

USAID Project No. 687-0118  
Dollar Appropriation No. 72-114/51014  
Budget Plan Code: GSS4-94-21687-KG13  
Grant No. 687-0118-G-SS-4006-00

**PROJECT GRANT AGREEMENT**

**BETWEEN**

**THE GOVERNMENT OF THE REPUBLIC OF MADAGASCAR**

**AND**

**THE UNITED STATES OF AMERICA**

**ACTING THROUGH**

**THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**FOR**

**THE COMMERCIAL AGRICULTURAL PROMOTION PROJECT**

**("CAP")**

*A2110*

**DATED: AUG 25 1994**

## TABLE OF CONTENTS

<b>ARTICLE 1: The Agreement</b> . . . . .	1
<b>ARTICLE 2: The Project</b> . . . . .	1
Section 2.1. Definition of Project . . . . .	1
Section 2.2. Incremental Nature of Project . . . . .	2
<b>ARTICLE 3: Financing</b> . . . . .	2
Section 3.1. The Grant . . . . .	2
Section 3.2. Grantee Resources for the Project . . . . .	3
Section 3.3. Project Assistance Completion Date (PACD) . . . . .	3
<b>ARTICLE 4: Conditions Precedent to Disbursement</b> . . . . .	3
Section 4.1. Conditions Precedent to First Disbursement: . . . . .	3
Section 4.2. Conditions Precedent to Award of any Assistance for the Input Supply Fund . . . . .	4
Section 4.3. Conditions Precedent to Use of Local Currency Funds under the Project . . . . .	4
Section 4.4. Notification . . . . .	5
Section 4.5. Terminal Dates for Conditions Precedent . . . . .	5
<b>ARTICLE 5: Special Covenants</b> . . . . .	5
Section 5.1. Project Evaluation . . . . .	5
Section 5.2. Timely Disbursement from the Local Currency Fund . . . . .	5
Section 5.3. Continued Performance under the Project . . . . .	6
<b>ARTICLE 6: Procurement Source</b> . . . . .	6
Section 6.1. Foreign Exchange Costs . . . . .	6
Section 6.2. Local Currency Costs . . . . .	6
<b>ARTICLE 7: Disbursement</b> . . . . .	6
Section 7.1. Disbursement for Foreign Exchange Costs . . . . .	6
Section 7.2. Disbursement for Local Currency Costs . . . . .	7
Section 7.3. Other Forms of Disbursement . . . . .	8
Section 7.4. Rate of Exchange . . . . .	8
<b>ARTICLE 8: Miscellaneous</b> . . . . .	8
Section 8.1. Project Implementation Letters . . . . .	8
Section 8.2. Communications . . . . .	8
Section 8.3. Representatives: . . . . .	8
Section 8.4. Project Grant Standard Provisions Annex . . . . .	9
<b>Annex I:</b> Amplified Project Description . . . . .	
<b>Annex II:</b> Illustrative Summary of Project Costs by Expense Category and Source of Funding . . . . .	
<b>Annex III:</b> Project Grant Standard Provisions Annex . . . . .	

USAID Project No. 687-0118  
Dollar Appropriation No. 72-114/51014  
Budget Plan Code: GSS4-94-21687-KG13  
Grant No. 687-0118-G-SS-4006-00

## PROJECT GRANT AGREEMENT

FOR

### THE COMMERCIAL AGRICULTURAL PROMOTION (CAP) PROJECT

Dated: AUG 25 1994

Between

The Government of the Republic of Madagascar  
(hereinafter referred to as the "Grantee")

and

The United States of America, acting through  
the U.S. Agency for International Development  
("USAID")

#### ARTICLE 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

#### ARTICLE 2: The Project

##### Section 2.1. Definition of Project:

The Project, which is further described in Annex I, is designed to increase the marketed production of agricultural products in the Fianarantsoa and Mahajanga high potential zones (HPZs). The Project has three components: (i) a technical assistance program to develop and strengthen agribusinesses and producer groups within the HPZs and to facilitate the implementation of the other components; (ii) an Input Supply Fund, in foreign exchange, to enable importers to acquire materials and equipment to support the production, processing and distribution of agricultural products; and (iii) a Local Currency Fund generated by the import fund, principally to support the rehabilitation of transport infrastructure within the HPZs.

The Amplified Project Description set forth in Annex I, attached hereto and made a part hereof, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex I, may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2. without formal amendment of this Agreement.

### **Section 2.2. Incremental Nature of Project:**

a) USAID's contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1. of this Agreement. Subsequent increments will be subject to availability of funds to USAID for this purpose, and to the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

b) Within the overall Project Assistance Completion Date ("PACD") stated in this Agreement, USAID, based upon consultation with the Grantee, may specify in Project Implementation Letters (PIL) appropriate time periods for the utilization of funds granted by USAID under each individual increment of assistance.

## **ARTICLE 3: Financing**

### **Section 3.1. The Grant:**

a) To assist the Grantee to meet the costs of carrying out the Project, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee under the terms of this Agreement an amount not to exceed Seven Million Three Hundred Ninety Thousand One Hundred Twenty Two United States (U.S.) Dollars (\$7,390,122), which amount represents the initial increment of a planned multi-year project in the total amount of Twenty Nine Million United States (U.S.) Dollars (\$29,000,000). Notwithstanding any other provision of this Agreement, obligation of the remaining Twenty One Million Six Hundred Nine Thousand Eight Hundred Seventy Eight United States (U.S.) Dollars (\$21,609,878) shall be subject to the availability of funds to USAID for this purpose, and to the mutual agreement of the Parties to proceed at the time of the subsequent increment(s). The total amount of the Project is referred to herein as the "Grant".

b) If at any time USAID determines that its contribution to the Project under subsection 3.1.(a) exceeds the amount which reasonably can be committed for Project purposes during the current or following U.S. Fiscal Year, upon written notice to the Grantee USAID may withdraw the excess amount, thereby reducing the amount of the Grant as set forth in Section 3.1.(a). Actions taken pursuant to this subsection shall not revise USAID's total estimated contribution to the Project as set forth in Section 2.2.(a).

c) The Grant may be used to finance foreign exchange costs, as defined in Section 6.1. of this Agreement, and local currency costs, as defined in Section 6.2. of this Agreement, of goods and services required for the Project.

### **Section 3.2. Grantee Resources for the Project:**

a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

b) The total resources provided by the Grantee for the Project will be not less than the equivalent of Two Million Nine Hundred Sixty Thousand United States (U.S.) Dollars (\$2,960,000). Under this Agreement for 1994/1995, the Grantee will contribute Six Hundred Sixty Two Thousand United States (U.S.) Dollars (\$662,000). Host Country contribution will be provided in local currency funds and may include costs borne on an "in-kind" basis. The rate of exchange will be determined as set forth in the Amplified Project Description attached hereto as Annex I.

### **Section 3.3. Project Assistance Completion Date (PACD):**

a) The PACD, which is September 30, 1999, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

b) Except as USAID may otherwise agree in writing, USAID will not issue or approve documentation which would authorize disbursement of the Grant for services performed or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by USAID or any bank described in Section 7.1. no later than nine (9) months following the PACD, or such other period as USAID agrees to in writing. After such period, USAID, giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

## **ARTICLE 4: Conditions Precedent to Disbursement**

### **Section 4.1. Conditions Precedent to First Disbursement:**

Except as USAID may otherwise agree in writing, prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to USAID, in form and substance satisfactory to USAID:

a) An opinion of counsel that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

b) A written statement setting forth the names and titles of the persons holding or acting in the Office of the Grantee, and representing that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each such person certified as to its authenticity.

**Section 4.2. Conditions Precedent to Award of any Assistance for the Input Supply Fund:**

Prior to the issuance of any USAID Letters of Commitment or other documentation for the foreign exchange funding of the Input Supply Fund (ISF), as described in the Amplified Project Description set forth in Annex I of this Agreement, the Grantee will provide written evidence, in form and substance satisfactory to USAID, of the following:

a) Agreement by the Grantee (Ministry of Finance and Budget) that for the period covered by the Agreement, all *Taxe sur les Transactions* (TST) or any similar taxes which may replace the TST in the future (such as a Value-Added Tax) related to the CAP Project, including but not limited to activities of any contractor in Madagascar under the Project, and all contracts executed for road rehabilitation and maintenance works funded through the Local Currency Fund of the project, will be paid by the Grantee.

b) Establishment of a special, separate, non-commingled interest-bearing account at the Central Bank of Madagascar in the name of the CAP Project for all local currency generated through use of the ISF to be controlled and managed by the Ministry of Finance and Budget (MFB), and used in accordance with this Agreement.

**Section 4.3. Conditions Precedent to Use of Local Currency Funds under the Project:**

Prior to the disbursement of any Local Currency Funds (LCF) from the CAP Project FMG account at the Central Bank, the Grantee agrees to provide to USAID, written evidence of the following:

a) USAID/Madagascar or an independent audit firm supervised by the Mission Controller will, with the assistance of the GRM, make a general assessment of the capability of the Central Bank and the Ministry of Territorial Management (MTM) to determine that they are able to manage the Local Currency Fund in a sound and timely manner in order to achieve the project purpose.

b) A written statement setting forth the names and titles of the persons holding or acting in the MTM and representing that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each such person certified as to its authenticity.

c) The MTM, with the approval of the MFB, has named and has in place Régisseurs in both Mahajanga and Fianarantsoa who will be responsible for financial accounting and disbursement of the local currency funds at the regional level.

d) The MTM has named and has in place regional technical coordinators in both Mahajanga and Fianarantsoa to work with CAP Project staff and the Regional Infrastructure Committees to select and contract for transport rehabilitation activities.

e) The MTM, with the approval of the MFB, has opened special, separate, non-commingled interest-bearing accounts in the name of the CAP Project and under the direct management of the MTM Régisseur, in commercial banks located in Fianarantsoa and Mahajanga. These accounts will be used by MTM to pay for all transport rehabilitation work by private sector firms under the CAP Project.

