFERENCE TO THE EMBASSY'S DIPLOMATIC NOTE NUMBER 262, DATED DECEMBER 1, 1986, AND MARS PROJECT AGREEMENT, TAKES PLEASURE IN INFORMING THAT FOLLOWING DISCUSSIONS WHICH MALAGASTY TECHNICIANS FROM THE MINISTRY OF AGRICULTURE, THE MINISTRY OF LIVESTOCK, WATER, AND FORESTRY, AND THE DIRECTORATE OF PLANNING HAVE HAD WITH THE MISSION ANNOUNCED IN THE DIPLOMATIC NOTE ABOVE, IT HAS BEEN AGREED THAT THE MARS PROJECT (NUMEER 687-2101) WILL BE CONTINUED WITH A SECOND AMENDMENT.

THE GRANT PROPOSED FOR THIS AMENDMENT WILL PROVIDE U.S. DOLS 1,975,000, TO BE USED BY DECEMBER, 1988, FOR THE FOLLOWING CATEGORIES OF INPUTS:

- FOREIGN CONSULTANTS
- TRAINING
- OFFICE RELATED EQUIPMENT
- AGRICULTURAL PRODUCTION EQUIPMENT AND SPARE PARTS.

THE MINISTRY OF FOREIGN AFFAIRS HEREBY REQUESTS THE AMERICAN EMBASSY TO BEGIN FORMALIZING THE AGREEMENT FOR THIS SECOND AMENDMENT.

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UNCLASSIFIED ANTANANARIVO 000860

IN CLOSING, THE MINISTRY OF FOREIGN AFFAIRS AGAIN
WOULD LIKE TO SEND ITS RESPECTS TO THE AMERICAN
EMBASSY.

6. SIGNATURE: ILLEGIBLE INITIAL ON SEAL OF THE
MINISTRY OF FOREIGN AFFAIRS. LYNCH

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UNCLASSIFIED ANTANANARIVO 000860

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Madagascar

Project Title and Number: Agricultural Rehabilitaton Support (MARS)
Amendment II (687-0101)

Funding: FY 1987 - \$3.0 Million

IEE Prepared By: John Gaudet, Regional Environmental Officer

Environmental Action Recommended: Negative Determination X

Action Requested By: Arthur M. Fell
Arthur M. Fell, REDSO/ESA Director

Date: 12/24/86

Concurrence: REDSO/ESA/REG J. J. Zelt Date 8 Dec. 1986

Approved: Arthur M. Fell

Disapproved: _____

Date: 12/24/86

Clearance: REDSO/ESA/RLA: B. V. Bawinghm Date 22 Dec 86

I. PROJECT ACTIVITIES

This second project amendment has the same objectives as the original project and first amendment. It will continue to provide consultancies and training (\$800,000), as well as quick disbursing commodities (\$1.2 million), in support of Madagascar's agricultural liberalization, including policies to improve the production and marketing of rice and the access of farmers to commodities and services via the private sector. Project activities include (1) continuation of the commodity import component; (2) production of studies, (3) in-country seminars and (4) U.S. or third country training.

II. IMPACTS

Due to the nature of the activities, there will be no effects upon the environment.

III. ACTION TO BE TAKEN

The original project received a negative determination; this IEE was subsequently amended to include the first amendment. The second project amendment should also receive a negative determination. Authority was delegated to the Director of REDSO/ESA to approve an amended IEE, with the concurrence of the Regional Environmental and Legal Officers, per State 381238 (attached).

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STATE 381238

ACTION: AID-4 INFO: ECON - 5

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Rosalie - FBI
REDSO FILE

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CN: 29014
CHRG: AID
DIST: AID

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RR RUEHNR
DE RUEHC #1238 3432036
ZNR UUUUU ZZE
R 292234Z DEC 86
FM SECSTATE WASHDC
TO RUEHNR/AMEMBASSY NAIROBI 9326
INFO RUFHAN/AMEMBASSY ANTANANARIVO 9094
BT
UNCLAS STATE 381238

AIDAC NAIROBI FOR REDSO/ESA

E.O. 12356: N/A

TAGS:

SUBJECT: MADA, A., AR-AGRICULTURE REHABILITATION SUPPORT PROJECT (687-0101)

