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**AGRICULTURAL SECTOR SUPPORT PROJECT  
PRIVATE SECTOR AGRIBUSINESS**

**Restraints and  
Possible  
Interventions  
to Increase  
Agricultural  
Inputs to and  
Outputs From  
Afghanistan**

Prepared by Denny Freed for Development Alternatives Inc., and the office  
of the USAID Representative to Afghanistan under Contract Number 306-0204-C-00-9829-00.

Peshawar, Pakistan

August 1990



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AGRICULTURAL SECTOR SUPPORT PROJECT  
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RESTRAINTS AND POSSIBLE INTERVENTIONS  
TO INCREASE AGRICULTURAL INPUTS TO  
AND OUTPUTS FROM AFGHANISTAN

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## **I. INTRODUCTION**

During my consultancy in Pakistan I have had the opportunity to meet with Afghan traders, bankers, agricultural business suppliers, the Chamber of Commerce, US Government personnel and customs clearance agents. These meetings were held in order to determine what restraints confront private sector Afghan and Pakistani traders in providing agricultural commodities to Afghanistan. However, the majority of this consultancy has been spent coordinating logistics for the DAP fertilizer arrival in late July. This has entailed meetings with the responsible parties, including RONCO, Development Alternatives, Inc. (DAI) and the Office of the USAID Representative (USAID/REP), and writing the Fertilizer Logistics Plan.

This report includes an analysis of the information gathered and my resulting recommendations for both short and long-term intervention by DAI's Agricultural Sector Support Project (ASSP) and its Private Sector Agribusiness (PSA) component. These recommendations may have a positive impact in augmenting the volume of agricultural inputs.

Numerous conversations with financing institutions, government representatives, and private sector individuals disclose no restraints on increased import and export other than those with which many people are already familiar. However, ASSP/PSA can expand its interventions to provide increased short-term results. More long-term solutions could be initiated through pilot projects, such as trade associations, start-up agricultural businesses, quasi-banking facilities, training provided by Pakistani private sector suppliers, and joint venture linkages between Afghan traders with suppliers and buyers in Pakistan and offshore.

## **II. RESTRAINTS AND POSSIBLE INTERVENTIONS TO INCREASE AGRICULTURAL INPUTS TO AND OUTPUTS FROM AFGHANISTAN**

### **A. RIGHTS OF PASSAGE**

The right of passage refers to the right of people or goods to pass through provinces, tax stations, and tribal areas across the Pakistan border into Afghanistan.

#### **1. Restraints**

There are some difficulties in obtaining a right of passage for people or goods to cross the areas mentioned. Or, if permits are issued, there may be difficulties in ensuring that these permits are honored.

Given the private sector nature of ASSP/PSA, the "right of passage" may become increasingly difficult to acquire. With the exception of the Agricultural Development and Training (ADT) component, commodities are no longer donated. However, ASSP has been assured by USAID/REP that a Central Government's Afghan Affairs Advisor will share USAID/REP's definition of humanitarian assistance to include subsidies to the agricultural business private sector, as well as outright donations.

At present, ASSP/PSA is successfully acquiring "Route Permits" for Afghan traders in both the North West Frontier Province (NWFP) and Baluchistan. However, there are strong concerns that several problems may result in frustrating DAI's ability to either obtain permits (emphasis on NWFP) or to have permits respected by tax collectors at tax stations (emphasis on Baluchistan).

These difficulties can occur for several reasons. Agreements reached with the Central Government either are not communicated to provincial governments or a provincial government considers itself independent of directives relating to Route Permits. This problem has been less evident during the recent past when a Government of Pakistan (GOP) counterpart facilitated all distribution and rights of passage for USAID/REP donated commodities. Although DAI has retained strong ties with its GOP counterpart, it appears that the counterpart no longer facilitates Route Permit acquisition for ASSP.

It should be noted that the cost of a transport rebate (a program proposed by PSA) may be considerably less than the tax expenditures that Route Permits avoid. If this is the case, then one of the most significant incentives for traders to participate in ASSP/PSA programs is at risk.