#### **Section 4.4. Notification:**

When USAID has determined that the conditions precedent specified in Section 4.1. have been met, USAID will promptly notify the Grantee.

#### **Section 4.5. Terminal Dates for Conditions Precedent:**

If all of the conditions specified in Section 4.1. have not been met within 120 days from the date of this Agreement, or such later date as USAID may agree to in writing, USAID, at its option, may terminate this Agreement by written notice to the Grantee.

### **ARTICLE 5: Special Covenants**

#### **Section 5.1. Project Evaluation:**

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the evaluation program will include, during the implementation of the Project, and at one or more points thereafter:

- a) evaluation of progress towards attainment of the objectives of the Project;
- b) identification and evaluation of problem areas or constraints which may inhibit such attainment;
- c) assessment of how such information may be used to help overcome such problems; and,
- d) evaluation, to the degree feasible, of the overall development impact of the Project.

#### **Section 5.2. Timely Disbursement from the Local Currency Fund:**

The Grantee agrees that once the Management Engineering Firm (MEF) confirms that a construction milestone has been reached and a request for payment has been submitted to the MTM, the LCF will be disbursed promptly, and in no event later than 30 days shall elapse before payment is made by the MTM, as more specifically set forth in Annex I of this Agreement, which may be supplemented by Project Implementation Letters.

### **Section 5.3. Continued Performance under the Project:**

The Parties agree that the disbursement of dollar funds under this Agreement for the purpose of providing technical assistance, commodities or other services in connection with the Project, as more specifically described in Annex I of this Agreement, shall be conditioned upon the continued performance of the Grantee under the Project and in accordance with the terms of the Project Agreement.

## **ARTICLE 6: Procurement Source**

### **Section 6.1. Foreign Exchange Costs:**

Except as USAID may otherwise agree in writing, disbursements pursuant to Section 7.1. will be used exclusively as follows:

a) To finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to suppliers of services, their nationality in the countries included within Code 935 of the USAID Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services, except as provided in the Project Grant Standard Provisions Annex, Section C.1.(b) with respect to marine insurance ("Foreign Exchange Costs"). All reasonable efforts will be used to maximize U.S. procurement whenever practicable. Air travel and transportation to and from the U.S. shall be upon certified U.S. flag carriers to the extent such carriers are available;

b) A blanket Determination of Non-Availability (DNA) of U.S. flag vessels for Madagascar was approved by FA/OP/TRANS on January 1, 1994, pursuant to authorities provided in Handbook 15, Chapter 7, Section 7C7a(3). Therefore, USAID/Madagascar is relieved of the cargo preference requirement for the tonnage covered by the DNA.

### **Section 6.2. Local Currency Costs:**

Disbursements pursuant to Section 7.2. will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as USAID may otherwise agree in writing, their origin in Madagascar ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

## **ARTICLE 7: Disbursement**

### **Section 7.1. Disbursement for Foreign Exchange Costs:**

a) In accord with requirements of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to USAID, with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for USAID to procure commodities or services in Grantee's behalf for the Project; or,

(2) by requesting USAID to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to USAID, committing USAID to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing USAID to pay such contractors or suppliers for such goods or services.

b) Banking charges incurred by the Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs USAID to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

#### **Section 7.2. Disbursement for Local Currency Costs:**

a) Subject to satisfaction of relevant conditions precedent in Section 4, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with terms of this Agreement, by submitting to USAID, with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by USAID with U.S. dollars by purchase or from local currency already owned by the U.S. Government; or,

(2) by USAID, (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making available to the Grantee, through the opening or amendment by USAID of Special Letters of Credit in favor of the Grantee or its designee, an amount of U.S. dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

c) The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by USAID to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

### **Section 7.3. Other Forms of Disbursement:**

Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

### **Section 7.4. Rate of Exchange:**

Except as may be more specifically provided under Section 7.2. if funds provided under the Grant are introduced into Madagascar by USAID or any public or private agency for purposes of carrying out obligations of USAID hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of Madagascar at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Madagascar.

## **ARTICLE 3: Miscellaneous**

### **Section 8.1. Project Implementation Letters:**

From time to time, for the information and guidance of both parties, USAID/Madagascar will issue Project Implementation Letters describing the procedures applicable to the implementation of this Agreement.

### **Section 8.2. Communications:**

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee: Minister of Finance and Budget

Mail Address: Ministry of Finance and Budget  
B.P. 129  
101 Antananarivo, Madagascar

To USAID: Mission Director

Mail Address: USAID Madagascar  
B.P. 5253  
101 Antananarivo, Madagascar

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

### **Section 8.3. Representatives:**

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Minister of Finance and Budget, and

USAID will be represented by the individual holding or acting in the Office of the Director, USAID/Madagascar, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1. to revise elements of the Amplified Project Description in Annex I. The names of the representatives of the Grantee, with specimen signatures, will be provided to USAID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

**Section 8.4. Project Grant Standard Provisions Annex:**

A "Project Grant Standard Provisions Annex" (Annex III) is attached to, and forms part of this Agreement.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

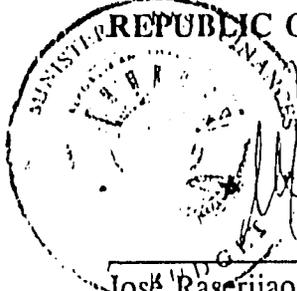
FOR THE UNITED STATES  
OF AMERICA



*[Handwritten signature]*

Ambassador  
of the Republic of Madagascar

FOR THE GOVERNMENT OF THE  
REPUBLIC OF MADAGASCAR



*[Handwritten signature]*  
Jose RASERIJANA

Jose Raserijaona  
Title: Minister of Finance  
and Budget

Date:           AUG 25 1994          

Date:           25 AOUT 1994          



*[Handwritten signature]*

William Hammink  
Title: Acting Mission Director  
USAID Madagascar

Date:           AUG 25 1994

Drafted by JRazafindretsa, PDA/PD - 5/17/94 *JR*

Cleared by:

J-PPaddack, PDA/PD  
THerlehy, ADO  
FMartin, A/PDA  
TFillinger, RLA

*JRP*  
*Herlehy*  
*Martin*  
\_\_\_\_\_  
Draft

Date: 7/29/94  
Date: 7/29/94  
Date: 7/29/94  
Date: 6/29/94

Funding is available for this Project Grant Agreement.

PROJECT: 687-0118  
APPN: 72-114/51014  
BPC : GSS4-94-21687-KG13  
RCN : A946028  
AMOUNT: \$ 7,390,122.00

*Frank Breen*  
\_\_\_\_\_  
Frank Breen, Controller

Date: 8/2/94

OFFICE OF THE CONTROLLER  
BOARD/MADAGASCAR  
FUNDS  
AVAILABLE *1/1/94*  
BY *1/1/94* DATE: 8/2/94

## GRANT AGREEMENT AMPLIFIED PROJECT DESCRIPTION

### I. BACKGROUND

Following the nationalization of the economy in the early 1970s, agricultural marketing became dominated by some 25 parastatal monopolies. The centrally controlled economy set prices for most agricultural commodities at below the cost of production, tried but could not deliver fertilizer, seed and other inputs to farmers in a timely manner, and failed to install a system to deliver consumer goods which rural households wanted to purchase. Farmers were deprived of the incentives as well as the means to produce marketable surpluses. Consequently, farming households retreated into self-sufficiency and the commercially-oriented agricultural system collapsed.

The Government of Madagascar liberalized agricultural marketing in the late 1980s. Competitive pricing and trade gave farmers new incentives to produce for the market. However, the new marketing system which emerged is highly volatile: speculators, searching for quick profits, enter and leave markets; small and medium-sized rural-based agribusinesses cannot get access to sufficient foreign exchange to import the materials necessary to sustain increases in productivity; and farm to market roads are inadequate to support increases in marketing activities. Agricultural production regions continue to be isolated due to poor roads, inefficient communications and lack of market information.

### II. PROJECT RATIONALE

The recent modest growth in commercially-oriented agricultural production and marketing activities is the result of policy and regulatory marketing reform. But, in order to sustain the growth of commercial agricultural activities, agribusiness firms and producers will need the means to take advantage of these reforms. Specifically:

- \* Farmers' organizations, nascent agribusiness associations, and small and medium-sized agribusiness firms need assistance to organize themselves and establish reliable marketing arrangements.
- \* Rural-based agribusiness firms need access to foreign exchange and assistance in buying the agricultural technology needed to increase productivity.
- \* The rural marketing network required for transport of inputs and outputs requires rehabilitation and maintenance.

Therefore, the USAID/Madagascar Commercial Agricultural Promotion (CAP) Project will support the development of successful commercial agricultural activities by addressing these key constraints in selected *fivondronana* of the Mahajanga and Fianarantsoa high potential zones (HPZs).