REF: (A) NAIROBI 48813 (B) STATE 367528 (C) NAIROBI 48851

BEO CONCURS RECOMMENDATION REF C AND DELEGATES AUTHORITY FOR APPROVAL AMENDED IIE TO THE REDSO/ESA DIRECTOR, WITH CLEARANCE OF THE REA AND RLA. FORWARD COPY SIGNED DOCUMENT, B. BOYD, AFR/TR/PRO. WHITEHEAD

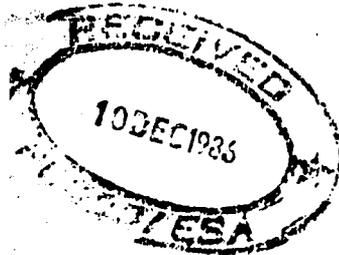
BT
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DATE RECD	12/10/86
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ACTION: AID-4 INFO: ECON - 5

REDSO FILE

ANNEX 8a

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18 DEC 86 0725
CN: 11923
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DIST: AID

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RR RUEHNR
DE RUFHAN #4617/01 3520713
ZNR UUUUU ZZH
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FM AMEMBASSY ANTANANARIVO
TO RUEHC/SECSTATE WASHDC 2200
INFO RUEHNR/AMEMBASSY NAIROBI 0554
BT
UNCLAS SECTION 01 OF 02 ANTANANARIVO 04617

Armstrong

AIDAC

NAIROBI FOR REDSO/ESA

E.O. 12356:N/A
SUBJECT: MADAGASCAR AGRICULTURAL REHABILITATION AND
SUPPORT PROJECT NO. 687-0L0L: COMMODITY END USE
SURVEY SUMMARY AND CONCLUSIONS

1. AS A RESULT OF THE SEPTEMBER MID-TERM MARS
EVALUATION, AN END USE SURVEY OF COMMODITY END-USERS
WAS UNDERTAKEN IN NOVEMBER 1986, IN ORDER TO BETTER
DEFINE END USE FUNCTIONS AND PRODUCTION RELATED
BENEFITS OF THE COMMODITY IMPORT COMPONENT. THE
FOLLOWING SUMMARY OF THAT SURVEY IS PROVIDED ALONG
WITH CONCLUSIONS REGARDING FUTURE PRIVATE SECTOR
TARGETING MEASURES TO BE TAKEN.

2. SURVEY FINDINGS SHOW THAT, OF 52 AGRICULTURAL
TRACTORS SOLD TO DATE, 35 (67.3 PERCENT) HAVE GONE TO
THE PRIVATE SECTOR, 15 TO PARASTATAL COMPANIES, AND 2
TO THE PUBLIC SECTOR. ALL OF THE TRACTORS ALREADY
IN-COUNTRY ARE ENGAGED IN AGRICULTURAL PRODUCTION.
IN NEARLY EVERY CASE THE PURCHASE HAS INCREASED THE
AMOUNT OF LAND WORKED, MUCH OF WHICH HAD LAID FALLOW
IN PREVIOUS YEARS. OVERALL EMPLOYMENT HAS INCREASED
NOT ONLY AMONG THE FAMILIES INVOLVED BUT ALSO THROUGH
THE CREATION OF NEW JOBS. SIXTY-THREE PERCENT OF
SPARE PARTS FOR CATERPILLAR EQUIPMENT HAS BEEN SOLD
TO THE PRIVATE SECTOR AND 37 PERCENT TO PARASTATAL
COMPANIES, SOME OF WHICH HAVE 30-35 PERCENT PRIVATE
INVESTMENT. THE IMPORTATION OF CATERPILLAR SPARE
PARTS HAS ALLOWED IMPORTANT WORK, MAINLY IN THE
PRIVATE SECTOR, TO CONTINUE IN ROAD CONSTRUCTION (41
PERCENT OF TOTAL SALES VALUE) AND IN INDUSTRIAL
AGRICULTURE OPERATIONS (26 PERCENT OF TOTAL SALES
VALUE). CATERPILLAR SPARE PARTS BY SALES VALUE ARE
BEING USED LARGELY FOR ROAD CONSTRUCTION (41 PERCENT)
AND FOR AGRICULTURAL OPERATIONS (25.6 PERCENT). IN
TOTAL, 70 PERCENT OF THE SPARE PARTS ARE BEING USED
FOR ACTIVITIES AFFECTING THE AGRICULTURE AND RURAL
TRANSPORT SECTORS, INCLUDING CONSTRUCTION AND
MAINTENANCE OF SECONDARY AND FEEDER ROADS.