## 2. Possible Interventions

While ASSP/PSA is presently acquiring Route Permits, I recommend that it begin an effort to advocate to the GOP, on behalf of the private sector, a solution that will continue after the project terminates. The following recommendations are made with this consideration in mind.

ASSP/PSA should acquire clear and concise information regarding all taxes, including the actual tax rates, to which traders are subject when in transit to Afghanistan. This information should assume no ASSP/PSA intervention.

ASSP/PSA must then determine which regulating agency is responsible for each tax and negotiate terms allowing issuance of Route Permits for free passage. This does not include information or normal duties required when exporting from Pakistan to Afghanistan or other countries.

ASSP/PSA should ensure that written communication on the program has been provided to provincial authorities by the Central Government. USAID/REP should also provide written communication to the provincial authorities.

**B. CUSTOMS FREE CLEARANCE**

**1. Restraints**

There has been a continuing problem in obtaining customs free clearance for goods arriving in Pakistan's ports that are "in bond" transit to Afghanistan.

**2. Possible Interventions**

ASSP/PSA should ask USAID/REP for an introduction to the Collector of Customs from the Central Government's Afghan Affairs Advisor. A meeting with this individual should then take place in order to discuss creation of a mechanism similar to that which existed prior to 1979. That is, all products and equipment defined as agricultural inputs by USAID/REP are provided free clearance and transit to Afghanistan.

**C. EXCESSIVE COST OF INLAND TRANSPORT**

**1. Restraints**

Because of excessive transport costs, in both Pakistan and Afghanistan, ASSP/PSA is currently subsidizing transport from Pakistan to each of five targeted bazaars in Afghanistan.

**2. Possible Interventions**

ASSP/PSA should provide high speed diesel storage facilities at each targeted bazaar. This will allow local truckers the opportunity to travel to depots, pick up an ASSP/PSA brokered product, clear documentation at a bazaar with high speed diesel, and then travel more deeply into remote areas. This should be done on a pilot basis at one or two bazaars in the first year.

ASSP/PSA should acquire, on a regular basis, reports from UNILOG on the prevailing transport costs between the depot locations and destination bazaars. This will allow for regular adjustments in transportation subsidies.

## D. FINANCING MECHANISMS

### 1. Restraints

There are several restraining factors in the financial mechanisms currently available to Afghan traders, bazaar merchants and farmers. Initially, traders often lack access to lines of credit. This is particularly important since some of the agricultural inputs ASSP promotes may require a long-term investment of funds, thereby not allowing as much profit or turnover as agricultural inputs with more frequent sales.

Traders, merchants and farmers are unable to obtain financing from banks operating in Pakistan for "start-up agricultural business" loans and Pakistan based banks cannot finance ventures outside of Pakistan without special permission from the Ministry of Finance.

In addition, there are legal restraints set by the Ministry of Finance's External Finance Wing and the Central Bank of Pakistan regarding currency exchange. For this and other reasons, there is an additional expense in exchanging Afghanis for Rupees when payment for ASSP/PSA supplied commodities takes place in Afghan bazaars.

### 2. Possible Interventions

ASSP/PSA could provisionally pay a portion of funds requested with eventual repayment by the borrower.

ASSP/PSA should acquire long-term, rather than transactional, approval from the Ministry of Finance for its bank of choice to provide financing of start-up business lines of credit with USAID/REP as guarantor up to an approved percentage of the total investment. Habib Bank would be the most likely bank of choice for ASSP/PSA.

There are two cautionary notes to this approach.

- o Without knowledge of the prevailing rental or sale price of the inputs for which ASSP/PSA provides rebates or credit, it may unknowingly make Afghan carriers wealthy. Over-incentives reflect adversely on the program and also limit the funds available for more long-term solutions.
- o It is important to ensure that the total amount borrowed does not represent an inflated cost for the goods or services being purchased. It is a common practice to declare an inflated cost, resulting in the borrower receiving risk-free credit and ASSP/PSA increasing its risk of paying the bank for bad debts.