### III. PROJECT PURPOSE

The purpose of the project is to increase the marketed production of agricultural products in the Fianarantsoa and Mahajanga high potential zones (HPZs). Successful implementation of the project will result in the following end-of-project status:

- \* Reduced transport costs for agricultural products in the HPZs.
- \* Increased off-season cropping and intensity of cultivation.
- \* Greater marketed volume of key agricultural commodities such as rice, wheat, corn, fruits and vegetables (particularly where road conditions and trade relationships have been improved).
- \* Increased number and diversity of market participants - collectors, transporters, processors and distributors (particularly where rural roads and trade relationships have been improved).
- \* Diversified markets for agricultural products from the HPZs.

The project is consistent with the Mission's and the Government of the Republic of Madagascar's (GRM) objectives in that it is concentrated in two regions that have both great need for assistance and high potential for making good use of it. By working with and through the private sector, the CAP Project will help improve the socio-economic welfare of the people earning their living in the selected HPZs. The CAP Project will support activities which will benefit the agribusiness owners and their suppliers, the farming households, of the HPZs and elsewhere, which account for over 70 percent of the country's employment and lower-income groups. Diversification of agricultural production and marketing will contribute to improved participation by women in economic decisions and benefits because they have a more important role than men in the production of crops other than rice and corn. A significant share of the small and medium-scale enterprises that will benefit from the project's technical assistance are owned and managed by women and the majority of small-scale collectors are also women. To help ensure that women share fully in project benefits, promotion efforts directed at the agribusiness and producer community will emphasize the CAP Project's interest in attracting women clients as well as men.

Overall, the project will work within established community and commercial relationships, trying to reinforce them through technical support by adding to the information and know-how with which participants negotiate their agreements, whether for production, credit or marketing. This will help raise living standards and improve the socio-economic welfare of the people of the HPZs.

### IV. PROJECT DESCRIPTION

The project will consist of three principal components:

- \* **Agribusiness Support Component** to strengthen agribusinesses and producer groups within the HPZs and to facilitate the implementation of the other components;
- \* An **Input Supply Fund (ISF)**, in foreign exchange, to import agricultural materials and equipment to support increases in the production, collection, processing and distribution of agricultural products; and
- \* A **Local Currency Fund (LCF)** generated by sales of the agricultural

imports, to support the rehabilitation of market transport infrastructure (i.e. secondary roads) within the HPZs.

The project will work principally through commercial channels and will focus on existing small and medium-sized enterprises and organizations which have already demonstrated their ability to use effectively the resources and opportunities at their disposal. The project will not extend credit to participants but will help clients with business and investment plans to improve their access to existing credit facilities. The three project components are described below in sections A, B and C.

#### **A. Support to Agribusinesses and Producers:**

"Agribusiness" is defined as an enterprise engaged in any non-farm marketing activity both for inputs and outputs in the HPZs, such as fertilizer, seed or implement storage and sales, or the packing, transport, storage, processing, and wholesale or retail sale of agricultural produce. "Producer group" or "producer association" is defined as those which are formally organized as well as those which are informally assembled for a specific time or purpose.

##### **1. Objective:**

The objective of the agribusiness support component is to give agribusinesses and associated producer groups both the incentive and the capacity to participate more actively in commercial agriculture and to respond to new opportunities as recovery takes place elsewhere in the economy. This is not an institution-building project but it will reinforce and develop the capability of existing enterprises and organizations.

The project is demand-driven in that the services to be provided have been requested by HPZ enterprises. Because the needs of individual enterprises and groups of producers vary greatly, the project will offer a range of services to agribusinesses or groups which meet specific definitions, criteria, parameters and performance indicators.

##### **2. Activities:**

###### **a. Business Support Services:**

To improve the performance of agribusinesses in the HPZs, the project will provide the following services to individual firms which meet the criteria for assistance:

- \* Market research and planning;
- \* Business and investment planning;
- \* Accounting and financial services;
- \* Technical support;
- \* Managerial support; and
- \* Training and staff development.

Some of this assistance will be provided for specific investment proposals and credit applications, while other assistance will help strengthen existing operations, such as strengthening relations with the producers or suppliers network. These agribusiness services will be offered only after a business diagnosis has been done for firms requesting

assistance and a **Client Service Plan** developed which involves close technical collaboration.

b. Market Information:

To initiate efforts to help meet the market information needs of producers and agribusiness, the project will:

- \* Routinely assemble, analyze and redistribute market information collected by project personnel in the course of their field work in the two HPZs and in Antananarivo. Project staff will distribute this information through their offices in Antananarivo, Mahajanga and Fianarantsoa.
- \* Conduct a study of market information needs and suggest alternatives for meeting those needs. The study will focus on the provision of market information that is not time-sensitive information (e.g., names and addresses of suppliers, commodity trends, and basic technical advice).
- \* Consider using project local currency generations to fund a suitable market information system that may be identified as a result of the aforementioned study in tandem with the Government of the Republic of Madagascar (GRM) and project beneficiaries.

c. Agribusiness Apprentice Program:

Agribusinesses which complete a **Client Service Plan** or business development plan which involves the need for additional employees on a trial basis will be eligible to receive assistance in the form of agribusiness apprentices. The agribusiness apprentices will only be provided in cases where the agribusinesses present evidence of the need for such apprentices. Project funding of the agribusiness apprentices is justified as a means to help reduce risks for the firms which are involved in new marketing endeavors.

Young Malagasy agriculture graduates from the HPZs will be recruited by project staff and may be eligible for supplementary training in specific crop production and marketing techniques. Each agribusiness apprentice will be assigned to an agribusiness client pursuant to an agreement with the project. The recruitment, training and placement process will be managed by a Malagasy firm under sub-contract to the CAP contractor. The agribusiness apprentices will be paid a small stipend but they are not to be considered project employees; they are employees of the agribusiness. A specific contract will be negotiated between the agribusinesses and their apprentices to this effect.

The project anticipates agribusiness apprentices will work with producer groups whose produce is purchased and processed by the agribusiness firm. The agribusiness apprentice could, for example, help organize production, distribute inputs, provide technical guidance, monitor the crop to ensure it meets marketing standards, or help organize its collection. However, if an agribusiness uses the apprentice as only a laborer or clerk, the agreement between the project and the agribusiness and the assignment of the apprentice could be terminated.

The Malagasy firm under sub-contract to the CAP contract will pay the costs of

relocation and training of the agribusiness apprentices and provide a modest monthly stipend. The agribusinesses themselves will pay the costs of transportation, lodging and other direct incidental expenses related to the work of the apprentice.

The agribusiness apprentice will work with an agribusiness for no more than 12 months. At the end of that period the agribusiness may choose to employ the apprentice directly. Otherwise, the apprentice will have acquired enough experience to undertake more specialized employment or start an enterprise of his or her own.

### 3. Agribusiness Eligibility for Project Assistance:

Assistance of a general nature such as access to reference material and project-generated market information will be made available to any enterprise or producer association or institution with a bona fide interest in agribusiness development in Madagascar.

However, to obtain direct project support, an agribusiness must meet the following criteria:

- \* be commercially active in one or both of the HPZs, such as by buying and/or selling agricultural products in the HPZs or by providing services for agricultural production and marketing activities in the HPZs;
- \* have an established record of commercial operations in the activity proposed for technical assistance, or in another activity which is sufficiently close to the existing business that the firm would have a basic familiarity with it;
- \* be engaged in an activity which, prima facie, appears to offer viable financial opportunities, including additional income for agricultural producers, in one or both of the HPZs;
- \* provide their own personnel and logistics as part of the assistance effort; and,
- \* work directly or indirectly with groups of producers to facilitate improved production and marketing of specific agricultural commodities.

In addition, the proposed activity must not create or have a negative impact on the surrounding natural resource environment, such as on the plant and animal life.

These criteria may be adjusted during project implementation in response to shifting needs and opportunities by the Project Management Committee (comprised of the USAID Project Officer, representatives of the GRM and the Project Chief of Party; see below).

The project will promote applications from women-owned agribusinesses for technical assistance to ensure that women entrepreneurs have equal access to project resources and marketing opportunities.

Broad notification and promotion of support services will be given to all potential users of these services in the HPZs, but actual support will be limited to that which is necessary to enable the beneficiary to pursue its objectives on a sustainable basis. Special efforts will be made to ensure that the project is not, in fact or in perception, working

with any one group to the exclusion of others. Project staff will make specific efforts to contact and include enterprises from outside the commercial centers of the two HPZs, and outside the membership of the dominant associations.

The project intends to provide direct assistance to a minimum of 30 agribusinesses during the life of the project. The CAP Project will assist established, legitimate agribusinesses and their associates but will not work with speculators or itinerant traders who do not have established marketing relationships in the HPZs.

## **B. Input Supply Fund:**

### **1. Objectives:**

The Input Supply Fund (ISF) of approximately \$16 million has two objectives:

- \* Provide foreign exchange to eligible firms for the importation of agricultural inputs for production and/or marketing in the HPZs of Mahajanga and Fianarantsoa; and
- \* Generate local currency (FMG) which will be used primarily to finance the rehabilitation of marketing transport infrastructure.

The CAP Project Management Committee (PMC) will ensure that the ISF is:

- \* Equally accessible to all importers and agricultural input distributors, particularly small and medium-sized firms in the HPZs;
- \* Procuring as many commodities from U.S. sources and origins as possible; and
- \* Shared equitably between the two HPZs of Mahajanga and Fianarantsoa.