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3. IT IS ANTICIPATED THAT MARS AMENDMENT NUMBER 2 WILL BE DESIGNED TO PROGRAM AND CHANNEL RESOURCES TO THE PRIVATE SECTOR TO THE EXTENT POSSIBLE, WHILE ACKNOWLEDGING THAT PARASTATAIS ARE ALSO CONTRIBUTING SIGNIFICANTLY TO MADAGASCAR'S OVERALL ECONOMIC OUTPUT, AND TAKING INTO ACCOUNT THE NATURE AND MARKETING METHODS OF THE COMMODITIES TO BE FINANCED. THE END USE SURVEY INDICATES THAT EQUIPMENT AND SPARE PARTS ARE PRIMARILY REACHING THE INTENDED TARGET SECTOR USERS UNDER THE EXISTING IMPORT PROGRAM STRUCTURE, WITHOUT ACCEPTING ANY FURTHER SPECIFIC TARGETING MEASURES. SPARE PARTS OF ANY TYPE ARE VERY DIFFICULT TO TARGET TO A PARTICULAR GROUP OF END USERS, AND TO MONITOR UNDER A PRIVATE SECTOR CIP MECHANISM, WITHOUT SUBSTANTIALLY ALTERING THE STANDARD OPERATING PROCEDURES OF THE PARTICIPATING IMPORTER. IF IMPORTER RETAIL SALES WERE RESTRICTED BY THIS PROGRAM, IN ORDER TO PARTICIPATE IMPORTERS WOULD ULTIMATELY NEED TO MAINTAIN SEPARATE INVENTORIES, ACCOUNTING SYSTEMS, AND MARKETING CHANNELS FOR AID-FINANCED VS. NON AID-FINANCED PARTS, AN EXPENSIVE PROPOSITION FOR IMPORTERS CONSIDERING THAT, IN THE CASE OF CATERPILLAR, MORE THAN 2,000 SEPARATE LINE ITEMS ARE ORDERED BIWEEKLY, AND THAT STAFFING REQUIREMENTS TO MANAGE SUCH INVENTORIES ARE SIGNIFICANT. LIKEWISE, IT IS NAIVE TO ASSUME THAT RETAIL SALES AND THE END USE OF LARGE VOLUMES OF SPARE PARTS COULD BE EFFECTIVELY MONITORED TO INSURE THAT ALL PARTS WERE ONLY SOLD TO A PARTICULAR GROUP OF ELIGIBLE END USERS. THE AMENDMENT, THEREFORE, AS WITH PREVIOUS MARS CIP ACTIVITIES, WILL SEEK TO MINIMIZE INTERFERENCE WITH THE COMMERCIAL PRACTICES OF THE IMPORTERS, AND WILL IN GENERAL NOT ATTEMPT TO LIMIT SALES OF SPARE PARTS TO A PARTICULAR TARGET SECTOR.

4. AGRICULTURAL TRACTORS, HOWEVER CAN BE IDENTIFIED AND TARGETED EXCLUSIVELY FOR SALES TO PRIVATE FARMERS, AND THEREBY SERVE BENEFICIARIES MORE DIRECTLY RELATED TO AID'S CBSS STRATEGY. THE FORD IMPORTER IS AGREEABLE TO LIMITING FUTURE TRACTOR SALES UNDER AMENDMENT 2 TO THE PRIVATE SECTOR, BUT DESIRES TO CONTINUE PROVIDING SPARE PARTS TO BOTH PARASTATAL AND PRIVATE SECTOR CLIENTS WHO ALREADY OWN FORD EQUIPMENT. THEREFORE, IN AN EFFORT TO PROVIDE ADDITIONAL SUPPORT TO THE PRIVATE SECTOR, IT IS

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CURRENTLY ENVISIONED THAT ALL AGRICULTURAL TRACTORS
TO BE IMPORTED UNDER THE SECOND AMENEMENT WILL BE
LIMITED TO PRIVATE SECTOR PURCHASERS.