ASSP/PSA could acquire long term approval from the Ministry of Finance for its bank of choice to provide financing for the transactions of Afghan traders purchasing larger quantities of agricultural inputs. In addition, the same approval could be obtained to provide lines of credit enabling Pakistani suppliers to increase their production of agricultural inputs by purchasing additional raw material and labor. In this case, the manufacturer is first obligated to provide an agreed upon quantity of product for ASSP/PSA-sponsored sale, with ASSP/PSA holding the right of first refusal in order to avoid an obligation to purchase.

ASSP/PSA could accept Afghanis, or exchange them for Rupees (or even hold Afghanis with no interest income) and consider the discount as a program cost.

ASSP/PSA can facilitate establishment of an Afghan Trade Association for Bazaar Merchants. The Association could then provide the following benefits to its members:

- o In conjunction with ASSP/PSA, operate as a quasi-banking facility and extend credit.
- o Provide access to guaranteed pricing on agricultural inputs sponsored by ASSP/PSA.
- o Promote the sale of items ASSP/ADT considers appropriate technology, such as improved agricultural implements, varieties of fertilizer, seed and agricultural chemicals.

The association could require training as a pre-requisite to members gaining full rights of membership, including access to the financing and guaranteed pricing mentioned above.

#### E. INVENTORY

##### 1. Restraints on Traders

Traders are mobile and can successfully source suppliers, arrange financing and transport, work through the Pakistani bureaucracy, and compete in the Afghan market area. However, this has a significant cost in time and money, thereby reducing the quantity of agricultural inputs traders can buy, transport and sell.

##### 2. Possible Interventions

ASSP/PSA can provide transportation rebates and route permits. Both are currently being provided through ASSP/PSA.

### 3. Restraints on Merchants

Merchants are less mobile than traders and generally do not know how to acquire products from Pakistan based suppliers. Instead, they depend on Afghan traders. ASSP/PSA wants to encourage and strengthen trade/merchant relationships and a linkage between traders and merchants should be an ASSP/PSA goal.

### 4. Possible Interventions

Initially, it may be constructive to establish ASSP/PSA's credibility in the targeted bazaars through "forward placement" of selected agricultural inputs. Under this scheme, ASSP/PSA would hold title to a commodity until its delivery to the bazaar. The concerned merchant would take delivery in a quantity established prior to shipment. With inventory in place, the merchant can accurately measure market demand. With a defined demand, the merchant can more efficiently negotiate a supply relationship with traders. These "forward placed" commodities would initially be provided to the merchant on consignment to help reduce his risk in pioneering a new product.

ASSP/PSA can instruct its bazaar representatives to publicize the name, brand, type, and especially, pricing of each product ASSP/PSA is introducing. Brand name can influence buyer selection depending on the purchaser's familiarity with the product and knowledge of its technical merits, serviceability, price competitiveness and spare parts availability.

ASSP/PSA can establish a simple, written procedure for bazaar representatives to take orders for a specific product, listing the quantity desired by a local merchant. The representative will then communicate the order to the appropriate trade center where it will be taken out of stock and transport arranged. The stock at the trade center will have previously been provided by cooperative Pakistani or Afghan suppliers. Route permits should be willingly provided as USAID/REP will hold title to the product until it is sold in the bazaar.

Since its inception, ASSP/PSA has discussed the prospect of providing credit or securing lines of credit and letters of credit. This intent accepts the risk of bad debt. However, for at least the bazaar merchants, the program may have to expand its trader role in order to serve as a catalyst in obtaining the trust and cooperation of merchants.

To implement this intervention, ASSP/PSA staff, with the support of technical ADT staff or short-term consultants, would identify Pakistani and offshore suppliers of certain agricultural inputs. These inputs would meet criteria listed below.

- o The products are inputs consistent with the goals of improving production of crops targeted by the ASSP. More than one brand name of each product should be listed to encourage competition.
- o The products are familiar to the merchant (or at least one of the brand names selected is familiar). The merchant should know how to use and repair the familiar brand name but because competitive products will also be available, he could try another brand if it is considered technically superior.
- o ASSP/PSA staff and consultants consider the product technically sound, with strong spare part support and a supplier commitment to providing trade to the trade centers and bazaar staff.
- o The products are competitively priced and within reasonable reach for the consumer.