The ISF is designed to support the new, liberal foreign exchange system in Madagascar. The ISF is, in fact, a bridge between the previous regime which was characterized by an over-valued FMG and concomitant shortages of foreign exchange and the new foreign exchange regime which is characterized by a floating exchange rate albeit with lingering shortages of foreign exchange and problems of access by small firms in the rural regions. As the GRM keeps on implementing current economic and financial reform, we anticipate that, before the end of the CAP Project, these shortages of foreign exchange will gradually be less severe and the need for the ISF will have ended. Thus, the ISF support the new foreign exchange regime by helping Malagasy agribusiness firms get access to the foreign exchange they need to buy important equipment and supplies until all arrangements regarding the liberal foreign exchange regime are in place and the system is fully operational.

The CAP Project contractor will use acceptable statistical sampling techniques to monitor the end-use of the commodities imported under the ISF in order to ensure that project targets and objectives are being achieved and that the commodities are having the desired effect on project beneficiaries.

### **2. Eligibility of Commodities:**

Initial criteria for commodities eligible to be imported using the ISF project component will be relatively broad-based in order to encourage maximum interest and participation in the project's early phase. Maximum use of the ISF is critical to generate

sufficient local currency for disbursement under the project's local-currency funded activities. As the project progresses, there will be a gradual change towards a more narrow set of commodities with the aim of maximizing the development impact on agribusiness within the two target zones. This narrowing of focus will be accomplished by the PMC, which will review disbursements every six months and establish the pre-approved list for the next six months.

Emphasis will be placed on promoting and facilitating the purchase of U.S. goods under the project. The Project contractor will provide services and facilities to assist importers to identify U.S. sources of goods.

The minimum ISF transaction will be \$10,000 and the proposed initial maximum amount will be \$1,000,000, unless USAID/Madagascar agrees otherwise in writing.

The list of commodities on the following pages represents a broad interpretation of agricultural inputs and was developed in consideration of the demand for such commodities from Malagasy beneficiaries of the project, the small and medium-sized agribusiness of the HPZs and the historical trade statistics for Madagascar imports of U.S. agribusiness-related commodities.

---

*(Note: USAID Source/Origin Codes: 000 indicates procurement must be from the USA; 899 indicates procurement may come from any country in the Free World, except the cooperating country, Madagascar, and Communist-ruled countries or countries under dictatorship, such as Iran & Iraq, which are not eligible source/origin countries. S.P. indicates that USAID Special Provisions apply to those commodities. The USAID CAP Project Officer has full list of all eligible countries and Special Provisions. End Note.)*

ISF COMMODITY LISTING	SOURCE/ ORIGIN
Fertilizers	000, S.P. 42 applies
Seeds	899, S.P. 1 applies
New, unused and not reconditioned tractors and related agricultural machinery	000
New, unused and not reconditioned small agricultural implements	899
New, unused and not reconditioned storage equipment, including silos	899
New, unused and not reconditioned food processing equipment, including rice and flour mills	899
New, unused and not reconditioned food packaging machinery, equipment, and supplies	899
New, unused and not reconditioned pumps and irrigation equipment	899
New, unused and not reconditioned veterinary equipment and supplies	899
Veterinary biologic (includes vaccines, antibiotics, hormones, medicines containing hormones or other products under heading 2937 or alkaloids or antigens or hyaluronic acid or sodium salts)	000, S.P. 40.3 applies
New, unused and not reconditioned trucks and spare parts	000
New, unused and not reconditioned trailers and related transportation equipment	899
New, unused and not reconditioned spare parts for trucks and automobiles	000
New, unused and not reconditioned service tools and equipment	899
Lubricating oils and greases	899, S.P. 23 applies
New, unused and not reconditioned materials handling machinery, parts, and equipment	899
New, unused and not reconditioned railroad equipment and spare parts	899
New, unused and not reconditioned tires	000
New, unused and not reconditioned telecommunications equipment	000
New, unused and not reconditioned printing equipment	899
New, unused and not reconditioned road building spare parts	000

New, unused and not reconditioned electric power generation and distribution equipment	000
New, unused and not reconditioned construction equipment and supplies	899
New, unused and not reconditioned building materials and supplies	899
New, unused and not reconditioned hand tools	899
New, unused and not reconditioned heavy equipment and spare parts	000
New, unused and not reconditioned pre-fabricated bridges and related materials or supplies	000
Industrial chemicals for food processing	899
New, unused and not reconditioned specialized manufacturing equipment	899
New, unused and not reconditioned computer hardware and accessories	000
New, unused and not reconditioned office equipment	899
Other equipment and supplies which the PMC identifies as advancing the development purposes of the CAP Project	

### 3. Eligible Importers:

Participation in the ISF will be open to all established business whose operations directly or indirectly promote commercial agricultural activities in the HPZs, such as production, collection, transportation, storage, processing and sale of agricultural commodities (inputs or outputs). It is not necessary that the importer be principally an agribusiness firm itself, provided that the firm is engaged in the importation, distribution and sale, or use (broadly-defined) of agriculturally-oriented commodities (such as those on the eligible list) in at least one of the two HPZs.

The Commodity Assistance Unit based in the HPZs will make special efforts to identify and assist small and medium sized-businesses in the HPZs to participate in the ISF.

The Project Management Committee (PMC), assisted by the CAP Project Commodity Import Specialist, will monitor draw-downs on the ISF to ensure that no single firm or small group of importers monopolizes access to the ISF. To ensure broad participation in the ISF, the PMC may establish or adjust monetary ceilings on access to funds by importers.

While not an eligibility requirement *per se*, an important pre-requisite for participation in the ISF will be that the importer have adequate financial resources at his/her disposal, because there is no credit given under the ISF.

Importers will make all arrangements for Letters of Credit (LC) through normal commercial banking channels. At the time the letter of credit is issued, the local bank will normally require: (1) payment in full; or (2) a blocked deposit; or (3) a pre-approved credit (normally with 30 percent equity); or (4) a guarantee in the FMG equivalent of the foreign exchange being used.

#### 4. General ISF Financing Procedures:

The Project Contractor will prepare a detailed procedures manual with instructions on how the ISF will operate. Nevertheless, the following general principles apply.

The MFB, with USAID/Madagascar concurrence, will select commercial banks within the HPZs and Antananarivo to be the cooperating banks under the ISF. The banks will be chosen based on their volume of business in the target zones, past business with U.S. banks, the fees their correspondent banks charge, and their commercial reputation and financial soundness.

USAID/Madagascar, at the request of the MFB, will issue USAID Bank Letters of Commitment to the U.S. correspondent bank of each Malagasy cooperating bank. Based on that Bank Letter of Commitment, the U.S. correspondent banks will be able to issue Letters of Credit (LCs) and/or confirm LCs issued by the cooperating commercial banks in Madagascar.

Each of the USAID Bank Letters of Commitment will be issued for an initial "threshold" amount. This amount could be increased (or decreased) later, as additional funds are programmed or if certain of the Malagasy commercial banks are faster than the others in using the ISF. If a fast-disbursing bank expends its funds more rapidly than another, then the slow-disbursing bank might have its Letter of Commitment funding transferred to the U.S. correspondent of its competitors.

The implementing Malagasy banks will review and approve applications for LCs submitted by the importers. Project staff will be available to assist banks and their clients to complete the necessary documentation, particularly during the early years of the project.

Importers requesting the issuance of a LC through its local commercial bank must deposit with that bank 100 percent of the FMG equivalent of the dollar value of the LC at the highest legal rate of exchange (i.e. the official interbank rate established by the Central Bank) on the date the deposit is made, or arrange for the bank to establish an acceptable commercial guarantee in lieu of the cash deposit. The FMG funds and/or bank guarantee will be held in a blocked account, accessible by neither the importer nor the CAP project, until payment is made to the supplier at which time the Commercial bank will transfer the FMG equivalent to the Local Currency Fund (LCF) account at the Central Bank of Madagascar.

The U.S. dollar account used for the ISF and the FMG account are entirely separate. The ISF dollars do not leave the United States account unless and until payment is made to a foreign supplier, and the FMG are kept in Madagascar. Both accounts will be periodically monitored. Thus, the GRM will:

(1) Establish a special interest-bearing account at the Central Bank in the name of the CAP Project where the commercial banks can transfer the FMG equivalent of the price paid by the importer for all goods ordered and received through the Input Supply Fund (ISF).

(2) The Central Bank will hold the funds in the special, separate, non-commingled, interest-bearing CAP Project Account until it (or the MFB) receives a request from the PMC to transfer specific amounts to special, separate, non-commingled interest-bearing CAP Project accounts established by the MTM in commercial banks in the HPZs for the purpose of payment of contracts for the rehabilitation of the transport infrastructure in the HPZs.

(3) The Central Bank will issue quarterly statements to the PMC and the USAID/Madagascar CAP Project Officer indicating the activity for the special interest-bearing CAP Project local currency account at the Central Bank.

#### 5. ISF Transaction Mechanism and Document Flow:

1. The Malagasy importer secures offers and/or **pro forma** Invoices from eligible suppliers of approved commodities. The importer uses negotiated procurement procedures as described in AID Regulation 1.

Quotations need not be sought if:

(a) the importer is purchasing for resale or processing, as the supplier's regularly authorized distributor or dealer, a commodity which, under the terms of a distributorship or dealership agreement, the importer is precluded from buying from another supplier; or

(b) the importer is purchasing for resale, a registered brand name commodity from a supplier who is the exclusive distributor of that commodity to the area of the importer.

USAID will require the importer to furnish documentary evidence of the relationship described in (a) and (b) above, or documentary evidence that quotations or offers have been made uniformly to a reasonable number of prospective suppliers at the time of the preliminary review of the application.