5. COPIES OF THE DOCUMENT ARE BEING FOUCHED TO
REDSO/ESA FOR TRANSMITTAL TO AFR/PD. LYNCH

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ANTANANARIVO 004617/02

18 December 1986

USAID MARS PROJECT: COMPONENT FOR PARASTATAL STUDIES AND MONITORING

1. Background

The USAID Madagascar Agriculture Rehabilitation Support (MARS) project was initiated in April 1985, with the purpose to support Madagascar's agricultural liberalization policies and rehabilitation of the agriculture sector. The project was amended to add additional funds (Amendment No. 1) in June 1986. A design team is currently preparing the documentation for Amendment No. 2, which USAID hopes to obligate the amendment about a month after the reception of the text by the GDRM. The project is anticipated to continue through December 1988.

An important component of MARS Amendments No. 1 and 2 concerns the agricultural parastatal subsector. This component is to be implemented in close collaboration with the World Bank and its Second Agriculture Institutions Development Project; AID has agreed to support activities concerning parastatals which were originally envisioned to be included in the Bank's project. Partial funding for AID's parastatal component is included in MARS Amendment No. 1. Amendment No. 2 will complete funding for the activity.

The parastatal component of the MARS project is divided into two phases. Phase I, which corresponds to Amendment No. 1, is scheduled for January to August 1987; Phase II is scheduled for September 1987 to December 1988.

AID support will be implemented through AID's regional project for Parastatal Divestiture with Coopers and Lybrand, which is managed from AID's regional office in Nairobi, and which encompasses initiatives in Eastern and Southern Africa. A Coopers and Lybrand consultant visited Madagascar in September 1986 in order to make preliminary contacts and propose activities to be undertaken by Coopers and Lybrand during the first phase of activity in Madagascar. Based on meetings USAID has had during the last three weeks with the DGP, MPARA and MPAEF, and the World Bank, USAID proposes that specific activities which AID will finance over the course of the next two years will touch on the following points.

2. Objectives and Summary

The objectives of the parastatal component of MARS are:

To establish monitoring systems for parastatal performance with MPARA and MPAEF, thus strengthening the capacity within the ministries to collect and analyze information on parastatals in the agriculture sector;

To produce parastatal diagnostic studies and action plans for partial or complete divestiture for a group of parastatals selected jointly with the MPARA and MPAEF;

To produce a set of procedures (i.e. a manual) for agricultural parastatal assessment and divestiture planning.

With these objectives in mind, two lines of activity will be undertaken in each ministry, more or less in parallel. These lines of activity are:

Establishment/improvement of parastatal monitoring systems;

Preparation of diagnostic studies and in-depth action plans for selected parastatals.

Detailed work plans will be developed jointly, as the activities proceed, between the AID-funded consultants and representatives of the relevant government units.

3. Activity Description

a. Monitoring Systems

Working closely with MPARA and MPAEF staff, consultants will take the necessary steps to establish and/or strengthen standardized systems of financial reporting and performance monitoring for parastatal enterprises, including:

- (1) Data collection on the enterprises under the administrative supervision of the two ministries, to include quality and quantity of financial data and reporting procedures, and constraints within the enterprises which affect their reporting capability. Also, the needs of the ministries to assemble and analyze financial reports will be assessed.
- (2) Description of proposed monitoring systems, and steps required to establish them. This would include identification of constraints, including equipment required.
- (3) Putting the monitoring systems in place. On-the-job and in-country training will be important to this task. Also, AID plans to support a training program for accountants from the agricultural parastatals, which will cover the reporting requirements of the monitoring systems in the context of Madagascar's new accounting framework.

Items (1) and (2) are planned to be completed within Phase I, by August 1987. Item (3), the more substantial task, will take place during Phase II. The end result will be monitoring systems which the ministries can apply to all of the enterprises in its portfolio -- not only those selected for detailed study, below.

b. Studies and Action Plans

Again working closely with MPARA and MPAEF staff, consultants will assist with development of an information base and classification of enterprises and will study several enterprises in depth. The steps would proceed as follows:

- (1) Collection of information on the agriculture parastatals and their preliminary classification, such as by function, type of ownership, type of management, financial position, and other aspects of interest to the ministries.