The supplier would agree to place inventory in each of the depots. ASSP/PSA will provide a stand-by Letter of Credit to cover any risk for loss of or damage to inventory. When a product is sent to a designated bazaar, ASSP/PSA considers the product purchased (by ASSP/PSA) and makes a direct deposit in the supplier's collection account (probably at Habib Bank). ASSP/PSA accepts the risk of loss in the exchange rate by receiving Afghans.

F. LACK OF EXPERIENCE BY AFGHAN TRADERS IN EXPORTING AGRICULTURAL PRODUCTS TO OFFSHORE BUYERS

**1. Restraints**

Many Afghan traders lack experience in exporting agricultural products to offshore buyers.

**2. Possible Interventions**

ASSP/PSA must first identify Afghan exports with potential marketability in the international market. It must then evaluate the economics of the proposed export sale. That is, does the cost of production, transport, customs duties, processing, packaging and storage (including the availability of storage facilities) provide a reasonable return to the grower and the Afghan export trader? This will include determining the demand for each product and quantifying the supply available for export.

It will also be necessary for ASSP/PSA to determine the demands of international buyers with regard to quality, hygiene, packaging, delivery schedules, etc. The handling, transport and storage required to maintain product quality until it is processed or packaged and shipped to buyer must also be determined.

## G. FERTILIZER AND SEED

### 1. Restraints

There are several restraints for the Afghan trader in the sale of fertilizer and seed. Initially, there is a small margin of profit which necessitates a high sales volume in order to achieve a reasonable return on investment. There is also an inherent risk in the need to forecast demand and then commit to purchasing inventory well ahead of sales. This increases the potential for over-supply, damaging market price fluctuations, etc.

Because considerable funds must be committed at the time of ordering, cash flow is reduced and capital is not rapidly recycled. Storage is also expensive, but essential to protect fertilizer and seed from the elements and pests. Additionally, storage facilities in Afghan bazaars can be limited.

### 2. Possible Interventions

ASSP/PSA must accept that fertilizer and seed are critically needed agricultural inputs that are costly to purchase, risky to forecast, expensive to store and have small margins of profit. For these reasons, fertilizer and seed will need more intervention, and for a longer period of time, than other agricultural inputs.

In view of these unavoidable factors, and after this fall's DAP sale, ASSP/PSA should identify those Afghan traders interested in establishing a fertilizer/seed trade association. (It is possible that a similar association could be developed for merchants focussing on offshore procurement.) The association could then collectively purchase, with the support of ASSP/PSA, both fertilizer and seed.

Under this scheme, traders would guarantee their commitment with a five percent down payment at the time the association order is placed with the offshore supplier. ASSP/PSA would help identify the most dependable and competitively priced offshore suppliers and also stand as guarantor to facilitate the issuance of the letter of credit for payment to the supplier. ASSP/PSA would facilitate duty free clearance through Pakistan to Afghanistan and work to establish a long-term solution with the

Collector of Customs. ASSP/PSA could guarantee, on the first purchase, that adequate rebates (on either fertilizer and seed or transport) would be provided to ensure a profitable return on investment. The amount of this commitment should be carefully calculated.

### III. SUGGESTIONS FOR OTHER METHODS BY WHICH TO ACHIEVE ASSP/PSA GOALS AND OBJECTIVES

#### A. CONDITION INTERVENTION ON TRADERS INCREASING DISTRIBUTION POINTS OR OPENING RETAIL OUTLETS IN SELECTED AREAS

To ensure that a distribution of fertilizer and other agricultural inputs is not restricted to only the most profitable bazaars, ASSP/PSA could mandate distribution to additional bazaars. These less profitable bazaars could be of two types: those that are capable of building a demand for the product adequate to encourage trader distribution in the area; and those where demand exists but there is a shortage of agricultural inputs.