2. The importer prepares a written request for access to the ISF and completes an import license application. The written request, the import license application, evidence of availability of FMG equivalent and/or a supplier credit, and copies of quotations and/or offers are submitted to the CAP Project Commodity Assistance Unit (CAU) for a preliminary determination of whether the particular transaction is eligible for financing under the ISF. The application will be screened and evaluated by the CAU using the following criteria:

- (a) The eligible commodity list;
- (b) Source and/or origin of commodity;
- (c) Items which are of maximum potential use in the HPZs; and
- (d) \$10,000 minimum and \$1,000,000 maximum request.

Other criteria may be agreed upon by the GRM, USAID/Madagascar, and the contractor.

3. Applications screened and evaluated by the CAU will be sent to the USAID/Madagascar CAP Project Officer for approval of CAP financing. A letter signed by the USAID/Madagascar CAP Project Officer which assigns an internal transaction number will be issued for each approved ISF application and sent to the importer along with the submitted documents.
4. The importer obtains approval of the import license from the Ministry of Commerce.
5. Upon receipt of the approved import license, the importer deposits into a blocked account with his commercial bank 100 percent of the FMG equivalent of the dollar value of the letter of credit **at the highest legal rate of exchange: (i.e. the official inter-bank rate established by the Central Bank) on the date of the deposit** or arranges for the bank to establish an acceptable commercial guarantee in lieu of the FMG cash deposit.
6. The importer's bank then issues a LC through the U.S. correspondent bank in favor of the designated supplier.
7. The U.S. correspondent bank confirms the LC to the supplier. The LC specifies all payment terms and documents required for payment named in both the AID Letter of Commitment and the Application & Agreement.
8. Upon receipt of the order and the LC, the supplier submits USAID Form 11 to FA/OP/CC, USAID/Washington for approval of eligibility of the commodity as regards, source, origin, components, price reasonableness, etc. as well as eligibility of the supplier. (Note: For procurement of commodities not of USA source/origin, the RCMO of REDSO/ESA is authorized by FA/OP/CC to approve Forms 11.)
9. Upon receipt of the approved USAID Form 11, the supplier ships the merchandise to Madagascar. (USAID FA/OP/TRANS has granted a "Determination of Non-Availability" (DNA) of US flag vessels for Madagascar. Thus, use of US flag vessels is not required for shipments under 400 metric tons. This DNA does not cover FCL (full container load) cargo which would normally move from the US Gulf but is transported to a US East or West Coast port in order to avoid available US flag vessels. This DNA is valid until January 28, 1995.)
10. Upon shipment of the goods the supplier receives a negotiable bill of lading from the carrier and prepares (or secures) the remaining shipping documents and documents required for payment. Shipping documents will include:

- (a) Negotiable bills of lading;
- (b) Commercial invoice;
- (c) Certificate of origin;
- (d) Packing list;
- (e) Insurance certificate; and
- (f) Inspection certificate from Bureau Veritas.

11. The supplier presents the necessary documents to the U.S. bank and requests payment under the LC.
12. The U.S. bank makes payment directly to the supplier upon receipt of proper documentation.
13. The U.S. bank submits necessary documents to USAID/Washington and requests reimbursement under the Letter of Commitment.
14. The USAID/Washington Office of Financial Management reimburses the U.S. bank upon receipt of proper documentation and forwards copies of the business documents to the USAID/Washington Office of Procurement for monitoring and post-audit.
15. The U.S. bank forwards via courier advice of payment to the importer's bank together with the negotiable shipping documents.
16. The importer's bank conveys the negotiable shipping documents to the importer.
17. The importer's bank transfers the FMG previously on hold into the Special ISF/Local Currency Account established for the CAP Project. These FMG are now eligible for use by CAP to finance LCF project activities.
18. Upon off-loading of the commodities in Madagascar, the importer (or his agent) uses the negotiable documents to take possession of the merchandise and to clear it through customs after paying the appropriate import duties. The goods are then free for use or resale by the importer.
19. Under the terms of the CAP Project Agreement, the importer agrees to retain all records and documents pertaining to the sale, re-sale or use of the ISF commodities for a period of three years following receipt of the commodities and the importer agrees to permit USAID/Madagascar, the CAP Project Contractor, or its authorized representatives at all reasonable times during that three-year period to inspect the commodities or all records and documents pertaining to the sale, re-sale and/or use of the commodities.

#### 6. Programming ISF Resources:

All ISF monies will be committed no later than September 30, 1997 in order to ensure that there is adequate time to generate, program and disburse the FMG generated local currency before the end of the project.

## C. Local Currency Fund:

### 1. Objectives:

The objective of the Local Currency Fund (LCF) will be to reduce the transportation and communication constraint to efficient marketing of agricultural commodities in the HPZs, primarily through the repair and rehabilitation of tertiary and secondary roads that connect production areas to market centers. A minor portion of LCF resources may be used to finance a market information service, depending on the outcome of the study to be carried out in the first year.

The organization of the transportation activity has two basic elements: the selection, coordination and approval process, and the execution of work. The following execution plan will be used with a combination of technical assistance and LCF resources:

- \* The project budget will finance a local Management Engineering Firms (MEF) to prepare an annual work-plan with cost estimates, coordinate the selection of private maintenance and engineering firms to execute the construction and assure technical and financial control over road works;
- \* Road rehabilitation will be executed by Malagasy private maintenance and engineering firms financed by the project generated LCF;
- \* The MTM will contract with Malagasy private maintenance and engineering firms to execute the construction and will approve payment of local currency to the contractor for work completed;
- \* The project budget will fund a periodic short-term expatriate Project Engineer (PE) to participate in the selection of the local engineering firm and thereafter to review work specifications, tender documents, tendering process, bid evaluations, contractor performance and quality of work.

The Project Engineer will ensure that procurement procedures and technical specifications conform to procurement requirements of the U.S. Government and the GRM. He or she will also develop and review documentation with a view to ensuring that it contributes to a cost-effective works program. The PE will also help develop procurement and contract management capability within the local Management Engineering Firm and other collaborators.

The private firms engaged to perform construction work will be expected to be established in the HPZs. The MEF may be based in Antananarivo to ensure control and unity of financial and technical records of the LCF-funded transport rehabilitation works. It is possible that the CAP project will hire two regionally-based MEFs, one for each HPZ.

### 2. Eligible Transport-Related Activities:

Eligible activities include the rehabilitation and maintenance of transport infrastructure in the HPZs, such as:

- \* Roads, bridges and ferries at the tertiary level; and

- \* Roads, bridges and ferries at the secondary level where required to enable efficient use of tertiary elements previously improved by others.

Repairs to the southern railroad in the Fianarantsoa HPZ are also eligible for LCF funding.

The PMC and the CAP Project Contractor will ensure that all transport-related activities are coordinated with other GRM and donor programs and projects to ensure complementarity, avoid duplication and assure highest efficiencies. A Regional Infrastructure Committee will be established in each HPZ to identify and prioritize the roads to be rehabilitated. It is estimated that a total of 700 kilometers (km.) of roads will be rehabilitated between the two HPZs.

Unless the PMC agrees otherwise, all proposals for the use of LCF resources for transportation infrastructure purposes must meet the following criteria:

- \* Transport Infrastructure Serving Agricultural Areas within HPZs: Works will be located exclusively in one of the selected HPZs and will be an integral part of an agricultural product transport route.
- \* Compliance with MTM, Ministry of Public Works (MPW) or Rural Engineering (Génie Rural) Planning and Priority Criteria: Where a development plan or public investment plan sets criteria related to the proposed type of work, the specific proposal will be expected to satisfy those criteria.
- \* Compliance With Pertinent Technical Specifications: All works shall conform to current specifications, unless the enforcement agency (MPW or Génie Rural) issues a waiver in accordance with its established procedures.
- \* Verifiable Maintenance Plan: Works shall include a verifiable and funded maintenance plan which includes commitment of resources by infrastructure beneficiaries.
- \* Economic Viability: The proposed work must demonstrate satisfactory economic merit, as determined using cost-benefit analysis, load/value coefficients, and transport cost factors to be established prior to project start-up and revised from time to time in consultation with MTM and USAID/Madagascar.

The CAP Project Infrastructure Coordination Unit (ICU) will ensure that information on the potential for commercially-oriented production and marketing activities and the condition of transport infrastructure is up-to-date before selection of infrastructure for project-funded work is made.

### 3. Eligible Transport Rehabilitation Contractors:

All enterprises and organizations with equipment, technical competence and financial resources sufficient to perform the work shall be eligible to request bid documents. All bidders, including small and medium-sized enterprises (SMEs), will be expected to show corporate establishment or recent work experience in the faritany of the proposed work. The CAP Project ICU will work with the provincial public works services (SPTPs) of Fianarantsoa and Mahajanga to identify eligible SME contractors.

Unless the PMC agrees otherwise, all works funded by the LCF will be executed by contractors which meet the following criteria:

- \* Established Enterprise: The enterprise must be an existing firm with current assets — owned, leased or rented — and other technical, capital and personnel resources sufficient to conduct the proposed work. In determining the adequacy of access to assets and personnel, standard practice with respect to equipment rental and day-hire workers will be used.
- \* Demonstrated Experience in Appropriate Works: The enterprise should have recent and successful experience in executing similar works to that proposed. Success shall be considered in terms of timeliness, cost within budget, technical specifications, quality of work, relations with clients and workers, and financial management.
- \* Locally-Based: The firm shall be based in or have a record of activities in the faritany where the proposed activity is located.