- (2) Preliminary categorization of the enterprises according to possible recommended action, such as, for example, (a) enterprises that should operate on a commercial basis and could do so, partially or completely, within the private sector, (b) functions that could be realigned or consolidated but would remain in government control. Other categories would be included, as needed.
- (3) Identification of priority parastatals for in-depth study, including the development of criteria for selection of potential candidates for some form -- whole or partial -- of divestiture, and selection of about 5 parastatals for further study.
- (4) Diagnostic studies of the selected parastatals. These would be "corporate business plans" comprising financial and market analysis; structure and ownership; management capacity and personnel; enterprise objectives; and, assessment of legal, administrative, technical, organizational, marketing and other issues to be resolved.

The above activities are included in Phase I. The following would be conducted over the time period covered by Phase II.

- (5) Identification of steps to lead to divestiture in each case, including (a) identification of options such as divestiture of the entire enterprise; divestiture of minority shareholding; divestiture of profitable subsidiaries and/or particular assets of enterprises; divestiture of packages of profitable and unprofitable business units; (b) review of domestic and foreign sources of capital and management; (c) identification of potential investor groups; (d) other measures (e.g. new technologies or products, strengthening top management) needed to ensure the success of each divestiture and establish the basis for long term performance.
- (6) Preparation of action plans for divestiture, for GDRM use, which set forth necessary background information and tasks to be accomplished (including suggestion of innovative financial instruments) for each enterprise.
- (7) Preparation of a manual of procedures to be followed in Madagascar to systematically assess parastatals and their divestiture options, conduct diagnostic studies and prepare action plans.

It is important to note that AID support for diagnostic studies and action plans will be limited to parastatals which, in the ministries' view, have potential for some form of divestiture. Complementary funds from the World Bank Second Agriculture Institutions Development Project are available for the study of enterprises which are not analyzed under AID funding. These enterprises could be selected at the same time as the enterprises are selected for AID-funded study.

4. Resources

Consultants provided through Coopers and Lybrand will play an important role in the above tasks. However, a local accounting and management consulting firm will also play a key role in working along with Coopers and Lybrand to provide technical assistance and logistical/administrative support, and assist with on-the-job and in-country training.

Funds are set aside for several in-country seminars, the content of which will be defined following definition of needs, above. Participants are likely to include middle-level personnel in the two ministries and in key parastatals selected by the Ministries. Such seminars will be arranged and conducted by a local consulting firm or firms, with the participation of the external advisors, if necessary. The training program for parastatal accountants will be planned and implemented using a local accounting firm and/or training institute, with assistance by Coopers and Lybrand, if necessary.

Some external short term training will be funded, as needs are identified, in such areas as financial management, information systems, marketing or other topics.

Funds accruing under the MARS project from the sales of imported goods will be used to cover in-country travel of ministry staff and some other local costs associated with ministry participation in the above-described activities.

Funds are included to provide selected equipment (photocopiers, typewriters, calculators, microcomputers and vehicles).

LOCAL CURRENCY USE PLAN
FY 1988 ANNUAL BUDGET SUBMISSION

Country: Madagascar

Narrative: The sole source of U.S. generated counterpart funds in Madagascar before FY 1985 has been the PL 480 program, principally Title I. The Title I program is continuing. The counterpart generated is equivalent to the following dollar amounts:

FY 1981 -	\$ 5.0 million
FY 1982 -	\$ 5.0
FY 1983 -	\$ 8.0
FY 1984 -	\$ 8.0
FY 1985 -	<u>\$11.0</u>

Title I Total \$37.0 million

Of this amount deposited in Central Bank accounts by March 31, 1986, 62 percent had been allocated to projects. Twenty-nine percent (29%) had been disbursed. In addition, the FY 1986 Title I agreement will provide \$ 8.0 million in counterpart FMG, bringing the total Title I counterpart to \$ 45 million. Meanwhile, Title II (1984) emergency assistance was monetized in an amount equivalent to \$ 2.95 million and has been placed in a special account to be used for cyclone-related disaster requirements.

Beginning in FY 1985, with the signing of the first bilateral project between the U.S. and Madagascar in over 15 years, \$ 3.5 million of commodity imports will be used to generate counterpart funds. This project (687-0101) is joint DA/ESF funded. REDSO plans to amend this project in FY 1986, from ESF funds. Commodity imports under this amendment will generate \$2.2 million addition FMG.