In addition, ASSP/PSA could mandate that Afghan traders set up or appoint an increasing number of retail outlets proportionate to the volume of products supported by ASSP/PSA through financing, rebates, etc.

This interference in the private sector mechanism should be temporary and serve only to expand the area of distribution.

#### B. PRE-QUALIFICATION REQUIREMENTS FOR SUPPLIERS

ASSP/PSA should set certain pre-qualification requirements when selecting Pakistani suppliers of agricultural inputs for participation in the ASSP/PSA depot and incentives programs.

ASSP/PSA will provide a line of credit to Pakistani producers of agricultural inputs. This will enable suppliers to purchase raw materials and hire labor sufficient to increase their production to a level adequate to meet the demands of the Afghan market. Pakistan suppliers will place an inventory of their products and associated spares in the ASSP depots. PSA will then provide a stand-by letter of credit to insure the supplier against loss or damage of inventory. Stock levels would be small initially and increase in accordance with sales demand.

Pakistani suppliers would agree to train ASSP depot marketing staff on product performance and maintenance, and participate in several seminars at the trade centers each year. Once an agreed upon level of sale is achieved, suppliers will have a contractual obligation to provide service facilities at the depot.

C. REDUCTION IN LIST OF PROMOTED AGRICULTURAL INPUTS

It will become necessary to reduce the list of agricultural inputs promoted by ASSP/PSA. Specific criteria should be used to qualify a product for inclusion on the ASSP/PSA list of promoted agricultural inputs (excluding fertilizer and seed). These criteria should consider the questions listed below.

- o Which ASSP/ADT inputs will have the greatest impact on increasing agricultural outputs?
- o Is it within ASSP/PSA's capabilities to perform the intervention required to increase the volume of a specific input?
- o Does the item traditionally provide significant margins of profit as compared to other agricultural inputs?
- o Does the item sell promptly and facilitate a reasonably quick return on investment?
- o Does the item require expensive storage, given size and protection requirements?
- o Is the item already supplied by non-governmental organizations (NGOs) or private voluntary organizations (PVOs)? (Only those items not supplied should be included on the list. NGOs or PVOs should be informed what ASSP/PSA is supplying in anticipation that these organizations will provide ASSP similar information.)

ASSP needs to recognize that the shorter the list of promoted agricultural inputs, then the better ASSP/PSA will utilize its time, energy and financing. In addition, ASSP/PSA will have fewer suppliers to contact and negotiate relationships with, less commodity related training to provide, fewer traders and merchants to build relationships with, and spend considerably less time on the multitude of details and decisions each type of commodity requires.

#### IV. OTHER RECOMMENDATIONS

I recommend that DAI hire the services of a Commodity Liaison Specialist to complete all required steps in the procurement process. The rationale for this recommendation is in a July 19, 1990 memo to John Soden, attached to this Report as Annex A. I recommend that Atif Parvez be hired for this position. Mr. Parvez is an engineer with experience in agricultural equipment. He can provide valuable assistance in writing specifications and quality control, and he knows the agricultural business community well. Furthermore, he is the brother of Khaliq Parvez of RONCO, which is a definite advantage.

I recommend that the ASSP Procurement Request for RONCO be filled. The Request sought that RONCO acquire duplicate brochures from Pakistan, the United States and international suppliers for the list of ASSP/PSA promoted agricultural inputs. This is a confirmed function for a procurement agent and has been re-confirmed by John May and Jack Walters (USAID Commodity Procurement Chief - Washington). The first request should only list those inputs ASSP/PSA is certain will be purchased. As the list increases, new procurement requests should be issued. This will save a great amount of effort on DAI's part and will equip both DAI and RONCO to more accurately and efficiently respond to demand. However, it is RONCO's responsibility to refine the specifications.

I recommend forward placement of DAP with wheat seed to several bazaars as soon as possible in order to establish a pilot program of working directly with merchants.

When ADT has had a positive impact, as evidenced by increased demand for agricultural inputs, ASSP should target the nearest bazaar for forward placement of needed agricultural inputs.