Invitations to bid shall include a statement of the evaluation criteria and weights to be used. Tenders submitted shall be evaluated on these criteria as well as the price estimated to complete the work. Contracts will be subject to summary cancellation upon evidence of non-performance, inability to meet time schedules, or evidence of other non-conformity with the conditions under which the contract was awarded.

### 4. Provision for Transport Maintenance:

In support of the Third Republic's new efforts to establish responsibility for funding and undertaking road maintenance, the CAP Project will strive to give project beneficiaries a sense of ownership of and responsibility for the rehabilitated transport network. Thus, a condition for project funding will be that the local government and/or groups of project beneficiaries will be required to participate, in capital or in kind, in the cost of rehabilitation and to make a written commitment to do the transport maintenance themselves.

To facilitate the maintenance program, the CAP Project ICU will cooperate with the MPW to provide technical assistance to develop procedures manuals and contract forms which local authorities can use to organize routine and periodic maintenance of rehabilitated roads.

## 5. Local Management Engineering Firm (MEF):

The CAP Project contractor will work with the MTM to select one or two local Management and Engineering Firms (MEF) to assist with the transport infrastructure component of the project. The CAP Project Contractor will then sub-contract with the local MEF.

The MEF, working with the MTM, will select construction companies and supervise rehabilitation and maintenance for the transport-related activities. A short-term CAP Project engineer will help select and oversee the work of the MEF.

## 6. LCF Management:

The local currency generated by the importers depositing the FMG equivalent of the US Dollars allocated to them through the ISF will be channeled through the commercial bank at which it is deposited into a local currency **interest-bearing account** at the Central Bank. From the Central Bank, the FMG will be transferred into an **interest-bearing account** in a commercial bank by the MFB, pending its use in accordance with the criteria and procedures set out below.

The Ministry of Economy and Plan (MEP) will verify that the local currency is included in the Public Investment Program (PIP).

The MTM will open a CAP local currency account in a commercial bank in the HPZs and submit requests to the MFB for an advance of funds into the account for payment of completed infrastructure work. Upon inspection by the MEF and the MTM of completed work, the MTM will be responsible for executing payment to the construction contractor. The MTM will send financial reports on a quarterly basis to the MFB to replenish the account.

Thus, the following principles govern the use of ISF generated local currency:

- \* The local currency is owned by and remains under the control of the GRM and is subject to normal GRM rules and regulations for such currency/accounts.
- \* Once the funds are generated and released by the commercial banks, they will go through an **interest-bearing account** at the Central Bank and then into an **interest bearing account** at a commercial bank in the HPZs.
- \* ISF-generated local currency must be attributed in the GRM PIP.
- \* The MFB is responsible for disbursement of funds from the Central Bank to the HPZ commercial banks where the MTM will assume responsibility for local disbursement of funds.

## 7. Payment of Road Rehabilitation Construction Contracts:

The MTM will be the counterpart agency to sign contracts with the local construction companies for work to be performed. The MTM will designate a National Coordinator responsible for technical liaison with the project in Antananarivo, and for each HPZ, the MTM will designate a Regional Technical Liaison and a financial controller (*régisseur*) who will sign checks for work completed.

Once the MEF confirms that a construction milestone has been reached and a request for payment has been submitted to the MTM, **no more than 30 days shall elapse before payment is made by the MTM.** The monitoring of payments will be the responsibility of the MEF and reported on a monthly basis to the CAP Project Financial Analyst.

During CAP Project design, private construction companies, especially small and medium-sized firms (SMEs) indicated that they are reluctant to do business with the GRM because previous governments made firms wait a long time between the performance of contract work and the payment for that work by the government. These delays represented significant costs to the companies, costs which they were frequently unable to finance.

Thus, the PMC will monitor the flow of funds from the GRM to contractors to ensure that payments are made in a timely fashion. If GRM-managed LCF payments to the construction firms are delayed for an unreasonable amount of time (i.e. beyond 30 days) so that the construction firms complain and this adversely affects the implementation of this component of the project, the PMC will consider alternative methods of payment and such changes may be the subject of a condition precedent to the release of additional ISF funds.

#### 8. LCF Transaction Mechanism and Document Flow:

- a. The CAP Project contractor team in the HPZs, in tandem with the MEF, will work with project beneficiaries in the HPZs to identify target transport infrastructure and make cost estimates for rehabilitation and maintenance.
- b. The CAP Project contractor and the MEF prepare an annual work-plan (listing the projects for rehabilitation/maintenance with cost estimates) to be submitted to the PMC and the MTM National Coordinator for review, and to the MEP for verification that the local currency is included in the PIP.
- c. The MTM opens a CAP Project local currency account in a commercial bank in the HPZs for the payment of completed transport infrastructure works.
- d. The MTM *régisseur* in each region submits a request to the MFB for an advance of funds into the special account to prepare for payment to construction firms upon completion of work.
- e. The MEF then:
  - \* Prepares technical specifications for work to be performed;
  - \* Issues requests for proposals;
  - \* Analyzes offers; and
  - \* Recommends a construction firm to perform the construction.
- f. The MTM signs the contract(s) with the construction firm(s) taking into account the recommendations of the MEF.

- g. The MEF oversees the work and assures that it corresponds with technical and financial specifications before passing payment vouchers for completed work to the MTM Regional Technical Liaison for technical approval.
- h. The MTM Regional Technical Liaison reviews the payment request and transmits the vouchers and supporting documents to the MTM *régisseur* for verification.
- i. The MEF and the MTM Regional Technical Liaison conduct a preliminary inspection of the completed work and notify the *régisseur* of their approval for payment to be made.
- j. The MTM *régisseur* makes payment to the contractor(s).
- k. The MTM *régisseur* maintains books for the account and sends financial reports, on a quarterly basis, to the CAP Contractor and the MFB on account activity, with quarterly requests to the MFB to replenish the account.
- l. The MEF and the MTM Regional Technical Liaison complete a final inspection and close-out of the contact with the contracting firm(s).

## V. PROJECT IMPLEMENTATION SCHEDULE

### A. Agribusiness Component:

The agribusiness component (primarily technical assistance) will start immediately upon signing of the project contract (estimated start July, 1994) and continue through **three full production and marketing seasons** in Fianarantsoa and Mahajanga. This will directly link the level of effort to the seasonality of agricultural production and marketing activities.

Thus, planning for these operations should commence immediately upon arrival of the technical assistance (TA) team, continue through the 1995, 1996 and 1997 seasons, with the agribusiness component to be completed and closed out no later than March 31, 1998.

### B. Input Supply Fund:

This component of the project will be started as soon as possible. The technical assistance team will need several months to advertise and get procedures ready for the fund to operate efficiently. After preparation and marketing of the detailed Input Supply Fund (ISF) Procedures Manual, the project will be ready to accept its first import application in October, 1994.

The ISF component of the project should end by September 30, 1997; that is, no more applications from importers for funds will be accepted after September 30, 1997. This will ensure that there is sufficient time to receive the commodities being imported and generate the local currency needed for the third component of the project well before the end of the project.

We anticipate that if we close out submission of applications for the ISF by September 30, 1997, the last order and delivery of a commodity will have taken place by the end of April 1998, which will also be the last generation of local currency under the project.

Thus, as soon as the last commodity has been imported and the local currency generated, the ISF account should be closed out and this component of the project closed down no later than June 30, 1998.

**C. Local Currency Fund:**

Because of the timing of the start of the project, it is unlikely that any rehabilitation and maintenance could start until April 1995, when the rainy season ends.

The project should plan for four full seasons of transport rehabilitation and maintenance works. This would involve construction firms being active during the 1995, 1996, 1997 and 1998 dry seasons (using the local currency generated by the sale of ISF commodities).

To ensure that there is adequate time for the project to obligate and spend all local currency on transport infrastructure projects, this project component should end no earlier than December 31, 1998.

**D. Life of Project:**

The Life-of-Project (LOP) will be just over five years, with the end of the project coming a little more than five years after the signing of the Project Agreement with the GRM. The prospective project dates could be from about July 1, 1994 - September 30, 1999.

The Project Assistance Completion Date (PACD) will be the end of FY 1999, or September 30, 1999.

**E. Illustrative Time-Line for Three Project Components:**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
July .....	D	J.....	D	J.....	D
			J.....	D	J .....
					D
					J .....
					Dec
AGRBS: (7/94)	_____				(3/98)
ISF: (10/94)	_____				(9/97)
LCF: (1/95)	_____				(12/98)

**VI. PROJECT IMPLEMENTATION TEAM AND ORGANIZATION**

The CAP Project Implementation team includes the primary contractor, firms under sub-contract to the primary contractor, USAID/Madagascar, the GRM and the

31

project beneficiaries themselves. This section focuses on the composition of the technical assistance team to be fielded by the contractor and sub-contractor. The following section discusses project management issues which involve the contractor and other members of the implementation team.

In order to economize on the costs of technical assistance and to contribute to the professional development of the Malagasy, the CAP Project will use as much local expertise as possible and base as many members of the team as possible in the HPZs themselves.