By the close of FY 1986, Title I and ESF/DA generated local currency is therefore expected to total \$50.7 million in Madagascar. As the accompanying table shows, the Title I program is expected to continue at a \$ 8.0 million level during FY 1987 and FY 1988. The ES counterpart program, subject to budget cuts, will not exceed \$3.5 million in each year (plus \$0.5 million for Technical Assistance related grant activities).

The major question at the time of drafting (May, 1986) is whether the U.S. government will authorize REDSO to agree with the Government of Madagascar to program counterpart currencies resulting from the sale of U.S. rice imported under the new Food for Progress (FFPR) program. This program will begin in FY 1986, for three years (FY 86-88). It is now clear that REDSO will have no authority to program revenues from the sale of 30,000 MT of rice provided under FY 1986 FFPR program. We understand, however, and we strongly recommend, that REDSO be given such authority for currencies which accrue from sales of FFPR 21,000 MT of rice in each of FY 1987 and 1988. Total counterpart funds which may become available from these sales is estimated (subject to rice price variation) to reach \$ 12. million.

REDSO/ESA's up-date of the CDSS strategy for Madagascar, which ID/W reviewed in April, 1986, outlines a plan for the use of these counterpart currencies in support of AID's development program in Madagascar. (see pp 24-26).

AID's long-term objective in Madagascar is food self-reliance, with the central focus in the short and medium term on the rice sub-sector. The Government of Madagascar (GDRM) has agreed with the donor community, as represented at the Consultative Group which met most recently in late April 1986, to take the necessary policy decisions to completely liberalize the production and marketing of rice. Whereas these policy changes will give the price incentives which farmers, millers, and traders require to produce and market more rice, these groups also require improved rice seed, repaired infrastructure (especially dikes, roads and village water systems), better services than those which State Companies are able to provide, and measures to stem Madagascar's colossal soil erosion. These groups also require new equipment - improved hand ploughs and threshers, light tractors, light trucks and road building machines - to farm and market rice. And if the long-term objective -- food self-reliance -- is to be achieved, Madagascar must begin now a program of family health services.

AID's program in Madagascar is keyed to each of these requirements. Commodity imports and counterpart funds are an integral part of this program.

Rice Policy Reform: Given the run-down state of Madagascar's economy, it will be several years before price incentives have their intended effect. During this transition period, FFPR and Title I rice imports will provide a major share of perhaps half of the rice imports Madagascar will require. The GDRM, in close agreement with the IBRD, USAID and the World Food Program, will ensure the careful marketing of these rice imports so as to have no disincentive effects for the target groups (producers, millers and marketers). REDSO has begun to study alternatives to rice which may be imported under PL 480 Title I as local per capita rice production increases and import requirements decrease. We estimate that the majority share of Title I commodities will consist of commodities other than rice beginning with the FY 1989 agreement, although in FY 1986 fully half of the \$ 8.0 million value was already devoted to vegetable oil purchases.

Improved rice seed: AID supports the introduction and testing of improved rice varieties through a grant to the International Rice Research Institute (IRRI). Approximately \$2.0 million in counterpart funds in each of FY 1987 and FY 1988 will refurbish the badly deteriorated rice research stations in key climatic zones of Madagascar upon which the testing of improved rice varieties depends.

Repaired infrastructure: Three quarters of all Title I generated counterpart in the first three complete years of the program (FY 1981-83) have been committed to research (11%) and infrastructure projects, notably irrigation and land development (29%), village water

projects (11%), and feeder road repairs (8%). This emphasis will continue at a level of \$4.0 million per year and may even increase if U.S. counterpart funds can be used to support other donor programs in these categories.

Private Services: To improve services to farmers and expand markets for millers, merchants and other figures in the agriculture sector, A.I.D. is exploring ways to use counterpart funds to encourage entrepreneurs and other private sector activities. We plan to couple a line of credit drawn from counterpart currencies with a foreign currency credit provided by another donor, to help ease the credit restraint which dampens private initiative in the agro-industrial sector. This local credit could grow to \$1.0 - \$2.0 million per year. In addition, AID may provide counterpart on a trial basis as part of an export promotion and guarantee scheme which could grow to absorb equivalent amounts of currency annually.