ASSP/PSA should design and implement a program that will provide source identity for Afghan produced agricultural products.

It is critical that ADT become more time efficient in procurement. I strongly recommend that ADT:

- a. resolve the issue of RONCO using "informal" Requests for Quotation (RFQ) procurement methods, and avoid "formal" Invitation for Bids (IFB) methods except for commodities requiring one year delivery; and
- b. determine if it is a contractual requirement that ADT use RONCO's services. It may be possible to negotiate an agreement allowing ADT to procure up to US\$10,000 for goods and services without RONCO participation.

(This would use pre-agreed upon procurement rules appropriate for a fluid work environment such as this one.)

If and when I return for a further assignment, I would suggest a project-oriented assignment targeting one or more of the following actions.

- o Identifying Pakistan based suppliers in agricultural chemicals and associated equipment. This would include negotiating terms with a short list of suppliers meeting ASSP/PSA requirements.
- o Identifying companies who will participate in "forward contracting" of agricultural inputs. This would include negotiating contracts that benefit ASSP/PSA sponsored traders and merchants by: utilizing USAID guarantees to avoid tying up the trader's or merchant's funds; guaranteeing availability of product; and taking the risk of forecasting away from the trader by insuring the sales price at delivery will be at prevailing rates.
- o Identifying U.S. and other offshore suppliers of agricultural inputs promoted by ASSP/PSA. This would include contacting suppliers to determine their interest in linking with Afghan traders through ASSP's depot program. It would also include negotiating terms. (Some work might be required in the U.S. for this action.)
- o Establishing an ASSP/PSA trade seminar for Afghan traders and Pakistani suppliers of commodities and services.
- o Researching the prevailing market rates to the consumer for each agricultural input on the ASSP/PSA list and establishing a regularized system for monitoring change.
- o Specifically defining the taxes that Afghans would be responsible for paying, under both normal circumstances and under present conditions, and determining the method for calculating the appropriate tax amount.
- o Investigating the methods to begin establishing source identity for Afghan agricultural exports.
- o Attempting to identify larger international Afghan traders who would work with ASSP/PSA. This would include visits to Dubai-based traders, banking institutions, processing centers, etc.

ANNEX A  
MEMO TO JOHN SODEN, JULY 1990

19 July 1990

MEMORANDUM

TO : John Soden, Acting Chief of Party, ASSP  
FROM : Denny Freed, TDY Consultant, ASSP/PSA  
SUBJECT : SUGGESTION TO HIRE PROCUREMENT LIAISON SPECIALIST

Problem:

It is obvious, after hearing repeated comments from DAI personnel, that a great amount of frustration and loss of time has been experienced by DAI in the procurement of program commodities.

I believe it improve your procurement efforts for both ADT and PSA components if the ASSP hired a Procurement Liaison Specialist who would be responsible for:

1. learning the RONCO procurement process (the hows, whys and wherefores) - spend a week in RONCO's office learning the process
2. completing DAI procurement requests:
  - a. refining specifications to meet program requirements and to improve on the prospects of procuring "responsive" product on time.
  - b. coordinate with PSA/ADT directors to better insure that program commodities are ordered in time to meet program requirements. i.e. remind directors of the time frame from ordering to receipt of goods.
3. communicating with the component Director on the progress of each procurement request.
4. running "interference" with RONCO to resolve problems that might delay a procurement or avoid receiving the wrong product.
5. coordinate all transport movement with RONCO. i.e. identifying end destinations, quantities distributed etc.

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Denny Freed  
Procurement Liaison Specialist

**Benefits:**

1. Only one individual will communicate with RONCO on procurement requests - this avoids confusion and allows one DAI person to learn RONCO's procurement procedures well enough to avoid mis-communication or issuing incomplete or incorrect Procurement Requests. (the "heavy" weights i.e. Richard and John would only intervene at the request of the procurement specialist)
2. PSA/ADT Directors will use their time more constructively by avoiding the frustrating details of a process they are not familiar.
3. You may or may not get product as specified and delivered on time, but you will have made a constructive move in avoiding most responsibility for errors in the procurement process.