#### A. Technical Assistance Team:

##### 1. Long-Term Expatriate Personnel:

a. Chief of Party/Senior Agribusiness Specialist (Antananarivo)	56 months
b. Financial Officer (Antananarivo)	48 months
c. Commodity Import Specialist (Antananarivo)	24 months
d. Administrative Officer (Antananarivo)	24 months
e. Regional Project Coordinator (Fianarantsoa)	42 months
f. Regional Project Coordinator (Mahajanga)	42 months

##### 2. Short-Term Expatriate Personnel:

Short-term expatriate consultants will be engaged for a range of technical and commercial assignments related to specific agribusiness client interests (e.g. for commodity specific production and processing specifications; the installation of and training local entrepreneurs in the operation of processing/packaging equipment; specific investment advice; and the development of specialized business plans for more cost-effective agribusiness operations). Short-term expatriates will also assist local consultants to carry out studies planned under the project. A total of 37.0 person-months is anticipated.

##### 3. Long-Term Local Contractor-Hired Personnel:

a. Financial Analyst (Antananarivo):	56 months
b. Commodity Import Assistant (Antananarivo):	42 months
c. Logistics/Administrative Assistant (Antananarivo):	56 months
d. Accountant (Antananarivo):	56 months
e. Senior Agriculturalist (Antananarivo):	36 months
f. Monitoring & Evaluation Reporting Specialist (Antananarivo):	56 months
g. Infrastructure Coordinator (Antananarivo):	54 months
h. Assistant Regional Coordinators (Fianarantsoa):	
Agribusiness Regional Coordinator	42 months
Infrastructure Regional Coordinator	54 months
i. Assistant Regional Coordinators (Mahajanga)	
Agribusiness Regional Coordinator	42 months
Infrastructure regional Coordinator	54 months
j. Agribusiness Apprentices (in the HPZs) (36 @ 12.5 months)	450 months

4. Short-Term Local Contractor-Hired Personnel:

Local consultants will be used for the majority of short-term assignments under the project; many of these will be provided by local sub-contractors. The Contractor may also use local experts on a case-by-case basis. A total of 77 person months of short-term local consultancies is anticipated. Large amounts of additional local short-term technical assistance will be provided through other subcontracts.

5. Local Sub-Contracts:

The project will seek the services of local consulting and service firms for a number of ongoing or recurrent functions, including:

- \* Audit of participating construction companies;
- \* Accounting and financial services in the two HPZ offices;
- \* Office services such as research and information services, duplication, publication, and courier service;
- \* Surveys and market research; and
- \* Organization/logistics for training, workshops and field trips.

One long-term contract is planned with a local MEF to manage the infrastructure rehabilitation component of the project. Surveys, market research and training services will be engaged on a retainer or task-specific basis.

6. Management Engineering Firm:

The contract with the MEF will consist of a core provision to ensure the availability of qualified expertise throughout the project period, and a demand-based provision to adjust level of effort to work load, using negotiated standard rates for services. The core provision will consist of a named, qualified engineer, available year-round, but for an assured nine-month level of effort, together with requisite technical, logistical and office support. Costs will be based on negotiated rates for services, and the level of services required as work enters the pipeline. This will be estimated on an annual basis, and revised semi-annually.

**B. Project Organization:**

The staff of the CAP Project will be organized into a central management and technical support office in Antananarivo and one project office in each HPZ. The structure, composition and responsibilities of these offices and committees are described in the following paragraphs.

1. CAP Project National Office:

The National Office will provide overall project management and control, procurement coordination, technical assistance to importers, technical support to the

project units in the HPZs, liaison with USAID/Madagascar, liaison with the GRM and the donors and overall project monitoring and evaluation.

a. Chief of Party/Sr. Agribusiness Specialist: The Chief of Party (COP) will be the Contractor's senior representative and will have overall responsibility for project implementation. This expatriate will have primary responsibility for liaison with USAID/Madagascar, the GRM and the Contractor's home office project team. As the Senior Agribusiness Specialist, the COP will manage the **Agribusiness and Producer Support Unit** (described below) and have overall responsibility for all technical assistance activities of the project.

b. Commodity Assistance Unit (CAU): This unit will:

- \* provide assistance to importers and commercial banks using the ISF;
- \* in consultation with the USAID REDSO/ESA Commodity Management Officer, establish and monitor detailed procedures for the use of the facility;
- \* ensure that USAID source/origin concerns are adequately addressed;
- \* assemble regular reports using information gathered from participating banks and importers as required by USAID/Madagascar and/or the PMC; and
- \* assist the Monitoring & Evaluation specialist to track and analyze the impact of the commodities imported through the ISF and periodically make recommendations to USAID/Madagascar and the PMC regarding the positive list of commodities eligible for ISF funding.

The unit will also assist the **Infrastructure Coordination Unit** (described below) to develop procedures for the use of local currency funds. (Preliminary procedures to be applied for the ISF and the LCF were described above.)

c. Infrastructure Coordination Unit (ICU): This unit will have overall responsibility for supervising the infrastructure uses of the Local Currency Fund (LCF). The ICU will:

- \* coordinate the operations of the short-term Project Engineer and the MEF;
- \* ensure maintenance of current information on economic activity and the condition of transport infrastructure in the HPZs;
- \* liaise with GRM agencies and donors responsible for standards, programming or funding of transport works; and
- \* provide guidance and assistance to the Regional Infrastructure Committees in their selection of project works.

The ICU will be headed by a locally-recruited Infrastructure Coordinator, who will also have technical oversight of the work of the Regional Infrastructure Coordinators.

d. Agribusiness and Producer Support Unit (APSU): This unit will provide specialized technical support to the regional offices in their assistance to client agribusinesses and producer groups. The APSU will:

- \* supervise the sub-contractor responsible for the Agribusiness Apprentice program;
- \* provide special expertise to support client services in the regions;
- \* develop terms of reference for short-term agribusiness consulting services;
- \* recruit local firms for studies, market information collection and ongoing services connected with agribusiness development;
- \* establish and maintain technical references;
- \* assemble, analyze and disseminate market information;
- \* provide periodic training for project staff; and
- \* design and conduct multi-client workshops.

The APSU will be managed by the COP in his capacity as Senior Agribusiness Specialist with assistance from a locally-recruited Senior Agriculturalist.

e. Financial and Administrative Services Unit (FASU): This unit will be responsible for the following:

(1) **Financial Services:**

- \* establish, maintain, audit and report on project accounts;
- \* provide accounting, financial analysis and planning services to the regional units as they assist client agribusinesses; and
- \* review proposed contracts for local procurement of goods and services to ensure compliance with USAID requirements.

This service will be managed by the project's expatriate Financial Manager with a qualified accountant on its staff.

(2) **Administrative Support:**

- \* provide general office support (e.g. management of vehicles and logistical support to the project; control office, residence and other assets);
- \* perform procurement of all local supplies;
- \* ensure compliance with reporting and non-financial obligations under the contract and working agreements with project collaborators.

This will be done under the direction of the Financial Manager with assistance from expatriate Administrative Officer for the first two years.

f. Monitoring & Evaluation Reporting Specialist (MERS): The primary responsibility of this staff member will be gather the data and information needed to monitor and evaluate the impact which the project is having in the HPZs. This includes participating in the baseline data survey, working with the ICU to track and monitor the impact of the commodities brought in under the ISF and to monitor and evaluate the impact of the transport rehabilitation on the project purpose and outputs.

2. CAP Regional Project Offices:

The CAP Project office in each HPZ will consist of a Regional Project Coordinator, locally-recruited specialists and a locally-contracted business service firm

with accounting and audit capability. A locally-recruited Office Manager/Administrative Assistant will support the office.

a. Regional Project Coordinator (RPC): This is the senior representative of the project in the region. The expatriate RPC is responsible for all project activities and personnel in the region. The RPC will also be the project's agribusiness specialist in the region.

b. Agribusiness Promotion and Support Unit (APSU): This unit will be staffed primarily by the local Assistant Regional Coordinator for Agribusiness and locally-recruited specialists who will promote the agribusiness services of the project within each respective HPZ.

c. Infrastructure Support Unit (ISU): This unit will ensure the monitoring of economic activity and infrastructure conditions on the basis of which rehabilitation works are to be selected. Under technical direction of the ICU in Antananarivo, the Assistant Regional Coordinator for Infrastructure will collect and maintain trade and infrastructure information, monitor progress on infrastructure work in the HPZ and assist meetings of the Regional Infrastructure Committee.

## VII. PROJECT MANAGEMENT STRUCTURE

### A. The Project Management Committee:

The Project Management Committee (PMC) will provide overall strategic and program guidance to the project. The PMC will be made up of the USAID/Madagascar Project Officer, GRM representatives from the MFB, MTM and MIPT, and the CAP Project Chief of Party. The members of the PMC will decide at their first meeting who among them will serve as chairperson. The PMC will also select a chairperson from among themselves to lead the annual consultative meetings with other donors and other GRM Ministries.

The PMC will:

- \* Review and approve annual work plans submitted by the contractor;
- \* Review quarterly and annual reports on project implementation and results.
- \* With respect to the Input Supply Facility (ISF):
  - Review the list of eligible imports every six months, and make recommendations as appropriate to ensure the effective pursuit of project objectives;
- \* With respect to the Local Currency Fund (LCF):
  - Approve the annual expenditure plan for the fund;
  - Approve the selection process for works and contractors, and the award of the project sub-contract between the contractor and the Management Engineering Firm to manage road rehabilitation works;
  - Approve any non-transport rehabilitation use of the LCF on a case-by-case basis;
  - Ensure adequate representation of the project in the informal donor road

coordination committee, and appropriate response by the project to positions or recommendations of the committee.

If the PMC wishes to recommend any changes be made regarding the implementation of the CAP Project, including modifications to the guidelines established for the ISF and the LCF, the vote recommending such changes must be unanimous.