Soil conservation: A.I.D. will support with up to \$1.0 million annually the promising activities of the GDRM and of other donors which aim at watershed management and at other means of reducing soil erosion in food growing areas.

New equipment: In addition to rice and other foods, A.I.D. will finance the import of equipment to assist in the production and marketing of rice and other crops. These imports will all pass through private sector dealers in Antananarivo and much of the equipment (although we cannot say how much) will become private property. To the medium-size tractors and Caterpillar road building equipment imported under the FY 1985 agreement, light farm-to-market trucks will be added in FY 1986.

Family Health Services: A.I.D. will consider, in collaboration with UNICEF, providing up to \$1.0 million per year for the oral rehydration and immunization program which is expected to be launched in 1986. This will complement centrally-funded services which A.I.D. will provide to various key aspects of Madagascar's nascent family planning program. As part of U.S.A.I.D.'s plan, in collaboration with UNFPA, to support through BUCEN selected training and software costs associated with Madagascar's next general census, planned for 1988 (CDSS up-date, p. 23), U.S. counterpart may be used to cover the local costs of this highly important activity. (The preceding national census was carried out - and only partially completed - in 1975.)

Trust Fund: In addition to the uses of counterpart currency identified above, REDSO expects to sign in June, 1986 the first Trust Fund agreement with Madagascar. The initial increment of funds (\$165,000) will be derived from grant aid commodities, not Title I (loan) financed imports, and will cover all local costs of the USAID program in Madagascar. Future increments will be deposited from the ESF-funded commodity program planned in the period FY 86-88 and like to be continued thereafter.

FY 1988 ANNUAL BUDGET SUBMISSION
 Table VI: Expenditures of Local Currency Generations
 (all in the U.S. dollar equivalents, and in \$ millions)

Source/Purpose	1985 ACTUAL	1986 EST.	1987 Planned	1988 PROP.
<u>ECONOMIC SUPPORT FUND</u>				
Public Dev. Activities	-	-	1.0	2.0
1. e.g. Agriculture Research, irrigation, rural infra structure (also indicate the amount of this counter part which is in direct support of AID projects)				
2.				
Private Sector Programs	-	-	0.5	1.0
1.				
2.				
Public Sector Recurrent Budget	-	-	-	-
.				
.				
AID Operating Expenses (Trust Fund)	-	(1)	0.079	0.09
<u>DEVELOPMENT ASSISTANCE</u>				
Public Development Activities	-	-	0.5	-
.				
.				
Private Sector Programs, Small Enterprise Credit (also include type of organization, e.g., PVO, Coop, Business, Other)	-	-	-	-
e.g., PVO, Small Enterprise Development	-	-	-	-
e.g., Coop, Housing	-	-	-	-
Public Sector Recurrent Budget	-	-	-	-
.				
.				
AID Operating Expenses (Trust Funds)	-	-	-	-
DSO/ESA plans to sign Trust Fund Agreement with GDRM in June, 1986 but cannot guarantee date of signing				
TOTAL ESF & DA	-	-	2.079	2.09

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FY 1988 ANNUAL BUDGET SUBMISSION

Table VI: Expenditures of Local Currency Generations
(all in the U.S. dollar equivalents, and in \$ millions)

Source/Purpose	CY	CY	CY	
	1985 ACTUAL	1986 EST.	1987 Planned	
PL 480 TITLE ONE				
Public Development Activities	\$4.4	6.7	8.5	U.S.
1 Support for AID Rice Research Program (with IRRI)	-	(1.2)	(2.0)	U.S.
2 Irrigation, village water, rural roads, etc.	(4.4)	(5.5)	(6.5)	PT/T
Private Sector Programs	-	-	-	DIFF
1.				OTHE
2.				OTHE
Public Sector Recurrent Budget	-	-	1.0	EDUC
1. e.g., <u>Child Survival</u> (also indicate the amount of this counterpart which is in direct support of AID projects)	-	-	(1.0)	RETI
2. Agriculture or other subsidies	-	-	-	LIVIN
AID Operating Expenses (Trust Funds)	-	-	-	OTHE
TOTAL PL 480 Title	\$4.4	\$6.7	9.5	OTHE
TOTALS (ESF, DA, PL 480 Title I)	\$4.4	\$6.7	\$11.579	POST
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Background for Private Sector Studies