The PMC will also consult and liaise with other GRM Ministries and with the other donors. In addition, at least once a year the PMC will convene a broad-based meeting to review the draft work plan for the following year and to consider design and implementation issues that arise from changing economic conditions or from implementation experience.

Attendees at the annual broad-based meeting will include the following:

- \* Members of the PMC;
- \* Chief of the Market and Business Development Office, USAID/Madagascar;
- \* The two CAP Project Regional Project Coordinators;
- \* Representatives of the Ministries of Plan, Public Works and Agriculture (including Génie Rural);
- \* Other donors active in infrastructure and agribusiness development; and
- \* A representative group of key current and potential agribusiness and producer-association clients, similar to the working and focus groups consulted during the design stage.

At the discretion of the PMC, this annual meeting could be preceded by smaller meetings in each of the HPZs with provincial-level representatives of the above entities. However, such meetings may not be necessary if ongoing consultation during the course of project implementation proves to be adequate.

#### **B. Regional Infrastructure Committees:**

Each HPZ will have a Regional Infrastructure Committee (RIC). These committees will be comprised of the CAP Regional Project Coordinator (Chairman of the RIC), the Assistant Regional Project Coordinator for Infrastructure (Secretary of the RIC), local representatives of the GRM MTM, Public Works, Génie Rural and Transport, a representative of the local MEF, a representative sampling of the project beneficiaries themselves as well as local government representatives from the local fivondronana within each HPZ.

The RICs will apply the eligibility criteria for infrastructure rehabilitation and select the works to be funded by the CAP Project LCF. The RICs will use the information provided to them by the CAP Project infrastructure surveys on economic activity and infrastructure condition as a basis for applying the selection criteria and use unit cost figures and overall level of expenditure for the coming year in applying a budget constraint to the works selected.

The RICs will meet at least once a year, at a date to be determined on the basis of

the amount of lead time required to select the works for the coming dry season and advertise and sign contracts for the work to be done during that dry season.

The RICs will also review the work performed by the transport rehabilitation contractors and make recommendations to the CAP Project ICU in Antananarivo concerning future operations. All recommendations for tendering and execution of contracts for transport rehabilitation from the RICs will also go to the CAP Project ICU in Antananarivo.

The RICs may be convened at other times to consider requests for emergency works and will follow guidelines and recommendations of the PMC for any such unplanned expenditures.

## **VIII. PROJECT AUDITS, EVALUATIONS AND MONITORING**

### **A. Results Monitoring:**

A Results Monitoring Plan (RMP) is keyed to Strategic Objective No. 2 of USAID/Madagascar's "Assessment of Program Impact" and to the purpose of the CAP Project. Baseline data for each indicator will be presented within six months of project start-up following a baseline survey to be conducted. This survey will build on information available from the GRM and USAID/Madagascar and on data gathered as part of the design effort. The baseline survey will be carried out by the local subcontractor that participated in the project design, supported by one or more short-term specialists and, to the extent possible, by members of the long-term expatriate and local team. Design and implementation of the survey will be supervised by the Chief of Party.

Measures for each indicator will be projected, with the measures for 1995 through 1997 serving as interim results, and the measures for 1999 representing final results. Once approved by USAID, these measures will constitute performance standards for the contractor.

In addition, the CAP Project Monitoring and Evaluation Reporting specialist will work with the Commodity Assistance Unit (CAU) and the Agribusiness Promotion Support Units (APSU) to monitor the impact of the commodities brought in under the ISF in order to ensure that project objectives are being met.

### **B. Evaluations:**

Two external project evaluations will be carried out. An evaluation after the second year of implementation will determine whether the project is on course or needs adjustment in terms of its management, approach and/or objectives. A final evaluation in Year Five will assess team performance, verify the results and impact achieved and draw lessons learned.

The evaluations will assess the quality, appropriateness, timeliness and

effectiveness of project inputs from all parties; the progress made towards achieving the outputs, purpose and goal of the project; and the impact of the project in terms of economic and people-level indicators. The results monitoring plan and the various reports and surveys discussed above will serve as key reference documents for the teams.

In preparation for the evaluations, the USAID/Madagascar CAP Project Officer will coordinate with the GRM, local authorities, project client and counterpart entities, and U.S. and Malagasy project personnel to facilitate protocol meetings, personal interviews and field visits for the evaluation teams. The Project Officer and/or the contract team, as appropriate, will arrange lodging, office space and transportation; collect relevant documents; and arrange other logistics in advance of team arrival.

### **C. Audits:**

The project will be audited annually on the following: the technical assistance furnished to the various project components; the Input Supply Fund; and the Local Currency Fund.

The first two items will be included in the annual audit of the contractor's worldwide USAID portfolio; and funding for this audit will be provided through the firm's overhead. Among the items to be audited in the ISF will be compliance with USAID source/origin requirements, conformance of the commodity imports with the eligibility criteria set forth above as well as with general USAID criteria, rules and regulations and commodity prices to determine their consistency with world prices at the time of purchase.

The LCF operations will be audited by a regional or Malagasy firm and will be financed by the project under a contract with USAID/Madagascar. The focus of these audits will be the overall management of the fund and of the individual contracts and grants financed by it.

The CAP Project Contractor will also employ the services of a local accounting/audit firm from time to time during project implementation. Such services will be required to evaluate indirect cost charges of sub-contracts and to perform other outside audit activities. The CAP Project Contractor's Financial Officer will be responsible for surveying local firms in Madagascar, determining the best value to satisfy the needs of the project and will then prepare a memorandum of understanding with the selected firm, for signature by the Chief of Party for services on an as-needed basis.

## **IX. PROJECT BUDGET**

Total funds available for the five year CAP Project are \$29.0 million. All funds are allocated from the USAID Development Fund for Africa (DFA). It is anticipated that the GRM will contribute in-kind services of about \$160,000 (1 percent of the LCF of \$16 million) for project implementation through assistance in the management of the LCF generated by use of the ISF. In addition, the GRM will agree to pay the Taxe Sur les Transactions (TST) (or any similar taxes which may replace the TST, such as a Value

Added Tax) for any and all contracts executed to implement the transport rehabilitation aspects of the project. It is estimated that this will involve a maximum additional contribution of \$2.8 million towards achievement of the CAP Project objectives (based on a TST of 17.5 percent for contracts worth \$16.0 million in FMG). Finally, the private sector project beneficiaries will provide in-kind services estimated at \$320,000 (2 percent of the LCF of \$16 million), related to supporting the agribusiness apprentice program and in-kind services associated with transport infrastructure rehabilitation and maintenance.

This brings the total amount of funds available for the CAP Project to about \$32,280,000 (USAID: \$29 million; GRM: \$2.96 million; Private Sector \$320,000).

Table 1 provides a detailed breakdown of costs associated with providing technical assistance through the CAP Project as well as an estimate of the annual funds available from USAID for the Input Supply Fund (ISF). The ISF will be monetized into local currency (the LCF) when importers use dollars to purchase agricultural inputs and equipment; the LCF will be used to pay the costs of transport infrastructure improvements in the HPZs.

Among other line items, the CAP Project budget includes \$1.5 million for socio-economic studies related to the monitoring and evaluation of the impact of the project and \$.5 million for a mid-term and final project evaluation as well as for required project audits.

### CAP PROJECT BUDGET SUMMARY

Project Component	USAID	GRM	Private Sector	TOTAL
Technical Assistance (U.S. and Malagasy Professionals)	8,278	0	0	8,278
Technical Assistance (Malagasy Sub-Contracts)	982	0	0	982
Commodities & Equipment (for TA team)	852	0	0	852
Input Supply Fund (ISF) (Local Currency Fund - LCF)	16,000	160 2,800	320	19,280
Audits & Evaluations	500	0	0	500
Program Monitoring Impact	1,500	0	0	1,500
Contingencies	888	0	0	888
<b>GRAND TOTALS</b>	<b>29,000</b>	<b>2,960</b>	<b>320</b>	<b>32,280</b>

(1) GRM CAP Project contributions consist of the payment of the TST for any and all contracts under the transport rehabilitation and maintenance component of the project, which will be funded by the LCF, and management of the LCF accounts at the Central

Bank and at the commercial banks in the HPZs. A TST of 17.5 percent on contracts estimated value of \$16,000,000 yields a contribution of approximately \$2,900,000 in FMG. Management of the LCF accounts is estimated at about 1 percent of the \$16 million which will be in the LCF, or about \$160,000.

(2) Private Sector CAP Project contribution consists of 2 percent of in-kind costs on the LCF, including but not limited to labor and local materials, supplies and other miscellaneous costs associated with transport infrastructure rehabilitation and maintenance activities.

USAID Project No. 687-0118  
Commercial Agricultural Promotion  
**Annex II**

**ILLUSTRATIVE SUMMARY OF PROJECT COSTS BY EXPENSE CATEGORY  
AND SOURCE OF FUNDING**  
(in 000's)

<b>PROJECT COMPONENT</b>	<b>USAID</b>	<b>GRM</b>	<b>TOTAL</b>
Technical Assistance (U.S. and Malagasy Professionals)	2,280	0	2,280
Technical Assistance (Malagasy Sub-Contracts)	153	0	153
Commodities & Equipment (for TA team)	852	0	852
Input Supply Fund (ISF) (Local Currency Fund - LCF)	3,600	662	4,262
Audits & Evaluations	0	0	0
Program Monitoring Impact	500	0	500
Contingencies	5	0	5
<b>GRAND TOTAL</b>	<b>7,390</b>	<b>662</b>	<b>8,052</b>

- 4/2