The 9/84 IBRD and PL480 counterpart funded study of the rice sector, undertaken by Associates for International Resources and Development, identified a number of regulatory issues which appear to be hindering private sector business development in rice-related services. In particular it appears, at a minimum, that licensing procedures for rice marketing agents need to be simplified to reduce entry barriers in this service area. In addition, regulations on means of rice transport, and locations of warehousing, appear to be too restrictive. Further, regulations which appear to limit the economic activities of owners of rice hullers need to be clarified - investors have been discouraged by legal ambiguities which affect whether they are also allowed to participate in the purchasing, warehousing, and sales of paddy and rice.

The AIRD study also indicates that inadequate importation and distribution of fertilizer, as well as impediments to seed importation, multiplication, and sale have contributed greatly to stagnation in domestic rice production. Though rice covers 50% of the cultivated area in Madagascar, only a small percentage of fertilizer is currently available to rice producers. Even in 1980, rice producers were allocated only 25% of the national fertilizer supply by the GDRM. Furthermore, use of fertilizer in rice production has declined dramatically over the past decade, in the case of NPK fertilizer, for example, declining from 11,000 tons in 1973 to only 240 tons in 1980. More recently the fertilizer supply situation has improved slightly, but in the '82-83 season supply had not yet recovered to even a third of the quantity available to rice producers a decade earlier. This shortage of fertilizer can be attributed to a number of factors: (1) the absence of any effective distribution system; (2) public transport policies which prioritize transport of rice from Tamatave to Antan over fertilizer transport; (3) the increase in world fertilizer prices since 1970, (4) increasing balance of payments difficulties coupled with insufficient prioritization of fertilizer imports as a claim on foreign exchange, and (5) IBRD requirements in 1984-1985 that fertilizer subsidies be eliminated. Large quantities of imported fertilizer remained in the port in '82 and '83 because priority access to the rail was assigned to imported rice. Transport of fertilizer to the major rice producing areas from the alternative port of Majunga is expensive and difficult because roads are in poor condition. In sum, transport problems have increased fertilizer costs and have considerably delayed distribution to producers. Even before the 1985 rice price liberalization reforms, producers' demand for fertilizer was largely unsatisfied; for example, during rationing of subsidized fertilizer in '82, amounts resold brought 200% of the official price. Now that rice prices have almost doubled from '85 to '86, considerable opportunity appears to exist for private sector fertilizer sales to producers. Under normal conditions of partial water management, and using local rice varieties, trials have shown that one kilo of NPK fertilizer produces 3.5 kilos of supplementary paddy production. Thus, using 1984 prices, each \$1 of fertilizer imported saves \$3 of rice imports.

Supplies of improved rice seeds have also dropped dramatically, from 750 tons in 1960 to only 250 tons in 1982. This level of supply is only sufficient for 50,000 hectares (5% of the rice cultivation area). Up until 1980, the GDRM had no coherent policy on rice seed production. Seeds distributed at Lac Alaotra had not been renewed, and yields were declining. A number of factors contributed to this reduction in seed quality and availability. First, obsolete seed multiplication equipment and infrastructure are producing only enough seed for areas near the multiplication stations. Furthermore, until 1981 seed prices were fixed at too low a level to encourage producers. A final factor is Madagascar's excessively restrictive quarantine policies, which have not been modified even though local seed production capacity remains inadequate and the rice production deficit has increased.

Transport system deterioration has inflated transport costs, thereby increasing retail rice prices. Some roads inflict so much punishment on vehicles that transport companies find it uneconomic to service these routes; this interferes with the collection of rice surpluses in some areas and the resale of these stocks in rice deficit areas. Now that the IBRD's Sixth Highway Project and the MARS CIP component are importing spare parts for road repair equipment, opportunities have opened up for private sector road repair and transport services.

There is also a need for increased private sector activity in irrigation rehabilitation and expansion. The area under irrigation in Madagascar only increased by 57,000 hectares between 1970 and 1978, representing a significant decline in the rate of expansion of irrigation in comparison to the 1960-1970 decade, during which 169,000 hectares of new irrigation were developed. According to AIRD, less than 50% of the irrigated command area is actually under cultivation, due to insufficient irrigation system maintenance.